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PRESENTATION**Operator**

Good day everyone and welcome to the Duke Energy second quarter 2004 earnings conference call. Today's call is being recorded. At this time for opening remarks I would like to turn the conference over to the Vice President of Investor and Shareholder Relations for Duke Energy, Mr. Greg Ebel. Please go ahead, sir.

Greg Ebel - Duke Energy Corporation - Vice President of Investor and Shareholder Relations

Good morning and thank you for joining us this morning. With me today are Paul Anderson, CEO and Chairman of Duke Energy and David Hauser, group vice president and CFO of Duke Energy. In addition, Fred Fowler – Chief Operating Officer, Keith Butler – Corporate Controller, and Myron Caldwell, our Treasurer are with us to assist with questions you may have today.

Today's call will be focused on the results for the second quarter of 2004 and our progress against our financial goals at the halfway point of this year.

Before we start today let me read our Safe Harbor Statement.

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

In addition, a reconciliation of any non-GAAP measure to the most directly comparable GAAP measure will be made available on our investor relations website at: www.duke-energy.com.

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

Now I'll turn to Paul for opening comments.

**Paul Anderson - Duke Energy Corporation -
Chairman and Chief Executive Officer**

I'd like to begin today's call by saying that I'm very pleased with our progress so far this year. At last quarter's call I noted that we had passed through an inflection point and we're on an upward trajectory. This quarter's results further demonstrate the positive trends for Duke Energy's businesses. To date, we have announced or closed on asset sales totaling about \$2.8 billion in proceeds and tax benefits, we have reduced debt by approximately \$1.7 billion through the first half of the year and today we are reporting solid second quarter earnings.

As you have seen this morning, Duke Energy reported earnings per share of 46 cents for the second quarter, which included 4 cents for special items. These special items were primarily related to asset sales as well as legal and regulatory matters. Ongoing earnings were 42 cents per share.

Reported earnings for the second quarter of 2003 were also 46 cents per share, but included a 16 cent gain on asset sales. Ongoing earnings in the second quarter of 2003 were 30 cents per share.

Our largest business segments reported solid results for the second quarter. Franchised Electric and Gas Transmission generated good earnings and strong cash flows. Field Services had an outstanding second quarter benefiting from the continuing high price for natural gas liquids and significant operating improvements. Crescent Resources, our real estate business, delivered strong results primarily attributable to a major commercial transaction and strong residential lot sales during the quarter.

While the hard work and efforts of our people in DENA are starting to show progress, the merchant business continues to struggle with low spark spreads and the oversupply of merchant power. We expect the summer months, which typically have warmer weather and higher volatility, to provide more opportunities to capture additional margin this year.

Our mark-to-market portfolio continues to be effected by changing commodity prices. In the second quarter, the changes in gas and power prices combined to benefit the MTM book for about \$24

million. This gain partially offsets the \$87 million mark-to-market loss we experienced in the first quarter. Even though the mark-to-market earnings were positive this quarter I still don't like the volatility the position creates. So we have continued to reduce our exposure in this area.

Currently, we have mitigated more than 60% of the MTM portfolio that existed at the beginning of the year. Until we fully mitigate these positions, we will continue to be exposed to swings in MTM earnings.

Beyond our financial achievements, we've had a number of positive resolutions of outstanding legal and regulatory issues. During the quarter, the company was successful in negotiating a settlement with parties in the western U.S. related to the California energy crisis in 2000 and 2001. This settlement resulted in a \$105 million pre-tax charge. Putting these issues behind us was a practical business decision and removed a major issue that overshadowed our merchant power business in California and western markets. Duke Energy also achieved final resolution on matters related to the Enron bankruptcy which resulted in a \$130 million pre-tax benefit in the quarter. These accomplishments are significant in that they free up management to focus on the day-to-day operations of the company instead of outstanding litigation or regulatory matters.

While halfway through the year, we are significantly ahead of schedule in delivering on the financial plan we presented to you in January and continue to build on that momentum.

With that, let me turn things over to David to review the details for the second quarter.

**David Hauser - Duke Energy Corporation - Chief
Financial Officer and Vice President**

Thank you, Paul. Let me begin with Franchised Electric.

Duke Power reported segment EBIT of \$338 million for the second quarter of 2004 compared with \$316 million for the same period in 2003.

Primary drivers for the quarter were favorable weather which increased gigawatt-hour sales to our residential and commercial customers by nearly 12%

overall. These increases were partially offset by higher operating expenses.

The North Carolina Clean Air amortization expense was approximately \$17 million during the second quarter of 2004, compared with \$18 million last year. For the full year 2004 we'd expect to book approximately \$170 million of Clean Air amortization.

We saw cooling degree days increase almost 80% from last year's second quarter. The average number of customers increased by 1.7% compared with the second quarter last year.

During the quarter, Duke Power took steps to share the profits from bulk power sales with both our customers and shareholders. This resulted in a \$27 million charge taken in the second quarter representing the year-to-date adjustment for profit sharing and associated contributions. Going forward we will continue to share bulk power profits. As part of these plans we will exclude these profits from the return on equity calculation we file with regulators.

With six months behind us, Franchised Electric remains on target for the year.

Now let me move on to Natural Gas Transmission.

Our gas transmission businesses in the US and Canada delivered \$311 million in segment EBIT for the second quarter of 2004 compared with \$306 million in the second quarter of 2003. On a reported basis, EBIT increased approximately 2%.

Ongoing EBIT for the second quarter of 2004 was \$302 million, excluding a \$9 million gain on sale of gas inventory. Ongoing EBIT for the second quarter of 2003 was \$275 million, excluding a \$31 million gain on asset sales. Ongoing EBIT increased by about \$27 million, or about 10%.

The increase in this quarter's results can be attributed to contributions from business expansion projects in the US and stronger operational results from Gulfstream. Union Gas also reported better results primarily due to improved operations.

Foreign currency translation of the Canadian dollar also contributed \$12 million to EBIT for the quarter. However, this benefit was largely offset by the

foreign currency translation on interest and taxes at the Duke Energy consolidated level.

Results for the quarter also benefited from the positive resolution of ad valorem tax issues in several states which resulted in a benefit of \$17 million in the second quarter.

While Gas Transmission had a strong second quarter, we are still on target for the year.

Now let me turn to Field Services

Overall, Field Services had another great quarter, reporting EBIT of \$94 million for the second quarter primarily driven by strong Natural Gas Liquids (NGL) prices. This compares with \$53 million for the second quarter of 2003. Results for last year's quarter included an \$11 million gain on sale of the TEPPCO Class B units.

NGL prices increased from 49¢ to 61¢ quarter over quarter and natural gas prices were 58¢ higher than the second quarter last year.

Field Services realized strong margins from its processing business, especially on percent-of-proceeds contract margins which increased nearly \$42 million over last year's second quarter. Field Services continues to benefit from the reduced exposure to natural gas prices resulting from the renegotiation of certain contracts from keep-whole to percent-of-proceeds terms.

Other contributors to the strong results for the quarter were lower operating expenses, margins from the recent acquisition from ConocoPhillips and higher earnings from the TEPPCO MLP.

Direct operating and G&A costs during the quarter were about \$150 million and in-line with expectations for the year. For the full year 2004, we expect direct operating and G&A expenses to be about \$575 million.

For the remainder of 2004 we are hedged approximately 85%. As such, moves in NGL prices for the remainder of the year will not materially impact EBIT at Field Services.

For 2005 we have a small portion currently hedged and we'll consider hedging additional volumes based on our view of the markets. At the Duke Energy level, without additional hedging, the operating

income sensitivity for a 1¢ change in NGL prices is approximately \$12 million for the full year 2005.

Field Services paid a cash dividend to its parent companies in the second quarter. The total dividend was \$87 million of which Duke Energy received \$61 million.

As a reminder, when we reported earnings last year Field Services reported on the sale of facilities to Crosstex and Scissortail. This year these transactions are classified in the Discontinued Operations line.

Now let me turn your attention to Duke Energy North America.

DENA's results for the quarter continue to reflect poor market conditions for the merchant energy business. Low spark spreads continue to limit DENA's ability to capture value in the marketplace. While production volumes increased quarter over quarter up 31%, volumes are still very low as a percentage of available capacity.

DENA reported a second quarter EBIT loss of \$39 million compared with a positive \$211 million last year. Despite higher gigawatt-hours produced during the quarter, realized margins from energy generation were lower due to reduced hedge values compared to the prior year. These lower margins were partially offset by lower overall operating expenses and reduced losses on structured gas contracts. Also included in results for the second quarter of 2003 were \$14 million of earnings from American Ref-Fuel.

Included in this quarter's EBIT results were special items including a \$105 million charge related to the California settlement offset by a \$108 million positive settlement, net of minority interest, related to the Enron bankruptcy proceeding; and, a \$10 million loss, net of minority interest, on the liquidation of contracts at Duke Energy Trading & Marketing. Results for the quarter were positively affected by changes in the mark-to-market portfolio by \$24 million, net of minority interest.

One item of note on the Enron settlement – you'll recall that the total settlement was for approximately \$130 million. While the bulk of this positive impact was at DENA, a small portion totaling \$21 million was recorded at Duke Energy Merchants which is included in our "Other" reporting segment.

DENA's segment EBIT, excluding the special items and the mark-to-market gain, was a \$56 million loss for the quarter.

Results for the second quarter of 2003 included a pre-tax gain of \$175 million from the sale of DENA's ownership interest in American Re-Fuel. The effect of mark-to-market earnings also benefited the second quarter of 2003 by \$51 million. Segment EBIT before special items and the mark-to-market gain for the second quarter of 2003 was a \$15 million loss.

During the quarter, DENA announced two significant asset sales. In May, we announced an agreement to sell DENA's power generation facilities in the southeastern United States; and in June, we announced the sale of the Moapa construction project in Nevada. These transactions are expected to close in third quarter and fourth quarters of 2004, respectively, and will provide Duke Energy with approximately \$1.3 billion in cash proceeds and tax benefits.

Let me turn to the next slide to provide a more detailed look at the quarter.

At Duke Energy North America, gross margin realized from the accrual book in the second quarter of 2004 amounted to \$104 million.

Total expenses for the second quarter totaled \$160 million. Depreciation expense was lower in the second quarter primarily due to the southeast generation assets no longer requiring depreciation since they are classified as assets held for sale. G&A expenses were also lower in the quarter. These reductions were partially offset by higher O&M expenses which was the result of two new plants coming on line in the second quarter last year.

It's important to note that DENA's earnings profile remains subject to seasonality and we expect higher margins to be realized this summer.

Absent the effect of MTM earnings and special items, we continue to believe that DENA's 2004 EBIT loss will be approximately \$300 million.

Now I'd like to move on to International Energy.

For the second quarter of 2004, Duke Energy's international businesses reported EBIT from

continuing operations of \$68 million. Increased earnings from DEI's Latin American operations and lower operating expenses both contributed to the results for the quarter.

Ongoing segment EBIT from continuing operations for the second quarter of 2003 was \$90 million and included a total benefit of \$37 million related to a favorable regulatory audit in Brazil and the early termination of a natural gas sales contract.

International Energy remains on target for the year.

Concerning asset sales at DEI – the sale of the Cantarell project announced in the second quarter is expected to close in the third quarter.

Now let me move on to Crescent Resources.

Crescent Resources, our real estate business, delivered segment EBIT from continuing operations of \$87 million during the second quarter of 2004, compared with \$21 million in the second quarter last year.

Strong results for the quarter were primarily driven by a significant commercial land sale at Potomac Yard and increased residential land sales.

What I want to be sure of is that you don't take the unusually high earnings for the first half of 2004 and annualize them. While Crescent typically realizes a significant portion of its annual earnings in the fourth quarter in any given year, this year's transactions have been more heavily weighted toward the first half of the year. We expect less robust results in the second half of this year.

We continue to invest in other properties for future transactions at Crescent. This year such investments should total about \$400 million.

Please note that we are required to change the financial statement presentation for Crescent Resources. Residential real estate investments by Crescent Resources will now be classified in operating cash flows and not in investing cash flows, as previously presented. Essentially these investments will be treated more like inventory which is similar to other real estate company presentations. All other Crescent activity for commercial and multi-family will be in the investing cash flow section.

On the balance sheet you will now see a line item for investments at Crescent which were previously included in inventory and PP&E. On the statement of operations you will see a line item for gains on sales of commercial and multi-family properties listed separately from other assets sales.

We will be amending the 2003 10-K and the first quarter 2004 10-Q for this reclassification. This change in presentation does not change the fundamental economics of this business or the ongoing cash and earnings generated by Crescent. Before I move on let me talk briefly about income taxes for the quarter. Income tax expense from continuing operations of \$133 million is lower than the prior quarter by approximately \$62 million. The decrease is driven primarily by a credit from the release of income tax reserves of approximately \$52 million related to the resolution of various outstanding income tax positions.

As a result, the effective tax rate for the full year 2004 is expected to be unusually low. However, next year should see a return to the more typical effective rate in the low to mid-30's.

As of the second quarter of 2004 we have reduced our overall debt position by \$1.7 billion at Duke Energy.

Approximately \$900 million of the reduction is attributable to the sale of the Australian business. Debt at Duke Energy was reduced by approximately \$800 million – through a combination of trust preferred securities and retail notes. Debt at Duke Capital was reduced by \$200 million in bonds and floating rate notes.

And another \$75 million in preferred shares was retired at Westcoast. These reductions total almost \$2 billion but were partially offset by increased commercial paper borrowings of approximately \$300 million.

You may have seen our announcement yesterday that on August 31 we will redeem, at par, Duke Capital 8-3/8% Trust Preferred securities with a face value of \$250 million. We remain confident in our ability to pay down debt in the range of \$3.5 to \$4 billion by the end of 2004.

For the full year 2004 we still expect interest expense to be approximately \$1.3 billion which will be \$100 million lower than our 2003 interest expense.

With respect to capital expenditures, we now expect the annual number for 2004 to be about \$2.5 billion. This increase is largely driven by the decision to fund our nuclear decommissioning costs of approximately \$262 million. This \$2.5 billion number includes the approximate \$400 million in investments to be made at Crescent Resources – although not specifically classified in the Capital Expenditures line on the cash flow statement. With the substantial progress we've made on cash flow generation and the improving state of the balance sheet, we feel very positive about acting on opportunities to reinvest our cash in the company.

Announced asset sales will provide \$2.8 billion in proceeds, which includes \$650 million of tax benefits.

During the quarter, Duke Energy issued slightly over 23 million shares of common stock. 22.4 million shares were issued in settlement of the forward purchase contract component of the equity units which matured on May 18. The second and final tranche of our mandatory convertible securities will mature in November 2004 at which time we will issue another 18.7 million shares of common stock.

However, given our strong cash position, cash flow and improving balance sheet we are no longer issuing new shares for the company's employee retirement plans or the dividend reinvestment program for shareholders. We are now purchasing these shares in the market. This will reduce the annual earnings per share dilution associated with issuing new shares, which at the current stock price would have been about 1% per year.

Turning to our liquidity position, our total credit capacity at the end of the second quarter was \$2.5 billion. This includes credit facilities at Duke Energy, Duke Capital and other businesses. Our outstanding balances against these facilities were approximately \$1.2 billion at the end of the quarter.

At June 30, we had unused capacity of \$1.3 billion and cash and cash equivalents on hand totaling \$2.6 billion. We expect to keep at least \$1 billion of cash and cash equivalents on hand throughout 2004.

The company has been very successful in maintaining a significant liquidity position while still paying down debt over the last year.

I'll now turn the call back over to Paul for his closing remarks.

**Paul Anderson - Duke Energy Corporation -
Chairman and Chief Executive Officer**

At this halfway point in the year, I feel very good about the progress Duke Energy has made toward reaching the goals we outlined for you early this year.

As I mentioned before, we have exceeded our asset sales goal for the year. In fact, we almost doubled it by generating total proceeds of \$2.8 billion including tax benefits. Debt reductions are ahead of schedule to reach our goal of \$3.5 to \$4 billion reduction by the end of the year. To date, we've paid down debt by approximately \$1.7 billion. And with the strong results for the second quarter we are more than halfway to our EPS incentive goal.

Everyone across the company has worked very hard to put Duke Energy back on the right track and in the right direction. Some of the most difficult challenges we faced were at DENA. The employees at DENA have made significant progress in winding down Duke Energy Trading & Marketing and mitigating the risks associated with the mark-to-market portfolio. With some of the more difficult tasks behind them, the folks at DENA are now focused on improving earnings. They are looking for ways to further reduce costs and improving returns from the generation fleet. We know it won't be an easy or a quick feat to accomplish but we remain optimistic that DENA will see improved results going forward.

Duke Energy's other businesses are performing well. Our regulated businesses are delivering solid earnings and strong cash flows. And Field Services is having a banner year with the strong NGL price environment. Crescent Resources has been able to capitalize on the strong real estate market for residential lots in the Carolinas and commercial real estate in the DC area. And International Energy keeps delivering steady results from its Latin American operations.

Another major advance was made on the legal and regulatory front. The company settled outstanding legal issues related to the Enron bankruptcy and also

settled a significant number of issues relating to the California energy crisis in 2000 and 2001. Duke Power put plans in place to share the profits from its bulk power marketing activities with both our customers and shareholders. All in all, our legal and regulatory teams have had a winning year.

As we eliminate the challenges and issues facing this company, we find ourselves with a strengthening balance sheet and strong cash flow which will position us to pursue opportunities to enhance returns and earnings.

With that, let me open the lines for your questions.

QUESTION AND ANSWER

Operator

Thank you. At this time we will take any questions you may have. To ask a question, please press star 1 on your touch-tone telephone. Again that, is star 1 if you do have a question. As a reminder, if you are using a speaker phone today, please release the mute button so your signal may reach our equipment. We'll pause for a moment to assemble the roster.

And we'll go first to Andy Smith at J.P. Morgan.

Andy Smith - J.P. Morgan - Analyst

Great. A couple questions for you. First is on page 16 of the earnings release. You guys highlight \$109 million in accrual gross margin on your owned assets. Looks like in the first quarter that was \$65 million, but the generation output is only up about 7% and it looks like the estimated average price you guys layout for the year stayed flat at \$46 bucks megawatt hour. What is driving that increase in the gross margin where it looks like some of the other factors aren't moving in tandem with that?

David Hauser - Duke Energy Corporation - Chief Financial Officer and Vice President

Let me take a crack at that. If your recall we said our gross margin would be \$320 million. Through the first half of the year it is \$174 million. Keep in mind that a big part of that low risk gross margin is the hedges we have outstanding. So there's not always a direct correlation between volumes produced and the low risk margin because of the hedge factor.

Andy Smith - J.P. Morgan - Analyst

Okay. All right. Okay. I have to think about that maybe and follow-up off line with you guys. And then on the mark to market you guys realized a positive mark-to-market in the second quarter. Can you give us a little more color on what really drove that? It is my understanding there the first quarter that you guys were -- had positions in the west related to your plants that had been deferred, moved against and you that sort of thing. Looking at what happened

with market prices, the best data we can get on the curve, what has allowed you to have a positive mark versus to what I am seeing in the market.

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

Let's give that to Fred Fowler because he lives and dies that curve every day.

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

As you said, the initial way those positions got established was basically we were forward selling electricity on plants we were going to build and buying the gas to produce that electricity. So in affect, we're long gas, short electricity. Basically the term markets during the second quarter, while you saw a lot of volatility on the front end markets, during the second quarter the term markets, actually the spark spread narrowed. You had electricity prices come down and gas prices go up. So the combination of those two is what increased the markets on that position.

Andy Smith - J.P. Morgan - Analyst

It sounds like you guys are saying that in the back end of the curve and not the front end.

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

Right.

Andy Smith - J.P. Morgan - Analyst

Great. Thanks a lot, guys.

Operator

And we'll move next to Paul Patterson at Glen Rock Associates.

Paul Patterson - Glen Rock Associates - Analyst

Good morning. I want to touch base with you on the debt. It seems like interest didn't go down and debt did go down. I wonder if you could elaborate a little on that?

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

That sounds like a great question for David Hauser.

David Hauser - Duke Energy Corporation - Chief Financial Officer and Vice President

Let me just tell you there is a couple of key things. We have less interest on capitalized projects. That's about \$10 million. That's a big part. And then keep in mind that we had to take the trust preferred securities and move those up into interest expense. That's another \$11 million. So we had a couple increases to interest expense that had nothing to do with cash out the door, but had to do with spending less on capitalized projects and then the trust preferred. Additionally you will see that we have an accrual associated to a potential settlement and that's included in there also. So that's why interest expense is actually up. You are going to see it turn around and head down because we do have less debt and if you looked at just the underling commercial paper and bond interest, it is actually down substantially.

Paul Patterson - Glen Rock Associates - Analyst

Great. Second thing I wanted to ask you was on EBIT for Crescent, you guys presented earlier this year that you were looking around \$150 million, maybe flattish to 2% growth and already you are at \$147 for the year. I know you said we shouldn't expect that for the second half of the year, but I'm wondering should we go forward here, maybe you are looking at a higher run rate on Crescent? Or could you elaborate a little more on your outlook there in terms of a normalized sort of Crescent EBIT contribution?

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

Sure. I think the best way to characterize it is we had an unusually good second quarter. We'll still obviously see some profit in the second half of the

year. But the unusually good second quarter will probably drive a -- toward the upper edge of the range profit for the year and I would say going forward you ought to look at this as a really good year as opposed to, you know, one point on a rising curve.

Paul Patterson - Glen Rock Associates - Analyst

So there really isn't -- it is pretty much the same guidance you had before, it is just an unusual quarter so to speak right now?

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

Yes, over the long-term the guidance that we gave you is still appropriate. We're just having a great year.

Paul Patterson - Glen Rock Associates - Analyst

Okay. And then just finally, the weather benefit at the utility, it looked like you guys had \$60 million over last year's quarter and I was wondering whether or not that was -- how that compared to normal. You know, the weather benefit.

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

I can't give you a very -- a specific answer, but we've had a very good summer here in the Carolinas.

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

The cooling degree of days are up and in just a minute we will see if somebody has that number.

Paul Patterson - Glen Rock Associates - Analyst

So in other words if we're looking at last year's quarter compared to this year's quarter which would be more normal or -- was last year particularly cool?

David Hauser - Duke Energy Corporation - Chief Financial Officer and Vice President

Let me give you a couple statistics. The cooling degree days were 562 for this quarter and they were 313 last year. So they are up substantially this year. And residential sales were actually up 19% this quarter over last quarter.

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

There were 249 more cooling degree days this quarter than the comparable quarter last year.

Paul Patterson - Glen Rock Associates - Analyst

Which one's more normal is what I'm wondering, in other words, was it unusually cool last year? Was it particularly warm this year? Is it too hard to tell? Do you follow what I'm saying.

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

Last year was a cooler -- was cooler than normal. This year would be closer to normal. Although it is above normal slightly.

Paul Patterson - Glen Rock Associates - Analyst

Okay. Thanks a lot, guys.

Operator

And we'll take our next question from Scott Soler from Morgan Stanley.

Scott Soler - Morgan Stanley - Analyst

Good morning. I wanted to ask a couple questions, Paul. You had three more months since you all discussed things to look at Duke Energy International and DENA. When you look out over the next couple years are there more cost savings relative to what you have been talking to at DENA since you have been coming to Houston and look at that business ya'll can carve out. Are there different types of contracts, perhaps, on the power plants that ya'll are looking to set up? And then on Duke International, really the same question is can you just color in a little bit your

talks with your guys down in Latin America and anything that's happened over the last few months?

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

Well, if we take international first, I would say that nothing dramatic has happened over the last few months versus where we were. We continue to make incremental improvements and I'm, you know, pleased with the progress that we're making there. But there isn't a step change, if you will, such as bringing on our emulsion was earlier when that decision was made. With regard to DENA, actually I'd like to turn that over to Fred because I think the guys there -- as I said before, DENA is sort of like eating an elephant, you just have to keep taking a bite at a time to make improvements, and the guys have made some real improvements. Fred may want to comment on where he sees next year coming.

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

From the standpoint, we have been getting a lot accomplished. The southeast sale was a major step for us. That will cut our losses by about \$50 million. The sale of the Moapa plant is another step improvement that will save us probably about \$15 million on an annual basis. The California settlement is a big deal. We were spending, approaching a million a month on litigation expense on that and that's now gone. We have renegotiated several of our out sourcing type contracts. We're getting savings there. And as you reduce and simplify the business, we also shutdown a lot more of the DETM operation and we have gotten rid of some of those contracts and positions. So when you sit and look at the work we've accomplished so far, assuming that you have basically the same kind of market conditions next year, our loss should be, you know, below -- well below \$200 million on an annual basis. Again, the target we're shooting for is to have that business to at least break even by 2006. We don't have the clear path there, but we're getting close -- we're getting well within shooting distance of that target now.

Scott Soler - Morgan Stanley - Analyst

Okay. And then, Fred, while I have you on the line, the last question I had was Duke Field Services. With \$40 oil and 65-70-cent NGL prices, when you look

out at ya'll's forecast is 8 to 10% annual growth with perhaps peak prices in NGLs, are there assets on the market you think you can acquire at a reasonable price or are you looking to do certain things around the assets you already own when you all are looking at what you can do to improve earnings at DEFS and that's my last question.

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

We are totally refocused at DEFS right now. We think that asset values are too high and we don't see good asset opportunities other than if you've got something that sits right in the middle of your system, obviously you do have a competitive position over most buyers, but what we're seeing today is we're seeing people -- it looks to us like people are overpaying for assets right now. That's not our focus at all. We built our position and our focus is really to optimize that position. And it is on what we call real improvement at a constant price deck. This year between cost reductions and contract restructurings that we've done, we have real improvement at a constant price deck of about \$50 million. Going forward in our 3-year plan, they have plans laid out and targets set and a clear path on how to get there for an additional \$85 million of real improvements over that period of time. So that's much more our focus. We are -- you know, we are the big player in that sector. We built that position. We did most of our purchases in down cycles, so now we are not in -- now that we are in an up cycle we are not buying assets. If anything, we will probably use this environment to clean up some assets that we have that aren't really core to us.

Scott Soler - Morgan Stanley - Analyst

Fred, could you remind me what percentage moved from something like a keep whole contract more towards things that allow to you benefit strictly from the liquids and not from getting hit on the gas prices?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

Yes at one point we -- you know, we traditionally do about 6 BCF a day of gas processing. About a third of that was keep whole. We're probably down to where our keep whole was in the 1.2 range today and our target would probably be able to get it down to

around a BCF a day. We will always have some keep whole processing.

Scott Soler - Morgan Stanley - Analyst

Okay.

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

But the things that we've done, we have done two things. One thing is eliminate the downside on keep whole processing. That was where -- the main thing we wanted to get out of was having the process at a loss and we got the majority of our contracts restructured on that. And then quite a few of them we have actually turned in a percent to proceeds or fee contracts, but we will always probably have around a BCF a day of keep whole processing that we desire to have.

Scott Soler - Morgan Stanley - Analyst

Thanks. You all have been very helpful. Thank you.

Operator

And we'll move next to Ashar Khan at SAC Capital.

Ashar Khan - SAC Capital - Analyst

Most of my questions have been answered. Thank you.

Operator

Thank you. If your question has been answered today and you would like to remove yourself from the queue, please press the pound sign on your telephone. And we'll go next to Matthew Akman at CIBC World Markets.

Matthew Akman - CIBC World Markets - Analyst

Thanks. Guys, I wanted to ask a question about your cash and your plans for reinvesting as David said in the company. Obviously you are beating your asset sale targets and you will have more cash possibly on

the balance sheet at the end of the year than you thought, so I guess one is can you update us on that? Are you going to be better than a billion dollars on the cash on the balance sheet at year-end? That was your goal. And second, order of priority in terms of doing stuff with that cash and when you say reinvesting it in the company does that mean a share buy back or does that mean expanding existing operations?. Thanks.

David Hauser - Duke Energy Corporation - Chief Financial Officer and Vice President

Well this is David Hauser. Keep in mind a couple things. We knew our cash would improve in the second quarter because our debt maturities are back end loaded. So that's one use of the cash will be the debt maturities in the back half of the year which are a billion dollars. Additionally we anticipate taking roughly another billion out of the market for a total of \$4 billion of debt retirements this year. That being said, we gave you a number at the beginning of the year of \$4,050 million of cash generations after all our dividend and CapEx. As we look at that number now we expect that to be more like \$5 billion. So we are in a stronger cash position than we had anticipated when the year began. We don't have any plans for share buy backs, but we certainly, as I said, quit issuing new shares for the dividend reinvestment and the retirement plan.

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

As far as, you know, what's the priority of use of the cash, we have asked each of the operating groups to, you know, reactivate their growth machine, if you will, to start thinking in terms of what opportunities are out there so that we'll have a good list of projects to choose from for next year beyond the list that we normally would have expected. So we would expect a more robust list of organic growth opportunities coming up next year and that would be our preference, if we get good returns on those. Obviously if we can't get -- if we run out of projects with good returns we're not about to invest in marginal projects. Part of it would be to just strengthen the balance sheet for the time being. I don't feel we have a lot of cash burning a hole in our pocket that we need to do something with quickly. So we'll assess our opportunities and I don't think we've yet reached the point that we have to think in terms of

do we have to do a share buy back to keep the balance sheet trim?

Matthew Akman - CIBC World Markets - Analyst

Okay, that's great. And if I could just ask a follow-up on Field Services, you always do a great job. I wonder if some has flowed through to 2005, especially in the last category. I guess this question is for Fred on the other margin line. Kind of doing \$30 million a quarter there, this year way up from last year. And that includes the risk management activities. Does that continue to 2005 or do we not know because we are not hedged for 2005 that much or can you give us any guidance there? Thanks.

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

Yes. A lot of that is being driven right now by increase -- by the high crude oil prices. That's where we carry our condensate sales and they price right along with crude because in affect it is what they are, it is a very high grade of crude oil, a very light grade of crude oil. So that's the primary driver.

Matthew Akman - CIBC World Markets - Analyst

That's great. Thanks very much. Those are all my questions.

Operator

Thank you. We go next to Jay Yannello at UBS.

Jay Yannello - UBS Warburg - Analyst

Good morning. With regard to the release of income tax reserves, of the \$52 million, can you break out what was from prior years, if there was any? Thank you.

David Hauser - Duke Energy Corporation - Chief Financial Officer and Vice President

Well, we always are looking at our income tax reserves, and so the income tax reserves would have all been set up in various prior years and of course when they are set up they weren't a special item and

when they are reversed it is not a special item. It is part of the on going nature of the business that you are setting up and reversing income tax reserves.

Jay Yannello - UBS Warburg - Analyst

Okay. Thank you.

Operator

We'll take our next question from Wen-Wen Chen at ABN Amro.

Wen-Wen Chen - ABN Amro - Analyst

Did you give EBIT guidance for DENA in 2005?

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

Well, I think -- I think we have not given actual guidance. I think Fred said we would expect to certainly be below a \$200 million loss for 2005. But it is too early and we're only halfway through to 2004. But at this time we are quite comfortable saying we will certainly be under \$200 million.

Wen-Wen Chen - ABN Amro - Analyst

Okay. Sorry, I missed that. I stepped off for a second. My second question is, do you have an update on any progress you have made in unwinding the mark to market contracts out in the west?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

Yes. It hadn't been a particularly good quarter to do that especially with the markets doing what they were doing. But we did reduce the position by an additional 10% from where it was at the beginning of the year. If you recall at the end of the first quarter we reduced it by about 50%. We reduced it about an additional 10%.

Wen-Wen Chen - ABN Amro - Analyst

Okay. So there is about 40% left from where you were at the beginning of the year?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

Correct.

Wen-Wen Chen - ABN Amro - Analyst

Okay. And finally, what are your plans regarding the last two unfinished plants?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

We currently have discussions going on with third parties and we also have a back up plan of just tearing them down and selling off the equipment. And that's kind of the downside on it.

Wen-Wen Chen - ABN Amro - Analyst

Okay.

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

If we can get a sale that's better and obviously we'll do that.

Wen-Wen Chen - ABN Amro - Analyst

Do you think you will make a decision by the end of this year?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

I would think we would, yes.

Wen-Wen Chen - ABN Amro - Analyst

Great. Thanks a lot.

Operator

And we'll move next to Zack Schreiber at Duquesne Capital.

Zack Schreiber - Duquesne Capital - Analyst

In terms of the tax rate, David, where do you think the tax rate will be for the full year '04 and is that embedded in the management hitting the \$1.20 target I think it is and if we could just sort of go over there are a lot of different items this quarter some of them we broke out, what is in the target of \$1.20 and what is not?

David Hauser - Duke Energy Corporation - Chief Financial Officer and Vice President

Well, let me start with the tax rate. The tax rate is going to be very low and that's because of the reversal of the reserves. It will be about 27% this year. The normal run rate tax rates are more like 33%. So '05 you would look at a number like that. '04 you would look at a number like 27%. So that's what's happening with taxes. Now with regard to the second question is what's in the \$1.20?

Zack Schreiber - Duquesne Capital - Analyst

Yes, meaning is the negative mark to market from the first quarter in the \$1.20 as well as the small, small positive because theoretically, you know, I think some people would add that back. So if you are penalizing yourself for it, that's good. I guess some of the tax issues are negative. I'm just trying to figure out what you guys include in that number so we can kind of use it as a base and make our adjustments off of it.

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

Basically the objective is to get the incentive numbers close to on going earnings as we can. And we have basically designed it so that except for some really unanticipated items that we would not adjust on going earnings for incentive purposes. So given that objective, we would leave the mark-to-market losses in for the incentive because we are leaving it in for on going earnings as well. And any mark-to-market swings one way or another will count for or against our incentive program.

Zack Schreiber - Duquesne Capital - Analyst

Maybe add the lower taxes and is that in your \$1.20 as well?

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

Yes. Basically as I said we are trying to mirror on going earnings. And the objective of the -- when the comp committee put this together, they said, what the shareholder sees as on going earnings should be what you see as incentives. So this as a straight forward rule, what you see as on going earnings will be very close to what is our incentive calculation.

Zack Schreiber - Duquesne Capital - Analyst

Got it. And a second question on DEI. You had a strong quarter there and you talked about operating performance improvements there and you have all that generation down in Brazil and those contracts rolling off. Where are we on recontracting that? How is the hydrology doing? Are we contracting at higher prices or lower prices? There are structure issues, where they were not letting you get the real market prices. Where does all that stand?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

It is still on going. What rolled off in last year, we recontracted so far I think 84% of that. [The correct number is 87%.] Slightly under the price we were shooting for, but still not bad prices. Right now we have on the balance we have a lot of on going negotiations that I feel good about. I feel pretty good about where that's headed in Brazil. I also feel it looks to be like -- it appears to us that the Brazil economy is starting to improve and that will help. Hydrology, it is basically on target to a little low at this point, I think. All in all, I just returned from Brazil last month and spent some time down there and I feel very good about the focus of that organization and the things they're working on. Obviously the objective for that business is to get the returns up. It's basically earning in, you know, the 9 1/2-type range which we just don't feel is proper returns for the risk adjusted returns in that area. So the guys have a lot of plans laid out in effect on how to get those up and I just feel very good about the focus of the organization and they are starting to show result.

Zack Schreiber - Duquesne Capital - Analyst

Are those returns on invested capital or are those returns on common equity.

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

On invested capital.

Zack Schreiber - Duquesne Capital - Analyst

And over what period of time do you think you can get the returns, you know, up to appropriate level?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

I don't know if we can get all the way, but I think we can get a lot of the way there by a 3-year period.

Zack Schreiber - Duquesne Capital - Analyst

And how much higher is that? Are we talking 13, 14%.

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

Yes, I think mid teens.

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

We basically challenged them with being able to beat the power company.

Zack Schreiber - Duquesne Capital - Analyst

Got it. And just in terms of, Fred, the hedging at DEI, you said 84% of the '03 roll off was 25% was recontracted slightly under your target. [The correct number is 87%.] How did your target compare to the previous contract rate?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

It was slightly lower.

Zack Schreiber - Duquesne Capital - Analyst

Okay. And then the megawatt hours are still 2,000 megawatts of hydro?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

In Brazil?

Zack Schreiber - Duquesne Capital - Analyst

Yes, sir.

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

No, it is 3,000 and -- let me look at my cheat sheet here. I don't have it in my head. I'm sure it is over 3,000.

Zack Schreiber - Duquesne Capital - Analyst

Great. While you look at the cheat sheet, one last question on the mark-to-market moving back to California, were you able to unwind contracts, lower the bar and the volatility 10% in the second quarter. Why have we not lower it more? If we could do 10%, why not just get rid of it?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

We haven't had market conditions that would allow it.

Zack Schreiber - Duquesne Capital - Analyst

Which means the market conditions are different now than they were -- how about this, what happened to the term structure of the forward curve since June 30th of '04?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

Virtually unchanged.

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

The real issue with -- dealing with the term contracts is that there isn't a liquid market out there. So you have to move very carefully because you can easily chase the market as you try to close out of position and put one on. So it's really a question of, you know, if there is a little liquidity spike or opportunity you can grab it, but to just say we're going to do it and we're going to do it by the end of the month, we would just destroy the markets.

Zack Schreiber - Duquesne Capital - Analyst

Got it guys. I'll follow-up on the Brazil megawatt hours.

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

I have it here. You are right, it is 2185.

Zack Schreiber - Duquesne Capital - Analyst

You scared me. Thanks, guys.

Operator

And we'll move next to Maureen Howe with RBC Capital Markets.

Maureen Howe - RBC Capital Markets - Analyst

Thank you very much. I just have a couple quick questions, can you quantify the gain on the Potomac sale at Crescent?

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

No. Just to be straightforward, that is not something we'll break out.

Maureen Howe - RBC Capital Markets - Analyst

Okay. Can you give us perhaps just an order of magnitude? You talk about residential sales and then this one commercial gain. Can you give us sort of a sense how much was each and then maybe how much was an on going number?

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

Well, I would say that you could say that the Potomac yards was the biggest half.

Maureen Howe - RBC Capital Markets - Analyst

Okay. And then also just to come back to a previous question, I'm wondering if you have for Q2 what normal cooling days would be in your service area?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

We don't have that here, but we can get it for you.

Maureen Howe - RBC Capital Markets - Analyst

Okay. That's great.

Paul Anderson - Duke Energy Corporation - Chairman and Chief Executive Officer

We'll have Greg's folks follow-up with you on that one.

Maureen Howe - RBC Capital Markets - Analyst

That would be super. Thanks very much.

Operator

And as a reminder if your question has been answered today you may remove yourself from the cue by pressing the pound sign. We'll go now to Steve Fleishman at Merrill Lynch.

Steve Fleishman - Merrill Lynch - Analyst

A couple things. First, thank you for that additional information on DENA cost savings for next year. But since you gave it I'll ask that question. You talked pretty confidently about getting DENA to break even in '06. How much of that do you think you can achieve through these additional cost savings initiatives and such that you're doing? How much does that depend on the market getting better than this year?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

I can -- at this stage, you know, still have a couple years to work on it, Steve, but at this stage I can see a path toward getting toward the hundred million annual basis at current market conditions.

Steve Fleishman - Merrill Lynch - Analyst

Hundred million EBIT loss?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

Yes.

Steve Fleishman - Merrill Lynch - Analyst

Okay. And then just one specific question there on the other deferred plants that you say you are going to sell, how much of those have been dragging EBIT?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

It is not a whole lot. I mean, we've got them pretty much moth balled down. It is more than just giving the capital and the tax affect out of them.

Steve Fleishman - Merrill Lynch - Analyst

Okay. And then I guess one other question back to the utility on the new regulatory agreement on the bulk power sales and the sharing for that. Have you guys adjusted -- I assume if this had not gotten done

you would have essentially earned more money that maybe would have been used for the clean air act amortization?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

Likely, yes.

Steve Fleishman - Merrill Lynch - Analyst

So is the cleaner air act you say was about \$170 million for this year?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

Yes.

Steve Fleishman - Merrill Lynch - Analyst

Is that a lower number than before?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

No.

Steve Fleishman - Merrill Lynch - Analyst

Okay. So maybe if this hadn't happened you might have done a higher number?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

Yes.

Steve Fleishman - Merrill Lynch - Analyst

But now you're able to participate. So the \$27 million is only the half share that went back to customers?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

Correct.

Steve Fleishman - Merrill Lynch - Analyst

Okay and so in the second half of the year you can do more sales and you can benefit?

Fred Fowler - Duke Energy Corporation - President and Chief Operating Officer

Yes.

Steve Fleishman - Merrill Lynch - Analyst

Thank you. That's helpful. Thanks.

Operator

And due to time constraints, that is all the question we have time for today. Mr. Ebel, I will turn things over to you for any additional or closing remark.

Greg Ebel - Duke Energy Corporation - Vice President of Investor and Shareholder Relations

Thanks very much everybody for joining us. As usual, the IR team will be around to take your questions throughout the day and over the next couple days and we look forward to speaking to you on earnings call in October. Thanks very much.

Operator

That does conclude today's conference call. Thank you very much for joining us.