

## **PAUL ANDERSON**

### ***(Slide 1: Re-inventing Duke Energy)***

**Thank you for that introduction and for inviting us to speak today.**

- You are probably aware that I stepped down as CEO of Duke Energy when we completed the merger with Cinergy, so you're probably wondering what I'm doing here!
- Jim Rogers, being Chairman of EEI, is attending their board meeting in Colorado this week – so Duke sent in the “B” team!
- But never fear -- I have brought our CFO David Hauser with me, to help fill in any gaps!
- This afternoon, I want to give you an update on how things are going at Duke Energy.

Lehman Brothers CEO Energy/Power Conference, Sept. 5, 2006  
Paul Anderson, Chairman of the Board, Duke Energy  
David Hauser, Group Executive and Chief Financial Officer, Duke Energy

***(Slide 2: Safe Harbor Statement)***

Before we begin, let me direct you to our Safe Harbor and Regulation G Statements. I'll ask you to read them and keep them in mind for today's presentation.

***(Slide 3: Duke Energy 2006 Update)***

**Let me start with a brief overview of the year so far.**

- Financially, we have had a strong year. Through June, we had ongoing earnings of 91 cents per diluted share, which was almost a 20 percent improvement over the same period last year.
- And we are on track to achieve our employee incentive target.
- As far as the individual business results go, some are ahead of their financial plan, while others are not. But as a whole, the company's results are on plan with respect to where we thought we would be at the end of the second quarter.
- Of our largest businesses:
  - Franchised Electric & Gas is behind plan, primarily due to milder than normal weather and lower bulk power marketing sales.
  - However, Gas Transmission, Field Services and Crescent are ahead of plan, and we expect that to continue through year-end.

**On the strategic front, we have been quite busy this year as well.**

- We completed our exit from the merchant energy business outside the Midwest, announced last September, two months ahead of schedule.
- In May, we completed the sale of Duke Energy North America's generating assets to LS Power for approximately \$1.6 billion, and in July we finalized the sale of the last remaining contract associated with that business.
- From a cash perspective, we received a total net cash flow of approximately \$700 million, excluding the return of collateral.
- We announced the sale of our Commercial Marketing and Trading business to Fortis.
  - We remain on track to complete that transaction this quarter, with pre-tax cash proceeds of at least \$350 million, and at least another \$200 million return of collateral.
- We continued to drive growth in both our regulated power and gas businesses.
  - We signed an agreement to acquire an 825-megawatt power plant in Rockingham, North Carolina, for approximately \$195 million.

- We have filed testimony with the North Carolina Commission in support of the expansion of our Cliffside coal plant with two 800-megawatt baseload units.
  - We are developing a state-of-the-art 600-megawatt IGCC (integrated gasification combined cycle) plant in Indiana.
  - And we've announced nine major pipeline and storage projects, including an expansion of the Maritimes and Northeast Pipeline to connect with the planned Canaport LNG (liquefied natural gas) terminal in Saint John, New Brunswick.
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- We increased our annual dividend by 4 cents per share effective with the September distribution.
  
  - We announced the decision to spin the gas business, and will soon be filing our Form 10 with the SEC. I'll talk more about that in just a moment.
  
  - And we are still actively pursuing a plan to take on a joint-venture partner for Crescent Resources, our real estate affiliate.

***(Slide 4: Merger Update)***

**Before I move to the spin, I'd like to talk a moment about the other large strategic move we made this year, and that is the completion of the merger with Cinergy.**

- We closed on the merger April 3<sup>rd</sup>, just 11 months after we announced our intention to combine the two companies.
- From my vantage point, the merger has been a success thus far.
  - We're on track to achieve the anticipated merger savings of \$140 million this year.
    - This year's savings are effectively being offset by rate reductions to customers, as part of our merger agreements with the states.
    - We'll start seeing benefits to earnings in the second half of 2007.
  - Costs to achieve the merger are also in line with expectations.
  - Departments and work teams have been "gellin' " from Day One
    - For that I give due credit to dedicated employees from both companies.

- And to an Integration Team that rolled up their sleeves and got critical systems and processes in place for a smooth transition.
  - I have talked to folks throughout the organization and asked them if we have dropped the ball at all, on any significant service or customer interface. To a person, I haven't heard of any major gaffes or mis-steps. And more importantly, we haven't heard of any from our stakeholders either.
  - I don't want to leave you with the impression that the transition has been 100 percent seamless, because it hasn't. But it is true that our folks have pulled together to make sure we continue to deliver top-quality products and services to all our stakeholders.
- And there are some true success stories as well – taking advantage of Cinergy's expertise in the Midwest market has allowed us to change our dispatch model and bid into the system on a more regular basis.

**But the best news is delivering on the reason we did the merger in the first place – to create a sustainable and expandable model for a stand-alone power company.**

***(Slide 5: Decision to Spin the Gas Company)***

- We're confident that the separation of our electric and gas businesses will create value for our shareholders from Day One.
- Even more importantly, it will free up all of our businesses to pursue market opportunities in their own industries over the long term.
- Our management teams are already looking at the future through a new lens – and they're seeing new and exciting opportunities to grow.
- I did expect the folks in the gas company to be energized about the changes coming at them, but I hadn't counted on that same level of enthusiasm occurring at the power company.
- Boy, was I wrong – I'm seeing the same kind of excitement in the employees that will be running the power businesses, because they see great opportunities out there as well.
- The gas spin gives Jim Rogers a good opportunity to take a look at the organization in the context of a stand-alone power

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company, and you should expect to see some changes  
sometime this month.

**When one company becomes two, which we are targeting to  
occur January 1<sup>st</sup>, what can you expect from them as separate  
companies?**

***(Slide 6: The Gas Company)***

**GasCo's vision is to be the premier pure-play North American midstream natural gas company.**

- The gas company is looking at compounded annual ongoing diluted earnings-per-share growth of 5 to 7 percent over a five-year horizon – while maintaining a strong balance sheet and operating cash flow.
- This is being driven by Duke Energy Gas Transmission, which expects compounded annual ongoing EBIT growth of 7 to 9 percent for the same period.
- It would be reasonable for you to assume that Gas Transmission's EBITDA would grow at the same rate.
- What will drive that growth?
  - GasCo has the most strategically placed assets in North America, connected to the fastest-growing markets and to the most diverse supply base.

- Changing industry dynamics are creating an unusual number of expansion opportunities. More on that in a minute.
- GasCo will be able to use a variety of financing vehicles to generate cash for new investment -- such as Field Services' master limited partnership (DCP Midstream Partners), and Gas Transmission's Duke Energy Income Fund in Canada.
  - We anticipate setting up a new MLP focused primarily on Gas Transmission's U.S. interstate pipeline assets.
- The leadership team will be incentivized solely on driving results in the gas business.
- GasCo will maintain a diligent approach to cost management, as well as a continued focus on customers and other stakeholders.

***(Slide 7: “GasCo” – Active Projects)***

**Today’s environment is rich with opportunities for infrastructure expansion.**

- Changing industry dynamics are bringing new expansion opportunities.
- In fact, our gas project development teams have over 25 active expansion projects under way!
- We recently held open seasons that provided a lot of positive market feedback on additional growth opportunities.

**Let me give you a bit of background on why this has occurred.**

- Many of the largest infrastructure players have spent very little time on pipeline expansion over the last five years.
- Meanwhile, as commodity prices have increased, so has drilling, and new LNG is also finding its way to our shores.
- New pipeline capacity is going to be needed to get those new supplies to market.

- Add to that the “wake-up call” from last year’s hurricanes, and you have market conditions that are ripe for new development.

**Our Field Services business is also well positioned.**

- Robust drilling continues in new as well as mature areas.
- The petrochemical demand for natural gas liquids as feedstock continues to be relatively strong.
- In addition, there is growing demand for gas treating and processing, due to stricter enforcement of gas quality standards on pipeline systems.

**With new projects under way and others being identified, we intend to be even more aggressive in growing as a pure-play gas business.**

- 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.

***(Slide 8: Duke Energy)***

**Likewise, after the spin, Duke Energy will essentially be a pure-play electric company.**

- With the pending sale of our marketing and trading business, Commercial Power is now primarily focused on getting maximum value out of our deregulated Midwest assets.
- Duke Energy International will continue to focus on optimizing its operations in Latin America.
- Crescent Resources is the only major part of our total earnings mix that is not related to energy infrastructure.
  - The Crescent name is important in our service territory, and we want to make sure its legacy land holdings are well protected.
  - And of course, it's been a profitable business for us.

***(Slide 9: Duke Energy – Post Spin)***

**Duke Energy intends to remain an industry leader in providing competitive rates, superior reliability and customer satisfaction.**

- Duke Energy is expected to grow ongoing earnings per diluted share by an average of 4 to 6 percent annually, while maintaining a solid balance sheet and delivering strong operating cash flow.
- We will get 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
  - Upgrading our existing infrastructure for reliability and environmental compliance, and
  - Offering energy efficiency options to our customers.
- We expect average CapEx of between \$2.5 and \$3.5 billion over the next several years.

***(Slide 10: Snapshot of the Companies)***

**Before I turn it over to David, let me give you a few particulars on the governance of the two companies post-spin.**

- As you know, I will be Chairman of the new gas company. Before the separation we intend to name additional nominees, who will serve staggered board terms.
- Jim Rogers will be the Chairman of Duke Energy once the spin is complete.
- Decisions on board membership will be made with every effort to match talent with the respective companies.
- My decision to go with Gasco was because of my extensive expertise in that industry, as well as the confidence I have that I'm leaving Duke Energy in Jim's capable hands.
- As before, it is my intent that my compensation will be entirely equity-based and tied to management team goals.

**With that, let me turn the podium over to David to discuss the progress we're making on the spin.**

## **DAVID HAUSER**

### ***(Slide 11: Progress on Gas Spin)***

**Thank you, Paul.**

**As you probably know, the major approval we need to complete the spin will come from the SEC.**

- The filing of our Form 10 will officially start that approval process.
- In addition to the Form 10, we will be filing an 8-K that contains summary financial information not only for the gas company, but for Duke Energy as well.
- The Form 10 will describe GasCo's business strategy in detail, and will also include a discussion of the risk factors associated with the business, the industry and the separation itself.
- The filing will include a separation and distribution agreement. This is the primary document governing the separation.
  - It defines the allocation of assets and liabilities, sets forth the methodology by which the separation will occur, and establishes the framework for future interaction between the companies.

- All assets and liabilities generally follow the line of business. Those remaining will be allocated at a fixed percentage – two-thirds Duke Energy, one-third GasCo – unless we see another logical way to allocate them.
- As far as the financials go, the newly formed company will essentially hold what is currently Duke Capital, excluding DEI and Crescent.
- Our plan is for Duke Capital's debt of approximately \$3 billion at December 31, 2006, to go with the gas company.
- Both the gas company and Duke Energy are committed to maintain solid investment-grade balance sheets.
- In terms of debt to total capitalization, we expect Duke Energy to be in the upper 30 percent range, with total debt of approximately \$12 billion at December 31, 2006.
- The debt-to-cap for the gas company will be about 60 percent, with total debt of about \$9 billion at the end of the year.
- In my opinion, the more meaningful credit metric is Funds from Operations, and each entity's FFO interest coverage metrics are strong.

- We have updated our view on this a bit, and we now expect Duke Energy to have an FFO Interest Coverage of about 5 to 5.5 times, and GasCo's to be about 3 to 4 times.
- We have met with the rating agencies and expect to receive feedback on indicative GasCo ratings by mid-September.
- As far as the dividend goes, we have already indicated that it will be maintained in total after the separation.
  - And we have also indicated that Duke Energy will have a target payout ratio in the range of 70 to 75 percent, with GasCo having a target payout ratio of about 60 percent.
  - What has not yet been decided is the number of shares of GasCo stock that will be issued for every share of Duke Energy stock. If you assume a one-for-one distribution, then the initial dividend for Duke Energy would be 84 cents per share in 2007 and 44 cents per share for GasCo.
  - Please keep in mind that the target payout ratios are not only targets, but also averages over time. I would hope that none of you are naïve enough to think that dividing our initial dividend split by target payout ratios will provide

you with our earnings estimate. We are not giving out a target earnings estimate for 2007. These will be provided once the board approves our detailed budgets, which we expect to occur in time for our road shows.

- Let me also remind you that the decision on the distribution ratio has NOT yet been made. It is highly likely that the distribution will NOT be a one-for-one split, but some fractional share instead. But for purposes of demonstrating that the dividend will be kept whole, we wanted to give you what our current thinking is.

***(Slide 12: 2007 Estimates)***

- Our official 2007 targets will come out once the board approves our detailed budgets, which we expect to happen later this year.
- As a reminder, we expect each company to have negative free cash flow for 2007 through 2009, due to the number of significant investment opportunities we see.
- We are continuing to work on the allocation of cash, as there are a number of items that must be considered in that determination.
- Our private letter ruling was filed with the IRS in July, and we expect a response from them in early to mid-October if no material issues arise. We are requesting a ruling that the spin will not be taxable to the company or its shareholders.

***(Slide 13: Next Steps)***

- With the filing of the Form 10 ... (by the way, I've seen a draft of it , and it's over 400 pages – you're going to love it!) ... with that filing, we will take a major step toward completing the spin, and we are comfortable that our targeted effective date of January 1<sup>st</sup> is achievable.
- GasCo has been incorporated in Delaware and will be traded on the New York Stock Exchange.
- We hope to have a name for the new company early in the fourth quarter. This is proving to be quite an interesting exercise – in a focus-group test of the names we had on our short list, someone actually thought “GasCo” was the best choice! It's definitely time to get on with an official new name!
- A Transition Services Agreement, which will be described in the Form 10, will address which services each company will provide to the other following distribution. This is important, as Gasco will need Duke Energy's support in a number of areas, while they get their own systems up and running.
- An Employee Matters Agreement will allocate obligations relating to employee compensation and benefits plans, and

govern the treatment of outstanding Duke Energy equity awards.

- Outstanding equity awards will be split into Duke Energy and GasCo shares, regardless of whether the award is held by a GasCo or Duke Energy employee.
- Finally, a Tax Matters Agreement will require cooperation from GasCo for any tax audit of Duke Energy involving GasCo's assets. It also makes the culpable party responsible for paying the taxes, if for some reason the separation does not qualify as a tax-free transaction.
- We will begin a "road show" in the fourth quarter. We are very much looking forward to sharing each company's story in the months ahead, and we expect that you will be equally enthused as you watch those stories unfold.
- I think I speak for Paul, Jim Rogers, Fred Fowler and all the employees at Duke Energy when I say how excited we are about this new direction and both companies' prospects for the future.
- With that, Paul and I will be happy to take your questions.

***(Slide 14: Logo)***