

# Conference Call Transcript

DUK - Duke Energy Corporation Analyst Meeting

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## PRESENTATION

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**Sean Tauschke - Duke Energy - VP IR**

Good morning. I think we have a few more people coming in, but why don't we go ahead and try to get started? I want to welcome all of you to our 2007 Analyst Day. For those of you I haven't met, my name is Sean Tauschke. I'm the Vice President of Investor Relations at Duke Energy. We have a full morning here. We hope you'll find the presentations and discussions informative. Let me get through some of the more formal issues here.

Let me take a moment to remind you that some of the things we'll discuss today concern future company performance and include 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 2006 Form 10-K, filed with the SEC and our 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 the most directly comparable GAAP measure is available on our Investor Relations website at [www.duke-energy.com](http://www.duke-energy.com).

Before we begin, let me take a few minutes to discuss some logistics. Everyone should have an agenda in the presentation booklet we passed out. We will be taking a break at about 9:30. We've set up some refreshments at the far end of the hall, so just go down the hall, at the very end of the hall. The restrooms are there as well. We hope to wrap up before noon this afternoon.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

You'll have an opportunity to ask each of the presenter's questions at the end of their prepared remarks. We are webcasting the presentations today, so when you do have a question, please raise your hand so we can get a microphone to you. I would also ask you to just give your name when you ask that question.

Lastly, I'll do my best to keep us on schedule. But, we've set aside at the end for Jim and David to come back up here to wrap up any questions you may have after their presentations. So with that, I'll turn things over to our Chairman, President and Chief Executive Officer, Jim Rogers.

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**Jim Rogers - Duke Energy - Chairman, President, CEO**

Sean, thank you very much and welcome. I'm glad everybody's here today. It's a great opportunity to get an insight in terms of where we're going. Let me start by saying, today is the sixth anniversary of 9/11. And I think it's very important, as we assemble here today, not to forget that day. And it's very important that not only we not forget, but that our children and our grandchildren not forget that day.

We've learned a lot of lessons since then, and I think that sometime today, I hope you stop and not only remember, but think about the lessons we learned. But, I think the greatest lesson that I learned from it is the thing that makes this country great is the optimism that we have in terms of the way we look forward, the way we make things happen and our courage to come from dealing with an issue like that to facing the future.

So in a sense, I wanted to start this morning in celebration of our optimism as a country and in celebration of the freedoms that our people have that makes us unique compared to any other country in this world -- not another place in the world that has the tolerance and the commitment to freedom that we do here. So with that, let me now start to talk about where we are today as a company.

We had a very strong second quarter with ongoing diluted earnings per share of \$0.25 versus \$0.24 in the second quarter of 2006. We're in a very strong position to execute on and to exceed our employee incentive EPS target of \$1.15 on an ongoing, diluted earnings basis.

We are pleased with the significant progress that we've made on our major initiatives. We're moving forward with steady sales growth in all parts of our system. We're delivering on cost reductions that come from the continuous improvement of our operations. We're leveraging off the merger savings.

Thirdly and most importantly for the future, we're delivering legislative and regulatory outcomes that provide for the timely recovery of the significant capital investments we plan to make to better serve our customers in the future.

Our purpose today is quite simple, and that's to frame the future for you so that you have a better insight in terms of what we are going to deliver over the next five years. Historically, we only talked about three years. But today as we look out, given the size of our capital programs and the things that we have to do, we believe a better insight in terms of our future is to see it over a five-year time period.

Our goal is to leave you today with the answers to the questions that we believe are probably on your mind. What is Duke's long-term plan? Can this management team execute on this plan? Is it doable? Also, our goal is for you to have a better appreciation of these four competitive strengths.

Highly-constructive regulatory and legislative relationships that we have in five diverse jurisdictions, a better appreciation of our focus on excellence in operations and customer service, a better appreciation of our strong cost control culture, a better appreciation of our project management skills to build new power plants on time and under budget.

We believe the plan we are laying out today is very doable. And I want you, as you listen to each of the key members of the team talk about it, is it doable? Can they deliver? We have a good line of sight, we believe, into what we want to accomplish and what it will take to get there.

I'm doing something very different today from my perspective as CEO. I'm putting the spotlight solely on the top management team. I'm going to do a little introduction. Then, I'm getting ready to finish up. I'm going to let them deliver the entire message. And then, David and I will get up and field any questions at the end of the day.

I'm putting the spotlight on them because they're the ones that have to deliver. I'm putting the spotlight on them where you get a sense of the depth of our management and the capability of our team. So, let me quickly give you an outline.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

David Hauser, our CFO, will start us off with a financial update including the timing and the amount of our capital spend during this period of growth and expansion and the impact that will have on our future earnings growth.

Then Keith Trent, our Chief Strategy, Policy and Regulatory Officer will give you a strategy overview and an update of where we currently stand on the legislative and regulatory front. Following his comments, Keith will lead a panel discussion with the presidents of our franchise utilities in the Carolinas, Indiana, Ohio and Kentucky.

After a short break, Jim Turner, President and COO of Franchised Electric & Gas, will discuss the operations of our regulated businesses. Most importantly, he will discuss the nuts and bolts of how we will be prioritizing and maximizing our significant capital spend over the next five years.

Then, Brew Barron, our Chief Nuclear Officer, will focus on our nuclear operations as well as how we are participating in what's being called the second generation or the new renaissance of nuclear.

Finally, Tom O'Connor, President of Commercial Businesses, will give you an outlook for our non-regulated commercial business. And David and I will be back to answer any questions that you may have and with a few closing comments. With that, I'll turn it over to David to get us rolling. David?

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**David Hauser - Duke Energy - Group Executive, CFO**

Thank you Jim, and good morning, everyone. As this year has progressed, it became clear that our significant infrastructure investments will push our CapEx spending higher than the levels we had previously announced. So, we thought the best way to begin to frame the future of Duke Energy for you is to start with the numbers. As promised, I will review these numbers and will provide an extended forecast period for five years.

Before I get into CapEx spending, I'd like to talk about our expected ongoing earnings growth. As I said, we now expect our CapEx spending to be higher than we previously told you. As a result, we've raised our expectations for annual ongoing earnings growth from our previous projections of 4% to 6% to 5% to 7%.

Although the numbers behind our growth strategy have changed, the strategy itself remains the same. Earn solid returns on the significant capital investments necessary to meet the growing demand and to modernize our coal fleet; achieve legislative and regulatory outcomes that provide for the timely recovery of and on these capital investments; realize growth from our non-regulated businesses; and maintain our steady customer sales growth and continue our focus on cost reductions.

We expect our dividend to continue its steady growth. The current plan that we have reviewed with our board of directors reflects an increase in the quarterly dividend of \$0.01 in the third quarter of each year. Of course, these dividend increases are ultimately a decision of the Board.

One final note before I move on, as you've seen in our past presentations, 85% of forecasted 2007 ongoing total segment EBIT is derived from regulated customers in five states. This includes sales to regulated customers in Ohio under the rate stabilization plan, which expires at the end of 2008.

Keith Trent will discuss our efforts on the legislative and regulatory fronts for a long-term solution to be effective when the RSP ends. As he does, keep in mind that depending on the outcome in Ohio, the ongoing total segment EBIT contribution from regulated customers could move to about 70% to 75% in future years.

Now, let's look at some of the details around our projected CapEx spending. If you look over the next five years, we plan to spend approximately \$4.6 billion to \$5 billion per year through 2011. By 2012, a number of these expansion projects will be complete. And as a result, the CapEx in 2012 is expected to be \$3.4 billion. Total spending for the five-year period is projected to be around \$23 billion.

Most of these dollars are being spent on our regulated businesses. In fact, over the next five years, nearly 85% of our total CapEx will be spent on our Franchised Electric & Gas business segment. In our regulated businesses, we expect to spend \$1.5 billion in system growth CapEx in 2008, and we estimate that will increase to about \$2 billion through 2011, and then, spending will begin to decline as some of our expansion projects come on line.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

I will break out these dollars in greater detail on the next slide. And later, Jim Turner will provide specifics around our regulated expansion projects. Environmental spending is expected to be approximately \$550 million in 2008, and then will drop significantly in 2009 and 2010 as we complete environmental upgrades to comply with new regulations.

Nuclear fuel is expected to increase as some of our existing long-term contracts roll off. Brew Barron will speak more about our nuclear fuel purchasing strategy during his presentation. In our commercial power segment, we expect to spend about \$1.4 billion over the next five years. That number includes the CapEx that we plan to spend completing the wind projects we acquired this year.

In International, we expect to spend a little over \$1 billion over the five-year period. We will continue to use a measured approach when we assess international investment opportunities. Our planned investment in International is in line with the excess cash flow from that segment. As I have said before, any international investments would be made with offshore cash.

Corporate and other spending stays relatively flat over the next five years. These dollars include, among other things, investments in information technology, IT-related costs to achieve spending and expenditures related to energy efficiency.

Over the next five years, regulated system growth spending will account for over one-third of our total CapEx. So, we thought it would be helpful to provide greater details around our system growth spending plans in our regulated businesses.

As you will hear in more detail later, by 2012, we will need an additional 4,600 megawatts in the Carolinas and an additional 1,400 megawatts in Indiana. So, it's no surprise that our regulated expansion is being driven primarily by our new generation projects, Cliffside, the Edwardsport IGCC and the two proposed 600 to 800-megawatt, combined-cycle natural gas power plants in North Carolina.

Keith and Jim Turner will talk about our efforts to build the utility of the future by converting our analog distribution grid into a digital smart grid. But, I would like to point out that we won't spend these dollars until we have the appropriate regulatory mechanisms in place.

We are still very interested in the option of building a nuclear plant. But as you can see, we have only allocated nominal dollars to Lee nuclear station project. We are planning to file a combined construction and operating license with the nuclear regulatory commission late this year or next year. We will also plan on filing for a nuclear development order in South Carolina in the same timeframe. But, we won't firm up our CapEx expenditures until we have a better sense of how this project will unfold.

So, the dollars you see on the chart should be considered as placeholders as we continue to work through this process. All indicators suggest to us that the combination of NRC and state approvals, system need, contractor negotiations and our own prudence regarding when to make commitments could result in the nuclear plant being completed later than originally planned. We have more work to do before we can put a definitive stake in the ground, [sense of] timing.

As you look at the total capital investment highlighted on this slide, it reinforces the fact that timely recovery of capital investments is key to our success in achieving our growth aspirations. Next, I will walk through our projected 2008 cash flows. We expect total sources of cash to be \$3.4 billion. Total uses of cash are estimated to be about \$6.5 billion. The primary uses of cash are the capital expenditures and investments that I just outlined, along with dividend payments of approximately \$1.1 billion. The resulting net cash invested in the business is about \$3 billion.

Our strong investment grade balance sheet will provide us with significant flexibility in achieving our CapEx plans. We do not need to issue public equity to fund our CapEx programs. However, we do plan modest equity issuances of approximately \$200 million per year beginning in 2010, using internal plans such as the dividend reinvestment plans and the customer investment plans.

You've seen this slide before. We have updated it to show our revised numbers. Let me point out that the purpose of this slide is to provide a very simplistic illustration of our potential rate base growth over the next five years. By the end of 2007, we expect our rate base will be about \$11 billion in the Carolinas, \$4 billion in Indiana and a combined \$2 billion in Ohio and Kentucky. If you add it up, our total rate base is about \$17 billion.

To meet the needs of our growing customer base, we expect to add \$19 billion in capital expenditures from 2008 through 2012. When you subtract depreciation and amortization over that period, our total rate base will increase to approximately \$27 billion.

In other words, our regulated CapEx spending over the next five years will result in about a 60% increase in our rate base. You all know how this works. The key message here is that the returns generated from a growing rate base ultimately translate into long-term earnings growth.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Next, I will talk a little bit about our balance sheet and the financial flexibility it provides. We will maintain the Company's financial strength and preserve the investment grade credit ratings we currently enjoy. Our goal is to have a capital structure that will support the existing dividend and all of our growth objectives.

Our debt to capitalization ratio is expected to be in the mid 40% range by 2012. This capital structure will allow us to grow our rate base with the modest equity issuances I just outlined. We are planning to file a registration statement on Form S-3 with the SEC later this month. The registration will allow us to issue both debt and equity, as needed, over the next several years.

I believe the most important credit measure is funds from operations. Our FFO interest coverage metrics are strong. We expect Duke Energy to have FFO interest coverage of about 4.4 to 5.2 times. The table on this slide compares our credit metrics with Standard & Poor's requirements for an A rating and BBB rating.

Earlier this year, S&P raised its corporate credit rating on Duke Energy Corp. and our subsidiaries to A minus from BBB. Our strong balance sheet provides us with significant flexibility in achieving our CapEx plan. Today, we will lay out for you how we are positioning Duke Energy for long-term success.

And with that, I'll open it up for questions.

## QUESTION AND ANSWER

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**Unidentified Audience Member**

(Inaudible - microphone inaccessible)

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**David Hauser - Duke Energy - Group Executive, CFO**

Let's get a mic.

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**Unidentified Audience Member**

I wasn't clear on the nuclear spend. You're saying you may or not get approval. And I wasn't clear, because I assume any nuclear plant is many years off in the actual construction. So, I'm trying to understand how much in here is for nuclear that would, say, go away if you didn't have an approval, or trying to understand how you've budgeted that in your CapEx.

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**David Hauser - Duke Energy - Group Executive, CFO**

There's \$20 million a year in here for the nuclear plant, which I would call a placeholder to keep the option open. And we will be making decisions if and when we ramp up and build the nuclear plant. But, it looks like it'll be a little further out in time than we thought it would. It's not in there.

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**Unidentified Audience Member**

Yes, hi. I noticed that the one area that you're not showing any new generation build is Ohio. But then on the other hand, you said that you need generation [in] Ohio, both near-term and long-term. So, would that be something that would be additive if Ohio comes up with a reasonable plan to support that? Or, how does that fit into this plan?

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**David Hauser - Duke Energy - Group Executive, CFO**

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Two things, I think -- any coal plant or anything like that in Ohio was not in these numbers. Let me defer that though. Let's let the regulatory team talk, and if the answer is not good, we'll -- or, not good, that's the wrong word. If the answer's not complete enough, we'll deal with it again. But, I think you'll get the right answer. I'll work on my terminology. Yes?

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**Unidentified Audience Member**

Looking at the supply data, it looks like you're maybe indicating a 60% growth in rate base. That might suggest over five years, perhaps -- well the stronger growth rate for earnings. I was wondering if you could just elaborate a little bit on that?

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**David Hauser - Duke Energy - Group Executive, CFO**

Yes. We will talk about, in one of the subsequent presentations, how much prices go up in each jurisdiction. Keep in mind, the way that chart is laid out, it is laid out of total spend, whether you've had a rate case on it or not. So, a part of that chart shows you posturing for future years beyond 2012 that you -- so, you'll have spent money that you did not have rate activity on by 2012. So, that's why it's a little bit lower percentage than you would think.

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**Unidentified Audience Member**

Okay.

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**David Hauser - Duke Energy - Group Executive, CFO**

[Greg]?

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**Unidentified Audience Member**

That was basically my question. But I guess, what other -- and if I'm jumping ahead, just let me know, what other assumptions are you making there in terms of sort of earned returns on those investments? Is there some assumption that the return on equity on the whole base of capital is -- some drifts slower over time?

And is that a sort of a headwind? Or, what are the key building blocks as we see sort of 12% rate base growth but only 5% to 7% earnings growth? I'm not asking for a lot of detail, but in terms of just like chunky things that cause that to come down from 12% to 5% to 7%?

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**David Hauser - Duke Energy - Group Executive, CFO**

I think the simple way to answer that is, our returns are 8% to 9% on invested capital. That's not equity. That's invested capital. And we expect that rate of return to continue on average in our jurisdictions, and that's what's built into this plan. Yes?

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**Unidentified Audience Member**

Can you just talk about what the one or two greatest sensitivities are to the 5% to 7% earnings growth rate?

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**David Hauser - Duke Energy - Group Executive, CFO**

I would say there are -- two of the biggest sensitivities, one is continued growth in kilowatt-hour sales and the growth that happens there. And two is, the regulatory response and the price increases that we need that the regulatory team will be talking about. I think those are the two biggest sensitivities.

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**Unidentified Audience Member**

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Hi, David. Just combining the Slide Five, the CapEx schedule and your uses -- sources and uses, is that \$3 billion funding gap, is that kind of a run rate for eight, nine and ten, and then, maybe falling off a little bit as the CapEx schedule comes down? Is that the right way to think about it?

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**David Hauser - Duke Energy - Group Executive, CFO**

It -- that's a reasonable way to think about it. Actually, cash flow improves over the years, and the CapEx stays about the same. So, you'd actually see it ramping down some as opposed to up.

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**Unidentified Audience Member**

Good morning, David.

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**David Hauser - Duke Energy - Group Executive, CFO**

Good morning.

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**Unidentified Audience Member**

I'm just curious. On Slide Seven again, the \$3 billion funding need, can you give us a breakdown between issuance at the Holdco and OPCo, given that there's no leverage at the Holdco? And going forward, where you see issuances?

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**David Hauser - Duke Energy - Group Executive, CFO**

We haven't made specific decisions for '08. But over the period '08 through '12, we will be issuing some Holdco debt. We would also anticipate using the hybrid tool, which would be a Holdco activity.

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**Unidentified Audience Member**

You mentioned a coal plant in Ohio. Are there any other projects, either related to renewable strategies or anything else that's missing in the CapEx of [opportunities] that are not quite biased to these numbers?

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**David Hauser - Duke Energy - Group Executive, CFO**

I think we'll lay out the strategies pretty clearly. But, I think the coal plant would be the one that's not in here that could happen down the road.

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**Unidentified Audience Member**

Okay. And beyond 2012, what's the maintenance -- level of maintenance expenditures that we should be thinking about?

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**David Hauser - Duke Energy - Group Executive, CFO**

Beyond 2012? Wow. I --.

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**Unidentified Audience Member**

The way I look at this chart, if I remove the system growth of \$975 million, it seems on a corporate-wide basis, you have about -- I think it's about 24 -- \$2.4 billion of expenditures annually without any system growth is that a kind of good enough run rate we should be thinking about?

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

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**David Hauser - Duke Energy - Group Executive, CFO**

I can't say that we've done a lot of work beyond 2012 and what the run rate would be. I think if you were modeling out that far looking it as a flat kind of number of where it is, it would be a reasonable thing to do.

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**Unidentified Audience Member**

Thank you.

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**David Hauser - Duke Energy - Group Executive, CFO**

No problem.

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**Unidentified Audience Member**

Given the recent escalation in construction costs, how solid are the numbers projected for the building of new plants in the next five years?

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**David Hauser - Duke Energy - Group Executive, CFO**

Let me -- Jim Turner is all over that -- so, let's hear his remarks. And then, -- we'll deal with that. I think you'll get good answers on that.

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**Unidentified Audience Member**

David, there might be too many unknowns to answer this question today. But, how should we think about the shape of annual EPS growth, front-end loaded, back-end loaded, based on timing of a lot of CapEx up-front, the regulatory lag later?

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**David Hauser - Duke Energy - Group Executive, CFO**

You should think about -- well first of all, we normally would come out with an '08 number. And the Board would approve that in December. And so, we're coming out sometime either end of the year or early next year and give you our '08 number. But, I think you should look at it that we'll have some targets of being in the 5% to 7% on an annual basis. I don't think you'll see dramatic lumpiness.

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**Unidentified Audience Member**

How should we think about the dividend growth? You guys talked about \$0.01 a quarter or \$0.04 a year. Last year, you guys were talking about dividend growth in line with earnings, 70% to 75% payout. And how should we think of that now?

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**David Hauser - Duke Energy - Group Executive, CFO**

I think you should focus on the absolutes that we're looking at -- the penny increase per quarter in the third quarter of every year. And that does mean at the end of the day, the payout ratio, if earnings growth is above that, would be a bit lower five years from now.

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**Unidentified Audience Member**

Okay. And then secondly, the -- on the tax rate. Last year, it was -- you guys were talking about 35.5%. I guess it was lower because of synfuel for this year. How should we think about that going forward when you have it in your earnings growth?

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

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**David Hauser - Duke Energy - Group Executive, CFO**

I'd look at a number of about 33%, driven below statutory for two big reasons. One is some production tax credits that begin to build up on the wind. And second, you have the equity component of ADC, which is not taxable. Any other questions?

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**Unidentified Audience Member**

Just one follow-up, the 5% to 7% earnings growth, does that necessitate any base rate increase? Or [it doesn't] no base rate increases?

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**David Hauser - Duke Energy - Group Executive, CFO**

There are base rate increases that are reflected in that number. And the regulatory team will be telling you how much by jurisdiction. Okay, thank you very much. Sean?

## PRESENTATION

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**Keith Trent - Duke Energy - Group Executive, Chief Strategy, Policy & Regulatory Officer**

Good morning. I'm Keith Trent. I'm pleased to be here with you this morning. You've already heard from Jim and David that Duke Energy's business strategy over the next five years is calling for significant system growth. That system growth is also driving our legislative and regulatory strategy.

Our objectives are straightforward. First, we need to reduce the time between when we invest dollars and when we start recovering of and on those dollars. Second, we want to minimize the risk of hindsight disallowance. In other words, we want assurance of cost recovery when we invest our dollars. And third and very importantly, we want to balance the interest between our customers and our investors.

To achieve these objectives, we will optimize the timing of our rate cases to be in sync with the timing of our major investments. We also will use innovative regulatory frameworks such as trackers and other real-time cost recovery mechanisms where appropriate. And we will seek timely approval so that we can meet our objective of assuring cost recovery before we invest.

We've built an organizational structure to deliver regulatory and legislative success. Earlier this year, we pulled all of our strategy, policy, sustainability, communications, technology, energy efficiency, and state and federal legislative and regulatory teams into my organization.

With that team and through that team, we have created a line organization. We don't produce widgets or megawatts. But, what we do produce are constructive and successful regulatory and legislative outcomes. And because our regulatory and legislative teams, both on a federal and state level are in one organization, we're aligned and coordinated to deliver results.

North Carolina's recent comprehensive energy legislation is an example of the success that this organization has built to deliver. That legislation established a feasible renewable energy and energy efficiency portfolio standard for the state of North Carolina.

It also provided for timely recovery of certain operating costs that we incur, for example, the ammonia and limestone that we are required to buy in order to run our environmental equipment on some of our fossil plants. Also, the legislation gave us the opportunity to obtain more timely recovery of financing costs on our base load plants when we are constructing those plants.

So, we're focused on both near-term and long-term initiatives. And I'll cover both of those fronts in the next few minutes. Our first near-term regulatory initiative is one that I believe you are all very familiar with, and that is our North Carolina rate review case.

You'll recall in June, Duke Energy Carolinas filed a rate case with the North Carolina Utilities Commission. And in that case, we're seeking 3.6% rate increase or approximately \$140 million. That would go into effect January 1, 2008. Adjusted for inflation, the rate increase that we're seeking is actually lower. And the rates that would result from that increase would actually be lower than they were 16 years ago when we had our last rate case in the Carolinas.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

You all are familiar with the key components of that case. They're listed on the slide, so I won't go through those point by point. But, let me talk a little bit about what the next steps are. Testimony from the public staff, from our commercial and industrial customers and from the State Attorney General will be filed on September 24th. At that time, we expect that they will be filing what I would call a litigation position. But, I'm sure that won't shock or surprise you.

We are engaged in settlement discussions, and following their filings, those discussions will accelerate. And we will work with those stakeholders and other stakeholders to try to reach a settlement. But, if we are not able to reach a settlement, we are fully prepared to go to hearing in mid-October and proceed to a full hearing on that case.

We believe our requested increase is reasonable and appropriate and will help ensure that we will be able to continue to provide safe and reliable service at the lowest possible prices in the state. We expect an order from the Commission in the latter part of this year. And again, the rates would go into effect January 1st of 2008.

Our other near-term initiative that you're familiar with is the future of Ohio deregulation. We're working on both the legislative and regulatory front to obtain a long-term solution to be effective when our rate stabilization plan ends in 2008. We're taking a flexible approach as we look at alternatives available there.

On the legislative front, you probably saw that Governor Ted Strickland recently announced a hybrid plan and has challenged the General Assembly to act on that plan by the end of this year. We definitely support efforts to enact legislation this year.

The Governor's plan is very broad, and forthcoming details will help clarify our views on that plan. But, let me tell you that we are evaluating the Governor's plan against what we consider to be six key principles.

First, we want to see a market-based pricing option maintained. The Governor's proposal includes a market option, but we need more detail on how he would want to implement this option before we'll be able to fully evaluate his proposal.

Second, we need reliable recovery mechanisms for new plants that are needed to meet our customers' demand for electricity. The Governor's plan gives companies the option to develop and Electric Security Plan. That concept is a step forward toward reliable recovery. But again, we need more clarity on exactly how he wants to implement that.

Third, any solution should help support Ohio's economic development efforts. And the Governor's plan strongly recognizes that need.

Fourth, we want to see development of viable alternative energy and energy efficiency programs. The Governor's plan proposes an advanced energy portfolio of 25% by 2025 with half of that coming from renewable energy. It proposes that utilities earn on energy efficiency by treating energy efficiency as a production cost. That fits very nicely with our save a watt model, which I'll talk more about later.

The plan proposes that 25% of future load growth be met by energy efficiency. Treating energy efficiency as a supply source is consistent with our fifth fuel view and is the right approach. Recognizing clean coal and advanced nuclear as advanced energy also makes good sense. But, the timing and targets proposed by Governor Strickland on both efficiency and advanced energy need further review.

The fifth principle that we think is important is that we want price certainty for both our customers and for our company. Price and revenue certainty, starting with existing pricing levels, should be the outcome of the electric security plans. The Governor also has the goal of price certainty, but we need more specifics on how he wants to accomplish this.

Finally, we want to see that the Ohio Commission has authority that is expanded to resolve many of these unanswered issues. Under the Governor's plan, significantly more power is transferred to the Commission. But, the challenge for the lawmakers as we see it will be to ensure that this expanded authority is clear, as well as balanced and appropriate.

As for a legislative timeline, we expect the Senate leadership to present a draft bill by the end of this month. So, with the relatively few legislative days left this year, there's a lot of work to be done in a very short time period.

As we pursue our legislative solution, we're also working on the regulatory front. And we're pursuing two options there. First, we're working to extend our current RSP. Last year, we filed to extend the RSP by two years. Given more recent discussions and the growing need for supply in Ohio, we're now seeking an agreement to extend the RSP by 10 years.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Under this plan, we would dedicate existing generation the same we do today. But, new generation is also needed to maintain reliable resources that provide adequate reserve margins.

Our second option will be to go to market. And if we end up pursuing that option, you'll hear from Tom O'Connor later that our unregulated generation certainly will be a part of that process.

Our legislative and regulatory efforts in Ohio are underpinned by the fact that we have an immediate need for 1,500 megawatts of intermediate and peaking capacity. Expected load growth, coupled with anticipated retirements of some older coal plants, drives the need for another 900 megawatts of capacity by 2013.

Last month, you may have noted that we issued an RFP for 1,800 megawatts of peak and intermediate power in Ohio, including renewable energy. That RFP covers the timeframe from 2009 to 2018 and is needed to serve our Ohio retail load.

We also previously announced that we would support the construction of a new 600 to 800-megawatt advanced coal plant that could come on line on or after 2013 if appropriate legislation is approved. Because we currently don't have clarity regarding cost recovery in Ohio, as David mentioned, we do not have CapEx for this coal plant in this five-year plan.

Now, let me turn to longer-term initiatives and describe how we plan to meet our projected system-wide need for 6,000 megawatts of new capacity over the next five years. As you're aware in North Carolina, we received approval to build an 800-megawatt power plant using super-critical coal technology at our Cliffside station.

That was another constructive outcome for us as this technology is far more environmentally advanced and efficient than units built in previous decades, and it will enable us to retire older coal plants as we meet energy efficiency targets.

In Indiana, we continue to pursue a CPCN for a proposed 630-megawatt IGCC coal plant at our Edwardsport station. You may have heard last week that Governor Mitch Daniels gave a very strong endorsement for the building of that plant.

Energy efficiency also plays a key role in the future of our meeting our future needs. Our plan, which I personally believe is conservative, includes new system-wide energy efficiency-- 900 megawatts over five years including 600 megawatts in the Carolinas. And I'll talk more about energy efficiency in a moment.

The remainder of our capacity needs will be met through a combination of gas-powered generation, purchased power agreements, uprates at some of our existing generation units and an increase in ownership share at the Unit 1 of our Catawba station. That ownership increase will be 154 megawatts, and we would anticipate closing on that transaction next year.

Before I discuss the price impacts of our strategy in each of our jurisdictions, let me comment very briefly on several other initiatives that are linked to our investment recovery strategies. We view energy efficiency as the fifth fuel, joining coal, nuclear, natural gas and renewables. The cleanest and least costly plant is the one that we don't even have to build. In the second quarter of this year, Duke Energy Carolinas filed its energy efficiency proposal with the North Carolina Commission.

Our save a watt plan gives our customers universal access to energy efficiency, and it compensates us only for verified energy reductions. Our filing asked for a return of and on 90% of the costs avoided as a result of the megawatts saved from energy efficiency. We believe that our North Carolina plan will serve as the model for similar programs in our other four jurisdictions. National columnist, Tom Friedman, recently recognized this innovative approach in an article published in The New York Times.

Related to energy efficiency is our Utility of the Future initiative, which is all about improving our delivery infrastructure. As we work to digitize the distribution grids in all of our states, we will be able to deliver even more energy efficiency to our customers. Having a real time digital grid will enable us to better balance supply and demand, enhance reliability, respond faster to outages and meet the needs of new technologies such as plug-in electric hybrid vehicles that we anticipate being on our system in the future.

We will begin to launch initial deployments of Utility of the Future later this year, and we think that the regulatory and legislative climate for this initiative is very, very positive.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Now, let me talk about carbon. On mandatory carbon legislation, we believe it is no longer a question of if, but when. And in our crystal ball, we see federal legislation coming after the Presidential election. But, I can assure that we are at the table today, making sure that the right legislation is enacted.

We believe that the right climate legislation must reduce CO2 emissions, but it cannot damage and should not damage our economy. And it also should not unfairly burden regions of the country that have depended historically on coal for their economies.

Climate legislation also must be in sync with the development of carbon-capture technology. We're engaged in this effort on technology, and we think it's promising. But the reality is, it is at least 15 years away from being commercially deployed. Finally, we believe that climate legislation must provide a pathway for construction of new nuclear plants. If we're not serious about nuclear, then we're not serious about climate change.

An economy-wide cap and trade system patterned after the highly successful acid rain model is the right approach. We also need a safety valve, which is critical to protect our customers from the volatility that comes with the emergence of a new carbon market. Senator Bingaman's technology accelerator plan provides a good safety valve model that should be part of good climate legislation.

Two other items to note: In Indiana, we previously announced that we plan to issue an RFP this month, seeking up to 800 megawatts of peaking and intermediate power for the 2008 to 2017 timeframe. And earlier this year, Duke Energy Carolinas issued an RFP for renewable energy to be delivered by 2012. We received more than 90 bids for nearly 2,000 megawatts of solar, biomass, wind, hydro and other renewable energy. We expect to make decisions on these resources by the end of the year.

Now, let me focus on the price impact of adding new capacity resources in our states over the next five years. First, let me say that our prices are very competitive today, and the modest and gradual increases that we are proposing will keep them competitive in the future. These are not and will not be the type of price increases that have shocked other jurisdictions such as Maryland and Illinois.

In North Carolina where our rates are currently 20% below national average, we anticipate and expect that meeting our supply need would result in an average increase of approximately 3% per year. But this increase, we would expect, would be somewhat lumpy depending on what regulatory action we receive during the five-year period. Our history, however, has shown good solid regulatory treatment that reflects an understanding by our regulators of our business needs.

In Indiana, we will need 1,400 megawatts of new capacity over the five-year planning horizon. We will meet this need with the proposed Edwardsport ICGG power plant, purchased power agreements and energy efficiency. As a result of the anticipated quick treatment and the trackers that we already have in place, the rate impacts for our customers in Indiana will be spread out fairly evenly over the five-year period and will result in an average increase of approximately 5% per year.

As you would expect, a substantial portion of that increase in Indiana arises from our proposed Edwardsport IGCC plant. In our recent hearing before the Indiana Utility Regulatory Commission, we clearly and transparently outlined the rate impacts from the Edwardsport plant. So, there will be no surprises with respect to the rate increases that would result from that plant.

In Kentucky, you may recall that we recently added generation and obtained a rate increase there. Over the five-year planning horizon, we don't anticipate adding more supply in Kentucky. And we do anticipate that the rates there will remain relatively flat over this period.

In Ohio, I've outlined numerous issues that we have to work through. So, it would be premature to give a real price forecast. But, I will tell you that our plan is based on relatively stable prices in Ohio. Our overall approach in all of these proceedings is simple, "no surprises". So in each state, we're working collaboratively with our stakeholders concerning these initiatives.

We'll continue to be very open about our plans to meet the energy needs for our customers. And we will strive to minimize the rate impacts for our customers. In the long run, we win and our customers win when we can provide low-cost, reliable service. And that's exactly what we plan to deliver.

This final slide shows the timelines for the rate actions in each of our states. The check boxes illustrate the projected timing of revenue changes. But again, this does depend on when and how each state commission would act in our rate cases. We're prepared and ready. We believe that we can manage these cases to effectively balance the interest of our investors and our customers and our communities.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

With that, let me stop. And I'd like to invite Ellen Ruff, who is President of Duke Energy Carolinas; Sandra Meyer, who is President of Duke Energy Ohio and Kentucky; and Jim Stanley; who is President of Duke Energy Indiana, to the stage with me, and we'll be happy to take any questions that you may have.

## QUESTION AND ANSWER

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### Unidentified Audience Member

(inaudible) the cost of debt, that 8% to 9% approximation of the return of capital -- return on capital. How much is the cost of debt that we should be thinking about that's sort of embedded in that? I assume it's approximately a 50/50 sort of treatment. But what -- how much is the cost of debt? That's the first question I have.

The second one is, do you need -- there's been some court actions in the Supreme Court with respect to some of the RSP issues. And I was wondering, do you feel that you need a change in SB 3 to continue the RSP? Just how do you guys feel about that? If you could just sort of elaborate a little bit more about that? And just finally, what would be the impact to customers if you were to go to market, assuming that there is no RSP?

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### Keith Trent - Duke Energy - Group Executive, Chief Strategy, Policy & Regulatory Officer

Let me take the first quarter on cost of debt. And I was going to defer it to David. But, he gave me the sign that it's "six". So, that's the answer to the debt question. And on the Ohio questions, turn to Sandra for those.

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### Sandra Meyer - Duke Energy - President, Duke Energy Ohio and Duke Energy Kentucky

In regard to the Supreme Court action on the RSP, I think we're comfortable that the issues were very minor and that it's quite clear that the Commission does have the authority to approve RSPs. And we've gotten some recent further affirmations with First Energy and DP&L rulings here recently. If we were to go to market, our rates are currently market based, and we think we could work through a very smooth transition for ourselves and our customers.

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### Unidentified Audience Member

Could you give us a little bit more of a feeling for what -- when you said you could work through a mechanism to get people up there without that sort of cap and deferral who I think you're referring to? What would the actual increase be to customers? Do you follow me? In other words -- what -- just to give a sort of a sense of flavor for what kind of increase we're talking about.

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### Sandra Meyer - Duke Energy - President, Duke Energy Ohio and Duke Energy Kentucky

We have not calculated what the market rate would actually be come 2009. Our intention would be for it to be not in the kind of ranges that we've seen in states like Maryland and Illinois. We've had significant increases over the last couple of years, and we feel like we're positioned well for relatively modest increases.

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### Unidentified Audience Member

Relative to the Carolinas, the rate increases seem relatively small versus the size of the CapEx program. And I'm presuming that's because you have other revenue needs that are sort of ebbing, like the accelerated amortization of the capital investment in the scrubbers that you sort of can say, okay, well this revenue can sort of get soaked up or diverted to cover the return of and on and cost of the new plant. Is that correct? And/or are there any other things that are happening that mitigate the size of the rate increases in the Carolinas?

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

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**Ellen Ruff - Duke Energy - President, Duke Energy Carolinas**

Well, I think when we looked at the size of the rate increase and of course, we know that in terms of our being requested to come into the Commission, it was part of the merger stipulation. And we looked at size of the request, based on our needs going forward.

Certainly, the legislation that has passed helps us with costs relative to re-agents that Keith talked about. But, we were very cognizant and filed on the issue of rate parity. It's a three-year plan really in terms of dealing with how we see the increases. It's a roughly 2.5% increase for industrial, roughly 6% for residential, and our filing phases that in over three years. So, it's 2% each year and ramping up to the third year. But, the increase is sized to our needs for where we are today and what we're planning for, based on a 2006 test year.

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**Unidentified Audience Member**

Hi. Could you go over what you're anticipating in a cost per megawatt for your energy efficiency programs, and how those costs will be recovered, how that differs from how utilities have traditionally covered the cost of energy efficiency programs?

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**Keith Trent - Duke Energy - Group Executive, Chief Strategy, Policy & Regulatory Officer**

Sure. I can -- I'll take that. In terms of cost of energy efficiency, Sometimes, you see projections that the cost of energy efficiency is very low compared to generation. And certainly, that's true with respect to some energy efficiency efforts. But, our program actually spans the whole spectrum of energy efficiency. And so, we would anticipate that the range would go up near to the 90% cost of generation. So, it will span a spectrum, I would say.

In terms of how our program is different from other programs, the first question, I would say would be, it's radically different. We are talking about changing the regulatory paradigm in a way that we think makes sense for everyone. It actually creates an energy efficiency business. And it incentivizes us to find every piece of energy efficiency we can find that's economic and deliver that. And because we have a customer base that we can deliver that energy efficiency to, we think we're the right ones to be able to deliver the business.

But, the save a watt plan creates an incentive for us to go after energy efficiency and make money. But, it also locks in a savings for our customers as compared to a generation option, because we are going to be rate basing, as we would say, 90% of the avoided cost. So, it's a real win for us. It's a win for our customers. But, it is a very different program. We think it's the right program.

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**Unidentified Audience Member**

I've got a couple of questions, so I'll take them one. First one, if you could tell us the recovery mechanism in Indiana, assuming this plant will be approved by the end of this year, what will be the recovery mechanism with the specific ROE? What ROE is it going to be? And what is exactly the recovery mechanism? And when does it start? And how does it get trued up? That's the first question.

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**Jim Stanley - Duke Energy - President - Duke Energy Indiana**

Our rate case in chief included a 10.5% plus 150-point premium ROE. Expected recovery mechanism, it would include construction work in progress. We would expect timely recovery for depreciation, O&M expenses, financing costs. So, it's a plant that we have designed to build along with the regulatory bodies.

We're not going to go out on a limb and take chances and not be able to recover costs that we have invested. We've been very cautious in that regard. We like the case in chief that we've put in place. We feel good about it. And we feel good about the prospects of getting the cost recovery we've asked for.

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**Unidentified Audience Member**

Well if I'm correct, you'll be accruing like a 12% ROE on the equity investment. That's what's forecasted. Is that correct?

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

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**Jim Stanley - Duke Energy - President - Duke Energy Indiana**

Yes, that's right.

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**Unidentified Audience Member**

Second, if I can just turn to Ohio, you mentioned very few legislative days left before the end of the year. If no legislation happens, how does that impact your 10-year plan? I guess you cannot put in any new generation, am I right, under that scenario? So, I was trying to understand if no legislation happens, what is Duke's plan? Is it just 10-year RSP with no generation additions, is that what it boils down to?

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**Sandra Meyer - Duke Energy - President, Duke Energy Ohio and Duke Energy Kentucky**

Last August, we filed for a two-year extension of the RSP. And I still believe that that's an option with no legislation. The other option is going to market. So, your question about, is new coal possible without legislation, no it's not because we don't have a clear recovery mechanism for coal. So, it would either be a shorter-term extension or a market option.

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**Unidentified Audience Member**

And then if I can just end up, the earning drivers growth, is there some way to break them up in the different jurisdictions. I guess the two main ones, Carolinas and Ohio and I guess Indiana. How should we look at the growth rate? Is it basically being driven by Indiana and Carolina that those are the states which are going to be driving the EPS growth rate for Duke in this new five-year plan?

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**Keith Trent - Duke Energy - Group Executive, Chief Strategy, Policy & Regulatory Officer**

I think that we'll be achieving growth in all of our jurisdictions and each of our jurisdictions have different drivers. First, infrastructure needs and we sort of outlined certainly the infrastructure needs that we have in the Carolinas and in Indiana. In the Carolinas we clearly have a higher need for capacity and we have a higher load growth that we anticipate in the Carolinas than we anticipate in the Midwest. So you can expect Carolina to be a larger driver, but we would expect growth in all of our jurisdictions.

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**Unidentified Audience Member**

Thank you.

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**Unidentified Audience Member**

Just on the smart grid and energy efficiency compared to the analog grid you have, besides maybe all the other benefits of the smart grid just in terms of pure energy efficiency, how could you characterize that?

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**Keith Trent - Duke Energy - Group Executive, Chief Strategy, Policy & Regulatory Officer**

Well the way I look at smart grid and how it would affect energy efficiency, and first of all you have to separate out the smart grid, the purpose of it is to really drive a reliable grid of the future for reliability, for all of the utility benefit that you would get from that. But we recognize that that grid also will enhance energy efficiency, and here's how I see that working.

Right now, if we could communicate with meters and deliver information to people to give them real time pricing information regarding the power they're consuming, I think that you can drive energy efficiency in that way. But ultimately what we want to do and what we think we can do is create a tariff that is the sort of standard offer that we would make, which would be an energy efficiency offer.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

That would allow us to actually go in and place devices in homes on appliances that could communicate with us and communicate with each other. And through this system we would be able to deliver energy efficiency very effectively without affecting folks' comfort. And with a tariff that makes it a standard offer we think we would capture a very large portion of our customer base that would be using energy efficiency.

So you need the Utility of the Future to be able to do those sorts of things and that's how I see the connection between the two.

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**Unidentified Audience Member**

What's the mechanism for collecting CWIP end rates for Cliffside? Would that necessitate a rate filing?

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**Ellen Ruff - Duke Energy - President, Duke Energy Carolinas**

With the legislation just passed, and it will be effective 1/1/08, and so that means that for Cliffside we could ask for CWIP to be included in rate base beginning 1/1/08, and we plan to do that.

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**Unidentified Audience Member**

But that separate filing you would be making in the next three/four months?

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**Ellen Ruff - Duke Energy - President, Duke Energy Carolinas**

No it wouldn't be a separate filing, in fact it will be part of this rate filing - we'll file supplemental testimony. That will be due and we will plan to ask for CWIP to be included for Cliffside.

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**Unidentified Audience Member**

Okay. And on page 17, the check marks that you have for the various rate actions in states, in North Carolina there is a mark for 2010, could you give some background to that? What is the action that you're expecting in 2010?

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**Keith Trent - Duke Energy - Group Executive, Chief Strategy, Policy & Regulatory Officer**

I think that it's a question of what's driving that rate case and the timing of that. Over the next couple of years we will be adding other infrastructure in addition to Cliffside and specifically we anticipate adding gas plants. And so that investment will drive the timing as we see it for a rate case in 2010.

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**Unidentified Audience Member**

And 2012 I'm assuming would be for Cliffside into the rate base? And then for Ohio in 2011, if you could give a background around that rate action.

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**Keith Trent - Duke Energy - Group Executive, Chief Strategy, Policy & Regulatory Officer**

2011 is not necessarily infrastructure based as much as it is just timing from the normal operations and increases in CapEx over time that haven't been captured in the rate base, I think, primarily.

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**Unidentified Audience Member**

Good morning. Could you talk a little about future environmental potential spending in any of the jurisdictions that would cause the \$1.1 billion forecast on that line for the next five years to be higher? Anything we should be watching there?

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

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**Keith Trent - Duke Energy - Group Executive, Chief Strategy, Policy & Regulatory Officer**

Let me do this, let me defer that question to Jim Turner because he will be covering our environmental spend over the time frame. I think he can give you a fuller answer.

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**Unidentified Audience Member**

Thank you. The North Carolina legislation provides for a definitive commitment to renewables. Is additional transmission spending necessary to fill that commitment? Or won't you know that until you looked up the 2,000 megawatts that have been proposed in the Carolinas? And beyond that, I believe Duke Energy Carolinas has agreed to go into some form of regional transmission agreement with others in the Southeast, and I wondered what that meant in terms of capital spending.

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**Ellen Ruff - Duke Energy - President, Duke Energy Carolinas**

Well I think in terms of the renewables, we just did an RFP for renewables and have just gotten the results back, we're analyzing those. We got about 70 responses. The issue, as you accurately point out with regard to whether you need any transmission, will depend on where those renewables are located, whether they're in our control area or not. And right now we're not in a position to know that, there aren't any additional dollars associated with transmission for that.

In terms of the regional planning for transmission, we've been doing that for a couple of years on a voluntary basis with the other load-serving entities in the Southeast, making progress on that. We actually hope to be able to do things jointly so we don't over plan for transmission, but there aren't any specific dollars associated with that as of now.

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**Unidentified Audience Member**

Yes hi. In Ohio, given your stated need for 1,500 megawatts of new generation pretty much now, could you talk about, kind of under any various scenarios that play out, what are your options to get that 1,500 megawatts? And obviously -- perhaps maybe to get that from DENA?

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**Sandra Meyer - Duke Energy - President, Duke Energy Ohio and Duke Energy Kentucky**

Well as you indicate, we have a need now and we fill that need now by purchasing on the market generally about a year in advance. So we could continue through market purchases to fulfill that need, we've issued an RFP for any number of bids up to ten years to determine what our alternatives are for longer-term contracts.

Certainly the commercial assets are free to bid into that request for proposals and we also certainly would consider them for any commitment of new generation, if allowed, and provide the appropriate recovery mechanisms through any kind of settlement we might have.

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**Unidentified Audience Member**

Just a follow up on Ohio from earlier, can you remind us again after the current RFP ends what the G rate will be?

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**Sandra Meyer - Duke Energy - President, Duke Energy Ohio and Duke Energy Kentucky**

The G rate now is about \$0.06.

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**Unidentified Audience Member**

Okay, but I mean at the end of '08 when the RFP ends, before you do the new one?

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

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**Sandra Meyer - Duke Energy - President, Duke Energy Ohio and Duke Energy Kentucky**

We're expecting it to be right around that same range, possibly 2% to 3% higher than that.

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**Unidentified Audience Member**

Okay. And the Carolinas, when you guys talk about the 3% a year, that assumes that the bulk power sharing agreement stays in place? Nothing changes on that front?

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**Ellen Ruff - Duke Energy - President, Duke Energy Carolinas**

Yes, it does.

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**Unidentified Audience Member**

Okay, thank you.

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**Unidentified Audience Member**

I know that there's a lot of uncertainty about whether there's legislative or regulatory solution in Ohio, can you just about, from a calendar perspective, what investors should monitor, kind of key milestones, discussion dates, hearings? And I know there's a little bit of an unknown variable right now, but just if we think about it between now and Jan 1, '09, how should we think about the process?

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**Sandra Meyer - Duke Energy - President, Duke Energy Ohio and Duke Energy Kentucky**

We've got a couple of irons in the fire, as you know, and certainly first of all we need to be looking forward to the Commission's ruling on the remand case, and we hope to get that by the end of the year. I think that would be a significant milestone.

As it relates to legislative milestones, certainly legislation proposals, which could come out any time between now and the end of the year, hopefully we'll see something that's a bit -- has some meat to it -- sometime by the end of this month. I think that's a milestone to look forward to, certainly legislation passing by the end of the year.

Absent those, we've got our extension filing up and any actions under that would be something to look forward to. We would hope to have, assuming that moves forward, which we hope it would, whether it be short term or long term, we would expect to see some hearing dates set on the extension filing.

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**Unidentified Audience Member**

Ellen, I was hoping you could talk a little bit about the load profile in North Carolina as we look out over the next five to 10 years, based on the need to build new coal, new nuclear, new renewables and demand-side management, how you see all that balancing out given the net long position you guys have in North Carolina today, given the profits you make in the wholesale market already.

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**Ellen Ruff - Duke Energy - President, Duke Energy Carolinas**

Sure, Dan. As we look forward, certainly we assume some change in the load shape as a result of declining textile sales. If you look back 20 or 30 years you can see that's how our fleet was essentially designed. But as we have planned for the new generation and look forward for the appropriate mix, we look out to the 2020 to 2030 time frame and what kind of plants we need to have in order to serve the load.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

And so although there's been some shift in the load shape, we see, going into the future, a great need in terms of the customer's focus, on having low fuel cost, of balance of coal and nuclear. We can still add gas because a percentage of our fleet is relatively low today in gas. We have roughly 90% of our energy that comes from nuclear and from coal.

So we have an interest in modernizing our fleet, planning for nuclear, and from our customers I hear every day that they have an interest in that balanced portfolio, which now includes renewables and energy efficiency, as part of us not having to build more baseload than we need. So we think that mix is very important and we've heard from the customers that that's what they want to see.

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**Unidentified Audience Member**

I think the content of the presentations have been very good so far and I think the context of legislative and rate proceedings being put together is very good. We know a great deal, I think, about what legislation has passed in North Carolina and that is perhaps the activity in Indiana and certainly the Governor Daniels' favorite idea of IGCC.

We don't much about what your activity has been, Sandra, in Ohio with legislators and how they might be positioned relative either to the governor's request or to their own desires and their constituents' desires. I wonder if you could talk to that for a minute.

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**Sandra Meyer - Duke Energy - President, Duke Energy Ohio and Duke Energy Kentucky**

Sure. And as you well know, we've got a Democratic governor and Republican legislature, so that does introduce some political dynamics in Ohio that make it difficult to forecast where things will go. I think the legislature recognizes the need to address future generation incentives to get generation production levels where we need them to be in the state of Ohio.

They're certainly interested in economic development as well. So there are some fundamental things that are consistent, but when you look at the broader context of the governor's proposal, then you get into some differences. So we may very well see some more narrow legislation occur. We're working productively with the administration and the legislature to get an outcome that works for everybody.

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**Sean Trauschke - Duke Energy - VP IR**

If there are no other questions, why don't we take a 20-minute break and if we could be back in here at 20 'til. Again, there is a break area at the end of the hallway down here and so we'll see you at 9:40. Thank you.

(BREAK AND RESUMPTION OF SESSION)

Okay I think there's just a few more people coming in. Now what we'd like to do is Jim Turner's going to come up and talk to us a little bit about U.S. FE&G operations and he'll make sure he covers those two questions on environmental and security on these contracts that we have going forward. So with that, Jim?

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**Jim Turner - Duke Energy - Group Executive, President and COO, U.S. Franchised Electric & Gas**

Sean, thank you, and good morning, everyone. I appreciate the opportunity to speak with you today about U.S. Franchised Electric & Gas operations. As President and Chief Operating Officer of the segment I have overall P&L responsibility for our financial and operational results that we deliver each year. The good news is, as you can see from the talented team of regulatory folks that came before me, we have very good people on the ground in all of our jurisdictions who help us meet those financial objectives.

What I want to do in my presentation today is focus on the work of some other very talented people in our organization, some people you don't often get to hear very much about. And those are the people who are responsible for running our power plants, maintaining our power delivery system and responding to our customers' needs every day.

And what I want to do is focus on our operations from a couple of perspectives, first I will take a more granular look at the capital that David previewed in his discussion and discuss the rigor with which we evaluate the deployment of that capital to support the utilities in the U.S. Franchised Electric & Gas segment.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Next, I'll talk about the scorecard we use to manage our operations and I'll spend a moment talking about how our team managed a real-life operational challenge this past summer caused by the severe heat wave in the Carolinas in the Midwest. And then I'll conclude my remarks with a look ahead at a new initiative we are kicking off to address the challenges of the next decade and to encourage our employees to make Duke Energy simply the best utility in the United States.

So let me first provide some context for our discussion. Duke Energy operates a substantial utility infrastructure. We own about 28,000 net megawatts of generation in a balanced and diverse portfolio. We also operate and maintain a large transmission and distribution infrastructure to serve our 3.9 million electric customers and our 500,000 natural gas distribution customers in the Midwest.

We also make electricity sales outside our retail footprint. Specifically, we make sales of electricity through longer-term contracts to wholesale customers, primarily municipal utilities and rural cooperatives who today represent a total load requirement of about 1,200 megawatts. We also make shorter-term sales into the wholesale market and further optimize the value of our generation resources.

Now let's turn to the capital plan. As David showed you earlier, the Company plans to invest about \$23 billion in capital over the next five years. Because Franchised Electric & Gas represents about \$19 billion of that amount, I thought it was important to take a few moments to provide some detail about the major uses of capital for this segment and the rigor with which we evaluate and execute the deployment of that capital.

In particular, I want to highlight four major categories where we will direct about 90% of the planned capital spend in Franchised Electric & Gas over the next five years. These areas are, first, new generation resources to meet our growing demand, and we've talked a little bit about that already this morning.

That comprises about 5 billion or 26% of Franchised Electric & Gas's capital plan. Environmental expenditures to meet federal, state and local pollution control requirements comprising \$1.1 billion or about 6% of the plan, maintenance and new customer additions more routine in nature, but by far the largest component of the planned spend, comprising about \$9.8 billion or 51% of the plan, and utility-of-the-future investments comprising \$975 million or about 5% of the plan.

Let me briefly address each of these areas by starting with the last category first. You've heard about our utility-of-the-future initiative, Keith referred to it in his comments as did David. Over time we believe these types of investments have the potential to revolutionize the way we do business with our customers.

For the purposes of the 975 million that we've included in the five-year plan however, we are looking primarily at investments that "evolutionize" our business by enhancing our ability to read meters, manage customer data and information, and produce timely and accurate bills for our customers.

Metering technology enhancements are possible throughout the areas that we serve, but a burning platform existing in the Midwest where we still have nearly half a million hard-to-read gas and electric meters located inside our customers' premises. Changing out these meters with more modern meters that can be read remotely have obvious and immediate benefits for our customers.

We've talked a lot about utility-of-the-future and you'll hear more about that in the coming years, but I want to reiterate David's comment earlier that despite the clear and compelling benefits that we believe this new energy technology will bring, we will not undertake utility-of-the-future type investments without first securing adequate assurance of regulatory support.

Turning next to new generation projects, we are making a substantial investment in our future by adding new generation resources to meet our growing load in the Carolinas and the Midwest. David discussed with you the Lee nuclear project in South Carolina, so let me address three other projects. First the Cliffside project in North Carolina, an 800 megawatt super critical pulverized coal plant. Since receiving a CPCN from the North Carolina Utilities Commission in March, we have filed monthly updates with the Commission showing that the estimated capital cost of constructing this plant is holding at \$1.8 billion. AFUDC is currently estimated to add about \$600 million to the cost of the plant.

We've signed a contract with Shaw Stone & Webster for a limited notice to proceed on the project, but we are awaiting an air permit from the North Carolina Department of Environment and Natural Resources before beginning full construction of the plant. We expect that permit later this year and are prepared to begin construction by the end of the year.

And [Carl], to your question earlier, we filed our first preliminary cost estimate update in April and we have held to the \$1.8 billion number. And we fully expect to build this plant for the \$1.8 billion in capital that we have. As we firm up our estimates in our work with Shaw by the end of the year, we expect that estimate to hold very close to that number.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Next the Edwardsport plant in Indiana, a 630 megawatt integrated gasification combined cycle plant that you heard Jim Stanley and Keith both talk about. We have estimated the cost of constructing the plant to be just under \$2 billion including AFUDC.

Importantly, we have qualified for over \$450 million of federal, state and local tax benefits for the project, which obviously will be very helpful in reducing the cost our customers pay for the plant when it's included in rates. We're in contract negotiations with GE for the process design and supply of major equipment and with Bechtel for the detailed engineering and management of the construction.

We expect to conclude those negotiations and begin construction of the project later this year, again assuming we get approval from the Indiana Utility Regulatory Commission. The other new generation project is the addition of combined cycle and peaking plants in the Carolinas, which you heard Keith mention, representing about \$1.6 billion in our plan.

Although it's the Cliffside project that has gotten most of the discussion in the Carolinas, we do have a need for additional combined cycle and peaking capacity, and we filed preliminary information with the North Carolina Commission for the addition of about 1,000 megawatts of combustion turbine and combined cycle capacity by 2011. We're targeting our existing Buck and Dan River sites in North Carolina for the addition of this capacity, again pending the necessary state approvals.

Now let me acknowledge the obvious and, Carl, it gets back to your question. This is an ambitious program of new construction for generation. It's been a while since Duke Energy has been in the business of constructing new generation, certainly at this level, but let me also emphasize we are laser focused on executing on these projects in a way that minimizes the regulatory risk associated with building them.

Now what does that mean? First, because you cannot completely outsource risk, we do not completely outsource a project. Rather, working with a very talented internal team of people assembled from different parts of our company, including legal, finance and risk management, engineering, construction, procurement, we negotiate a scope of work and pricing in a detailed manner that seeks to appropriately allocate risk between Duke Energy and our suppliers.

The Cliffside project is a good example. With regard to scope, we realized during contract negotiations that we could mitigate the impact of rising commodity and other costs if Duke Energy directly purchased the major equipment for the project, the boiler, the steam turbine generator and the air quality control system, from the equipment manufacturers directly rather than purchasing through our engineering and construction contractor.

With regard to pricing, we've negotiated a framework with Shaw that is a combination of fixed and target. Where the price is not fixed we share risk with Shaw. For example, on craft, labor and bulk materials we have agreed to a 50/50 sharing mechanism on under runs and over runs. Obviously this provides a substantial incentive for Shaw to help us to meet or beat the target price that we have in the contract.

A second way that we manage the regulatory risk and other risks associated with these projects is through active what I call boots-on-the-ground management of the contract. We don't simply turn over the project to the contractors. Duke Energy employees work side by side with contractors in a hands-on, highly collaborative manner. In this way we are alert to the issues that arise during construction and we are better able to monitor the appropriateness of progress payments that are tied to specific contract performance milestones.

A third way we manage risk is through active communications with regulators. I mentioned earlier that we are filing monthly updates on the Cliffside project with the NCUC, and Cliffside provides a good example of that communication process. We had preliminary estimates with the NCUC that had been on file since 2004 to early 2005.

When we started getting the first firm bids coming in from suppliers we realized that those estimates were very, very low compared to what we were seeing. And so we went right back into the Commission before they issued the CPCN to update that cost estimate and make it very clear to them what we were seeing in terms of the actual firm bids that were starting to come in.

And that's really the kind of philosophy we have embraced on all of our construction projects. We want our regulators to have a detailed understanding of our contracting strategy as well as a detailed knowledge of the progress and the challenges that will inevitably arise on a particular project every step of the way. We don't want to be surprised by events in the field and we don't want our regulators to be surprised either.

The Cliffside project again provides an example, as we move forward we expect that we will ask the NCUC to come in and perform periodic reviews to confirm the prudence of our actions on the project. The bottom line is our team has embraced a relentless focus now on bringing these projects in on time and on budget at the lowest possible cost for our customers.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Let me turn to our environmental compliance program and, Jonathan, I hope I get to your question. This slide shows the status of retrofitting our coal units in the Carolinas and in the Midwest. Note that this slide includes both our regulated fleet and the deregulated assets that Tom O'Connor operates in the Midwest. As you can see, a number of the controls are already in service and we have a little over \$1 billion of spend remaining on our regulated assets.

When complete we will have scrubbed 76% of our total coal capacity and 74% of it will have been retrofitted with NOx and mercury controls. We're reducing SO2 emissions by 71% and NOx by 72%. Mercury will be reduced by about 46% and most importantly we've managed the execution of these projects on schedule and on budget with minimal impact to our ongoing operations.

Now Jonathan, to your specific question about what does that say, are there other risks of increased cost on the environment side, I'd say generally speaking no, except that the government always finds new ways to regulate the environment. And generally speaking, those ways don't result in a decrease in CapEx for us, that's been our experience over the last decade.

I think more specifically, we're always refining the plan and a lot of it has to do with how much load we add and how much load growth adds to the system, how much we actually -- the timing of getting our new generation projects into service. But we could see, for example, another SCR in the Carolinas in the planned time frame, call that \$100 million of additional CapEx if we were to put another SCR in.

Now let me turn to the last area of capital investment that I wanted to highlight for you today. And that's the 7.9 billion, or about 6.7 billion when you exclude nuclear, of capital that we plan to spend to upgrade our existing power plants and maintain our transmission and distribution infrastructure, and the 1.9 billion we expect to spend to connect new customers to our system.

Now in some ways you can think of this as the most routine category of capital that we will deploy. Given the sheer magnitude of the planned spend however, I want you to know that our team does not approach the evaluation, the planning or the spending of the capital as simply routine. And let me take our fossil/hydro generation fleet as an example.

We expect to spend about \$2.5 billion over the next five years maintaining a fossil and hydro fleet consisting of 238 operating units, 51 coal units, 90 gas and oil units and 97 hydro units located in the Carolinas and the Midwest. Obviously we own and operate a lot of units. But we also know that not all units are created equal in terms of their strategic importance to the company or the benefits for customers.

So maintenance capital is not deployed equally among these units. Station Managers are required to present capital projects for their plants in the context of a rigorous exercise that ranks maintenance capital investments by IRR. Operationally this means, for example, that we have a strong bias to deploy capital to the largest, cleanest units in our fleet and a bias not to deploy capital to our smaller non-scrubbed units.

As a result, about 64% of the 2.5 billion we expect to deploy on the maintenance of our fossil and hydro over the next five years will go to our larger clean-coal units, in other words, the assets that provide the greatest value to our customers. Having said that, let me make one critical point. For IRR purposes we will not assign a value to human life or the environment. Projects mandated by law or necessary to ensure safety or environmental compliance will be completed even if otherwise not competitive with other projects.

As I mentioned, we also project to spend about 1.9 billion connecting new customers to our system. We expect to add about 65,000 customers a year throughout our service territories and these customers bring with them generally around 45,000 new street lights. All of that's included in the customer addition budget and we view this obviously as a clear investment in the growth of our business.

And Shalini, it was your question earlier on maintenance, I think the earlier CapEx slide I had with the bar chart shows about \$1.5 billion close to a run rate on maintenance CapEx in the entire Franchise segment. Add another 300 million or so for customer additions every year, but obviously that's sensitive to how many customers we're actually adding every year. If we don't add them we don't spend the CapEx.

Our discussion of capital planning is a good segue into the discussion how we manage the operations of the business, because effective capital deployment is an excellent enabler of operational efficiency. Indeed a significant portion of the maintenance capital we will spend in the next five years will improve system reliability and minimize the frequency, duration and the cost of customer outages. Investing capital in infrastructure to save on operating and maintenance expense is a true win-win for Duke Energy and its customers.

Let me make that point specifically with a real-life example. In our Gas Distribution business in the Midwest we have upsized our capital spend in recent years to accelerate the replacement of old cast iron and bare steel pipe with PVC. That accelerated replacement has not only greatly

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

enhanced the safety and the reliability of our system but has resulted in over \$10 million of reduced maintenance expense every year for our customers.

In managing our operations we use a balanced scorecard approach. Here I'm showing some of the key operational measures that we look at. These measures are based on peer comparisons, the measurements themselves are based on peer comparisons, with other companies rationalized for our geography and for system specific characteristics. We closely monitor other measures, most notably operating and maintenance expense and safety, every single month.

Our fossil/hydro fleet employees are focused on the availability of our assets when needed to meet customer demand. Our power delivery employees and gas distribution employees are focused on minimizing the frequency and duration of customer outages. And to drive that point home with clarity, the same measures that we use to measure our operational performance that you see on the scorecard are used to establish incentive compensation goals for our employees.

Ultimately it is overall customer satisfaction that tells us how we are doing in balancing the components on this scorecard. Satisfied customers help enable regulatory success. As this scorecard shows, our customer satisfaction is good. But we think we can do better, particularly in Ohio, where electric deregulation and high natural gas prices in our Gas Distribution business have presented unique customer satisfaction challenges.

Sandra Meyer and her team have placed a renewed emphasis on our Ohio customers and their satisfaction levels but, as we like to remind our employees, customer satisfaction is truly everyone's business.

Now let me spend a moment giving you a feel for our operations in the context of the real-life event of this summer. As many of you know, August was a record-setting month across our service area. In Charlotte the high temperature topped 90 degrees every single day of the month and there were multiple 100 plus degree days. The week ending August 11 was a record-breaking week across our jurisdictions. We set system peaks in both the Carolinas and in the Midwest.

As you might expect, this heat created unprecedented demand for electricity. It certainly emphasized the need for new capital investment in generation as well as transmission and distribution. The heat demonstrated the commitment of our team to serving customers and keeping them comfortable even in the most extremely conditions. And finally, and I think maybe most importantly, it showed how well we have come together as an operations team across our jurisdictions, across departments, across geography to manage this business.

I'm pleased to report that our regulated generation, particularly the nuclear fleet as you'll hear from Brew, performed exceptionally well. Our operations were impacted by river temperatures and flow restrictions, but the generation team did a great job of keeping units on line in the very toughest of conditions. And I might add that capital we deployed last year to acquire the Rockingham peaking plant played an important role in providing needed capacity in the northern part of our system in the Carolinas.

In the transmission and distribution area we made numerous adjustments in generation dispatch to protect system reliability. Voltage stability equipment recently installed in the northern region of the Carolinas performed effectively to help us maintain system integrity throughout the heat wave.

Our bulk power operations group acted to purchase power when it needed to maintain adequate operating reserves and we utilized our demand-side management programs in the Carolinas and in the Midwest to shave load and help meet the peak, again, all of these groups working together in a very integrated fashion across a broad geography of our system.

And I would just add that several employees with decades of experience in this industry described operating conditions during the month as unprecedented in their careers. Our system was stressed and our team was challenged, but they met the challenge with virtually no disruption to our customers.

Our utility business has a track record of superior performance in the facility of significant challenges and dramatic changes. I use our response to the record August heat wave as an example of our team can stand and deliver. But as proud as I am of the work that our people do, I look ahead and I see new challenges on the horizon for us. Significant capital investment will put upward pressure on customer rates, you heard some of that in Keith's presentation.

Technological advances have the potential to transform the industry and to enable customers to become more efficient consumers of the product that we provide. And perhaps most daunting, we face a major turnover in our workforce as 40% of our employees become eligible for retirement within the next five years and 65% become eligible in the next ten years.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

What this says to me is that staying in place is not an option. We must prepare now to position the company to meet the challenges that we have ahead. And to do that we're asking our employees to embark upon a mission, a mission to build on that reputation and that tradition of excellence and commit ourselves to being simply the best utility in the United States.

The initiative that we are launching to pursue this mission will be comprehensive and will engage employees in the process of defining what it means to be the best and the measures that are going to be necessary to get us there. The message will be unmistakable. We're not content with being simply good at utility operations. We want to be simply the best.

Now with that, I'll be happy to take any questions that you might have.

## QUESTION AND ANSWER

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**Paul Eckley - State Farm - SVP, Investments Common Stock**

Yes, Paul Eckley from State Farm, how do you deal with the challenge of having 40% of your employees gone in five years?

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**Jim Turner - Duke Energy - Group Executive, President and COO, U.S. Franchised Electric & Gas**

We have a lot of people in a lot of different areas focused on that right now. One good thing is we have a lot of great engineering schools located in the service territories that we provide and they're starting to provide a very good pipeline of people into our company.

But we literally are looking at this across every kind of skill set because we do see this issue and we're looking at ways to recruit and retain the talent, by the way, that we currently have in the workforce. You know we expect people will -- it seems like the numbers show people want to retire on average around age 58. We may look at incentives for keeping people around a little bit longer to help train new people as they come in.

So we're all over the issue. And I think what it also does is it gives us an opportunity to think about different ways of staffing to get work done. Do we need to fill every single position where somebody's leaving? Or are there other ways we can look to source that work to get the work done as efficiently, or more efficiently than we did in the past? So we've got folks literally all over this issue throughout our company.

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**Unidentified Audience Member**

Jim, given the cost inflation we've seen for new build generation, can you give some thoughts on where it would cost to build IGCC, coal and CC/CT plants if you didn't have them under contract today, so starting from a fresh piece of paper versus having pieces contracted already?

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**Jim Turner - Duke Energy - Group Executive, President and COO, U.S. Franchised Electric & Gas**

I shutter to think, Dan. It seems like pricing is beginning to settle down a little bit in the marketplace for new generation. But to your question the good news is, on the plants that we currently have on the drawing board, at least farthest along on the drawing board, both Cliffside and Edwardsport, we're feeling pretty good about those specific cost estimates.

Now the CC and the CT plants in the Carolinas, still a lot of work to do on that and we don't know all the cost of that yet. And I guess I don't want to stand up here and speculate but I think in our resource plan we look somewhere in the 850 a kilowatt range.

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**Unidentified Audience Member**

A quick question was, looking back at the CapEx slide, you can see a specific breakout for renewables and just know that with recent legislation in North Carolina there's going to be a little bit more of a press for renewables assets into the rate base mix. Can you kind of talk about your long-term thoughts in terms of meeting that RSP?

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

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**Jim Turner - Duke Energy - Group Executive, President and COO, U.S. Franchised Electric & Gas**

Yes a couple thoughts, Michael, it's a good question. First of all the bill just got passed so we don't have as much detailed work around what renewable assets we want to own versus what renewable capacity we want to purchase in the market.

I would say our bias today is to purchase that kind of capacity in the market and we've done a renewable RFP recently and gotten a number of bids in from a number of different potential suppliers for that capacity. So I think at least near-term we would look at meeting any renewable requirement in the Carolinas through purchases of capacity in the market rather than own system build. So that's why you wouldn't see it reflected in the CapEx plan.

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**Unidentified Audience Member**

Hi Jim, can you explain a little bit more detail in terms of your customer satisfaction in Ohio and Kentucky what needs to be done and what are the issues? Do you have any pressure from the regulators to improve?

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**Jim Turner - Duke Energy - Group Executive, President and COO, U.S. Franchised Electric & Gas**

Yes it's a good question and we don't have pressure from regulators and really we put more pressure on ourselves right now, I think, on that number than the regulators have put on us. And I think what we're seeing is a combination of factors. It's always hard to know exactly what drives customer satisfaction in a global sense.

There are a number of attributes that JD Power and other companies look at to measure it, price, reliability, image, all sorts of things. I would say the fact that we've had recent price increases in the Midwest or in Ohio and Kentucky specifically, rate increases that we've passed along to customers, is always going to have a near-term impact as customers read about that and it gets press in the newspaper.

The Ohio/Kentucky business is a combination business. So to the extent over the last few years you've seen volatile gas prices that show up on customers' bills, our customers don't necessarily distinguish between gas and electric company, they see Duke Energy when they think about customer satisfaction.

So if they're unhappy with their gas bill they may be unhappy, generally speaking, in terms of overall satisfaction. But I think even with that being the case, we're not content to simply say oh well it's high gas prices and we're happy with that. And that's why Sandra and her team are putting such a focus on it.

And by the way, I think I misspoke earlier when speaking of gas. I think I said we had saved \$10 million in maintenance expense per year from our AMRP program, our pipe replacement program. It's \$10 million in operating expense over the life of the plant.

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**Unidentified Audience Member**

You spoke quite eloquently about the team performance during the month of August. Do you get any kind of a sense of earnings performance as a result of that?

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**Jim Turner - Duke Energy - Group Executive, President and COO, U.S. Franchised Electric & Gas**

I told Sean that question was going to come. Let me try to wing it in a careful way. Obviously we sold more electricity in the month than we would normally sell in the month of August. I think that's a fair statement. On the other hand, we like to think about a sweet spot in our business where you want to -- and I'm always encouraging the team to get their prayers just right, we want it to be hot but too hot.

It got pretty hot and so we know that there were expenses on the other side of this, there were purchase power expenses, there were additional plant maintenance expenses that we had to do to keep the plants operational when they were stressed. So I would expect sales to be up, but then again sales in July were probably a little soft with the weather that we had. So we'll just have to wait and see at the end of the quarter.

Was that careful enough Sean?

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

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**Sean Trauschke - Duke Energy - VP IR**

Yes that was fine.

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**Jim Turner - Duke Energy - Group Executive, President and COO, U.S. Franchised Electric & Gas**

Hauser's trying to figure out what I just said.

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**Sean Trauschke - Duke Energy - VP IR**

If there are no other questions, Jim, thank you and we'll introduce Brew Barron our Chief Nuclear Officer. He's going to talk to us about his nuclear operations and the next plans for Lee Nuclear Station.

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**Brew Barron - Duke Energy - Group Executive & Chief Nuclear Officer**

Thank you, Sean. As Sean just said, I'm up here really for two reasons, to talk about our ongoing nuclear operations and then also talk about our plans for expanding our nuclear fleet. But if you'll indulge me for just a minute, I want to share two slides and give you a little background on our nuclear fleet so that we're all talking from the same sheet of music.

We operate seven nuclear units. they're located at three sites spread across North and South Carolina. It's about 7,000 megawatts of maximum net dependable generating capacity. In 2006 our average capacity factor was about 90%, I'll talk a little bit more about capacity factor and our output going forward in just a minute or two.

Oconee Nuclear Station was Duke Power's first commercial nuclear power plant. It's in the western corner of South Carolina, its three reactors, they're of a Babcock & Wilcox pressurized water reactor design. There are only seven reactors of that design operating in the world today, but those three reactors have operated extremely well over their history and continue to operate extremely well today.

All three units have installed new replacement steam generators as well as new replacement reactor vessel heads. The licenses have been renewed for these units, you can see on the slide when those licenses extend to. Oconee was actually only the second plant in the nation to achieve renewed license durations extending from original 40-year license to allow them now to have a 60-year license period.

McGuire and Catawba are sister plants. They're located just north and just south of Charlotte. They are four-loop pressurized water reactors designed by Westinghouse. The Catawba units were actually purchased from Westinghouse as an option of the original McGuire contract.

The Catawba is a little unique, McGuire and Catawba going back to my comments on Oconee, McGuire 1 and 2 and Catawba 1 all also have replacement steam generators. Catawba is a little unique in our system, Oconee and McGuire are 100% owned by Duke Energy Carolinas where Duke Energy Carolinas is only a minority owner in the Catawba Nuclear Station.

Today we only own 25% of Catawba unit 1, the balance of the unit today is owned by North Carolina Electric Membership Corporation and Saluda River Electric Cooperative. Saluda River is selling their interest, as Keith referenced earlier. That's a 214 megawatt interest, Duke Energy is buying 154 of those megawatts and NCEMC is buying the balance of that. Duke Energy does not own any of Catawba Unit 2, Catawba Unit 2 is split between North Carolina Municipal Power Agency Number 1 and the Piedmont Power Agency in south Carolina.

However from a cost sharing standpoint, all operating costs across the site are shared by all the owners and divided up pro rata wise. And from a generation standpoint we actually pool the generation from both Catawba units and McGuire units into a common pool and then share the output, again on a pro rata basis amongst them, such that no individual owner is particularly impacted by the operation or shutdown of a single unit.

As you look at the license durations for these plants you'll notice that they do have renewed licenses. But three of the plants, McGuire 2 and Catawba 1 and 2 licenses all expire in the same year and actually don't have a full 60-year license duration.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

That's the result of a strategic decision we made several years ago, as we were completing the license renewal efforts on Oconee we made the decision to roll our very successful license renewal team over onto McGuire and Catawba and to begin the license renewal process as soon as the first unit became eligible.

Because of the likeness of the units we were able to gain an exemption from the NRC to pursue license renewal on the other three units prior to when the regulations otherwise would have allowed us to. But that allowed us to get those renewed licenses very early, get that work out of the way and make effective use of our experienced license renewal team at that time.

Looking at operational performance, this chart shows you our historic and projected capacity factors for our fleet. It has the 2006 capacity factor at roughly 90% as well as our current projected capacity factor for 2007, which is at almost 92%. The lumpiness in the capacity factor in past years is driven largely by planned outage durations, longer than normal, to implement major refurbishment or regulatory required modifications, steam generator and reactor vessel head replacements being the dominant ones.

We also have regulatory required modifications that are particularly difficult in our reactors because of their explicit design and, as shown with the McGuire containment, some stream modification. It's about a \$20 million capital modification that required an extensive amount of outage time. We're implementing that same modification this year, or have implemented on McGuire 1 and will do Catawba 2 this fall and Catawba 1 next spring.

The 2008 projected capacity factor reflects our as-planned outage durations based on the capital modifications that will be implemented in that year. We'll have another Oconee refurbishment outage this year, this fall on Oconee 3, and then Oconee 2 will undergo a major refurbishment outage in 2008. And then 2009 and 2010 again reflect what our planned outage durations are for those particular years.

As a business strategy we've laid out seven key performance indicators, capacity factor being one of those. And then we internally assess where each of the ten fleet operators are in each of those seven key performance indicators. Our objective is by 2010 that our operating fleet will be either first or second in every one of those seven key performance indicators. That projection on where we're going to be in 2010 on capacity factor will take to us either first or second, depending on how the rest of the fleet's behaved.

On the lower right hand corner is kind of a breakdown, without getting specific about the competition, in terms of how we perform against the other fleets on operating cost per kilowatt hour produced. You can see we've typically been running in second place, 2006 with the extended outage and extra expense we dropped to fourth.

We fully expect to get back into second place in 2007 and be able to maintain that particular position. But this type of business plan drives us to look and see where we are as a fleet relative to the other fleet operators out there, and then go in and dissect explicitly where we need to make improvements in our performance in order to get us up into either that one or two category. And we believe first or second place in every one of those performance indicators is well within our reach.

One fourth of our total operating costs, however, is in nuclear fuel, I want to spend a slide or two talking about our approach to nuclear fuel. We do complete procurement of all phases of the nuclear fuel procurement and fabrication process. Internally, including our own core design work, what we have is extended long-term contracts with a diversity of suppliers, diversity both in terms of the supplier as well as the country of origin. We layer those in over those years, that gives us a good stability in our approach.

We use a combination of fixed with escalating prices or market-based pricing with a ceiling and a floor associated with them. That has allowed us to be able to really maintain our fuel costs significantly below where the current market is. As an example, the fuel that we will be loading into our reactors this fall into Oconee 3 and into Catawba 2, the average uranium price in those loads will be in the \$25 to \$30 per pound range where current spot market prices are in the \$85 to \$90 a pound range.

We keep an inventory of roughly one year's worth of uranium requirements in our inventory. That allows us a great deal of flexibility in terms of when we do or don't enter into contracts and allows us to keep the price of that pool of uranium reasonably low. We do expect that as today's higher priced uranums do come into our pool that over time we will see an escalation in fuel costs, and that was reflected in David's five-year capital plan that you saw earlier. But we don't see those beginning to come in until the end of the five-year period.

We've successfully for a number of years kept our fuel prices low, kept them in the top three and more generally in the top two low-cost utilities as a fleet. That goes in and our industrial customers appreciate that quite a bit. 50% of electricity we deliver to them does come from nuclear power and having that low fuel cost component is favorably received by them and does help promote economic development in our Carolinas service territory.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Going just a little bit deeper, one level deeper into the fuel business, there are four components to fuel fabrication. There is the raw uranium that you buy, there are conversion services that take the milled uranium and turn it into a gas that can then be enriched and then from there reconverted back into an oxide and fabricated into fuel.

You can see from this slide that we have full coverage on our uranium supplies all the way out through 2011. Similarly on our conversion enrichment out through 2009 and then fabrication well into the next decade.

Just a point of interest trivia, if you look at that little hand on the lower right hand corner it's holding a fuel pellet. The fuel fabrication process results in a number of ceramic pellets about that size, about the end of the digit on your finger, that are then loaded into fuel rods and then bundled into what we could call fuel assemblies, as you see there. The electric production capability of that one little pellet is equivalent to a ton of coal.

I did now want to turn to and talk to you about our plans for expansion on our nuclear fleet. This is an artist rendering of what the Lee Nuclear Station would look like. We have a site in Cherokee County, South Carolina identified for it, it's actually the site of a previously begun but cancelled nuclear project on the old Duke power system. We've selected for this project the Westinghouse AP1000 technology, they have selected Shaw Stone & Webster as their architect engineer to team with them and will be purchasing their turbine generator from Toshiba.

A minor but notable item on this drawing is the layout of the units. What you see there is two identical units separated I think by about 800 feet. All the other pictures that you've seen, what you've seen are units that are connected together and if you went inside them you would see they are mirror imaged and have a lot of shared equipment between them. What we're pursuing with new nuclear are standard plants, out-of-the-box plants.

And historically, if a utility wanted to purchase or build a nuclear power plant, they treated the reactor system the same way they would treat a boiler, go out and procure a boiler, procure a turbine generator set and then buy the balance of the plant equipment and assemble what essentially turned into a unique power plant.

Going forward we have a heavy emphasis on standardization. We want plants every one of which look just like each other. If you think about the construction these days of simple cycle gas CTs or even combined cycle CTs, you have designs that are being repeated over and over again, you have very predictable costs and schedule on construction, and that is our objective relative to new nuclear plants.

To that end Duke Energy, Progress Energy, Southern Carolina Electric and Gas just several weeks ago entered into a joint venture called APOG LLC, APOG stands for AP1000 Owner's Group. What that entity will do is it will procure and develop products of common interest to all of us, operating procedures, training materials, optimized preventive maintenance plans, those types of things that are typically owner scope in order to develop.

But with a standard plant we can develop them one time and then share those products amongst the members of the LLC. That standardized plant has a number of advantages over the way in which we previously approached the construction and development of new power plants.

We were able to, with a standardized plant, really optimize, simplify the plant, reduce the number of valves, the number cables, number of feet of pipe that are necessary in order to build an efficient plant that will hold down the overall capital costs and also ultimately reduce ongoing maintenance costs of the plant.

With that standardized plant the Nuclear Regulatory Commission has redesigned their review process such that that AP1000 will really be reviewed once with respect to a safety case, they will produce one safety evaluation for the AP1000.

The environmental reviews will naturally be site specific as environmental impact is unique to a given site, but we won't be under the same type of system that we were under when we built the last plants where every plant was getting its own individual safety review. Standards were changing and we were having to change design on an ongoing basis. The standardization of the plant also will allow for a much more complete design before we start construction.

And the licensing process is set up now so you can get your operating license before you begin construction where under the prior process, while you were building the plant the Nuclear Regulator Commission was still reviewing the design of your plant, which in turn was driving changes back into the process and was the prime cause of the delays and schedule over runs that we saw before.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

We do have new legislation in North and South Carolina, as they do other states, that specifically support the construction of new nuclear power plants. That process aligns very well with a standardized plant design. The good news is we have legislation that gives you a high degree of cost recovery assurance for investing in a new nuclear power plant, the tough part is you've got to go in on the front end and know what that cost and schedule is going to look like.

So the combination of the standardized plant, all the advanced work that we're doing in terms of design and planning for these aligns very well with the way the statute changes in North and South Carolina have come out. And I think once we have all that data together we'll be in a position to, when we begin construction, to do so in a manner which provides us an extremely high degree of assurance of cost recovery in rates as the plant goes in service.

And then as I said, that APOG LLC is going to give us the opportunity on an ongoing basis, with our fellow AP1000 owner operators, to be able to really capitalize on the operational efficiencies that are associated with operating a standard plant where those products that we need for ongoing operation. We can procure, split the cost and just do it one time.

I asked you to indulge me on the front end with a little overview on our fleet. I'd ask you to indulge me one more time on another topic which is that of used fuel. In this country there is a perception that the management of used fuel or spent nuclear fuel is 100% tied to Yucca Mountain and the Yucca Mountain project. I don't believe that is an accurate perception.

We have multiple opportunities and multiple processes under which we can manage spent fuel in this country. Today we have spent fuel on the Duke system both in storage, wet storage pools as well as dry storage facilities at all three of our sites. It can be safely managed there for an extended period of time.

You can go with direct disposal into Yucca Mountain, that's a very viable approach. You could take the approach that's been taken in much of Europe and is being pursued over in Japan right now, which is the recycling of that material out of that fuel and back into the reactors again.

Or there are options, as the Department of Energy has proposed with the Global Nuclear Energy partnership, which is a plan that works well intellectually but may be a little bit ahead of its headlights in terms of commercialization of those particular technologies. But my bottom line being that in our minds we shouldn't tie nuclear waste, nuclear spent fuel management solely with the Yucca Mountain project.

As we think about either the deployment of new plants or as we think any more than we should think about it in terms of decisions to renew the licenses and extend the lifetime of our current fleet.

And with that last indulgence, I'll open myself to whatever questions you may have for me.

## QUESTION AND ANSWER

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### Unidentified Audience Member

Have your enrichment contracts always been that short? Or does that speak to some uncertainty in the enrichment service provider market?

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### **Brew Barron - Duke Energy - Group Executive & Chief Nuclear Officer**

The contracts, the dates that I put up there reflect the durations under which we have full coverage. As you extend out past that we have partial coverage on each of those elements, other than the fuel fabrication that goes out to 2017, that's full service out to 2017. But in all of those other categories we have partial coverage kind of stair stepped out by years. And what will do with that, as each year goes by we will fill that in and generally try and maintain that coverage profile going forward.

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### Unidentified Audience Member

Hi it's Chris Muir with Standard & Poor's Equity Research, a quick question on the prices of nuclear fuel going forward. Where do you see market prices? I mean you mentioned 85 to \$95 right now, where do you see them going forward?

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

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**Brew Barron - Duke Energy - Group Executive & Chief Nuclear Officer**

First of all we don't do independent research on that, what we do is we'll use the trade publications, U.S. or Trade Tech or some of the others that track that and do the hard market research. We just follow and try to effectively use that research. Most of the current documentation does show that we're coming out of a phase where demand has exceeded supply and coming back into a mode where supply is going to catch up.

We expect it to continue to come down somewhat from where it is today. There have been very low volume trades that earlier in the year headed up in the 120, \$130 a pound range and it didn't take much movement in order to bring it back down to the 85 to 90. So we expect to see it moderate some, it won't ever come back down to the \$12 range where it was when there was so much post Cold War material coming into the market.

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**Unidentified Audience Member**

You guys have done an awful lot of work figuring out what you want to do technology wise, particularly within your nuclear. Can you talk about the decision process for when you make a go-no-go decision on construction, timing for when we should expect that to occur and what are the critical through process issues that have to be resolved to make that decision?

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**Brew Barron - Duke Energy - Group Executive & Chief Nuclear Officer**

I think the bottom line on when we begin construction or when we would bring the plant on line is when our analysis shows that it's in the best interest of our customers to do that. As a regulated full service or full requirements provider, we're adding an asset into an existing portfolio.

So we've got to balance the impact of bringing that plant on versus what the demand is. The demand is going to vary based on how effective energy efficiency efforts are, how many renewables actually come into the market as well as what happens with the decisions on retirement of existing coal fleet.

So as David and Jim said earlier, there's a lot of work to do around those issues to identify what the right timing is for bringing the new nuclear plant on. I think there's very little question that it is needed, but exactly the timing around that is something that we still have a lot of work to do. We are still working with Westinghouse on doing enough of a design to get us a very firm cost estimate so that we can do that analysis better.

If you were in a merchant market where you could just bring a nuclear plant in with its low operating cost, it would load at the bottom of the stack and, if gas was on the margin, you would do it today. So it's not a question of whether or not new nuclear power is economical with respect to base-load, with respect to Duke Energy Carolinas, our decision analysis is really more around our full requirement service and how the addition of that asset into the portfolio best plays out to support our customer needs.

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**Unidentified Audience Member**

Just on that, what is the approximate ballpark cost per kilowatt that you have budgeted for the plant as you see it right now?

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**Brew Barron - Duke Energy - Group Executive & Chief Nuclear Officer**

The range that's playing out around the industry today in terms of overnight capital costs varies from I think it's 1,800 to 2,600. And that is a range. We're working with Westinghouse and Shaw to come up with a much more firm pricing formula by which we can actually implement or engage that into our detailed analysis and see where it fits in.

Shaw and Westinghouse are also working with the other utilities that are interested in purchasing the AP1000 power plant, Southern Progress and South Carolina Electric & Gas, and I expect that over the next six months we will have a much better answer to your particular question.

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**Unidentified Audience Member**

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

If I can follow up, what is your prospect of loan guarantees getting done?

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**Brew Barron - Duke Energy - Group Executive & Chief Nuclear Officer**

I think the loan guarantee right now is dependent on two things, one whether or not the department of energy and OMB revise their existing rules because the rules they put out to date really are not workable, and whether or not there's legislative support that would also drive rule changes.

There is legislative language in a number of bills that are moving around. Which of those bills actually get moved forward and acted on, your guess is as good as mine on that. But I think there's a broad understanding, both within the industry as within members of Congress, that as being implemented today the loan guarantee program isn't workable and it needs some action in order to fix it.

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**Unidentified Audience Member**

That capital cost, was that an owners' cost all in including transmission?

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**Brew Barron - Duke Energy - Group Executive & Chief Nuclear Officer**

That range includes full in owners' cost, start-up staff, staffing costs, transmission costs, everything, and contingencies and fees and overhead. And again, the idea is to make sure that as we go in with this analysis, as we do our periodic update, I want to be able to go in and tell them how we're coming in under that number, not how we've had to justify going higher. So we're conservatively going in high with our analysis to make sure it's sustainable.

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**Unidentified Audience Member**

And if you wanted to, let's say the target was eventually to get that on line, 2016. A lot of the costs are involved in site preparation and not the plant itself. You've got 100 million of CapEx laid out for nuclear, if you decide to go forward with it, say go through the regulatory process over the next 12 months, you file your COL applications, what kind of spending would we expect to see come into the CapEx forecast through 2012?

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**Brew Barron - Duke Energy - Group Executive & Chief Nuclear Officer**

I'd rather not speculate on that. As you get into what our actual deployment is there is other work that can be done in terms of site preparation, transmission right-of-way purchases, procurement of long lead equipment. There are a whole number of categories that we would need to lay out and then layer in based on whatever that particular execution plan is. I really don't want to speculate on a dollar value how those would play out or what years they would play into.

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**Unidentified Audience Member**

Have you already signed any long lead contracts yet?

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**Brew Barron - Duke Energy - Group Executive & Chief Nuclear Officer**

We have not signed an agreement with Westinghouse at this time. The work that we have going on with them right now is purely focused on getting us a good firm cost estimate.

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**Unidentified Audience Member**

What percentage of the nuclear fuel cost, when it goes into the plant, comes from each of the four segments to total 100? Is it basic uranium, most of it?

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

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**Brew Barron - Duke Energy - Group Executive & Chief Nuclear Officer**

No roughly a third is uranium and another third in enrichment and conversion and then another third in fabrication.

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**Unidentified Audience Member**

Thank you.

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**Unidentified Audience Member**

With the cost, and I know this may require multiple people to respond, with the cost of coal plants minimum kind of off the shelf \$1,800 up to 2,500, 2,400 a kilowatt or so or even higher, is the number you're giving for nuclear meaning that there is a parity between building coal versus building nuke? Or am I kind of missing something in kind of back-of-the-envelope math?

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**Brew Barron - Duke Energy - Group Executive & Chief Nuclear Officer**

I think what you've got to understand is the difference between a full requirements provider that has an existing portfolio of assets so, as you add in a new asset, what are you displacing? Are you purely displacing the fuel cost such that you're still carrying the mortgage on the existing fleet as opposed to merchant?

Or you can put a plan on, and if it's got the lowest incremental cost of operation, you push someone else out of the market. So from a merchant standpoint, if you are walking into a market where gas is on the margin, you could put the nuclear plant on, run it all day and be in the money.

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**Unidentified Audience Member**

But if I'm a fully regulated utility and my demand curve shows I need base-load, if the costs are so similar, why do I ever build coal?

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**Brew Barron - Duke Energy - Group Executive & Chief Nuclear Officer**

I think each of the -- again as you put in new nuclear you move coal into where it cycles. And whether it's cycling at a 20% rate or a 60% capacity factor is going to depend on the extent to which coal is going to play into that.

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**Unidentified Audience Member**

Okay, thank you.

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**Sean Trauschke - Duke Energy - VP IR**

Okay if there are no further questions for Brew, thank you Brew. I want to introduce Tom O'Connor who is President of our Commercial Businesses.

## PRESENTATION

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Good morning, everybody. Thank you, Sean. I appreciate the opportunity to be here today to talk with you about the Commercial Businesses and how we will add to the overall earnings growth at Duke Energy. It's a pretty exciting story, we've got a lot going on and I'm very happy to share it with you.

Ours is really a straightforward story about focused operations to reliably meet our customers' needs, sweating the assets to improve the return on invested capital and capturing solid return growth opportunities [with] deployment of additional capital.

Let me start by grounding you in the metrics of the Commercial Businesses. The Commercial Businesses include Commercial Power, our International business and our Crescent joint venture. Today I'll focus on Commercial Power and International, which are the largest unregulated business segments and have the greatest potential for earnings growth.

These businesses are primarily focused on wholesale generation and we own and/or operate over 19,000 megawatts including significant, low-cost base-load coal and hydro. Importantly, these are low-risk asset-based businesses with the majority of our ongoing EBIT derived from term contracts and market capacity payments. And these businesses are well positioned over the next few years to deliver increased earnings from organic growth and platform expansion.

Our strategy is clear and it's achievable. We intend to deliver competitive reliable service to our customers, extract additional value from the existing portfolio and use this strong foundation to expand our position in attractive markets.

I'll start with reliable, efficient and safe operations which are our day-to-day focus.

We measure generation performance through commercial availability and we try to minimize the frequency and duration of forced outages when the generation is "in the money". Overall in 2007 our fleet performance has been good and we've had a number of major planned outages which are going to be completed this year.

And during the next 12 months our plan is that each base-load coal plant will undergo a rigorous evaluation with a goal of reducing unplanned outages and further improving commercial availability. Cost management is always front and center in this business and we are very focused on that effort.

But as importantly, we have broadened these efforts to look at different ways of lowering our fuel costs so we can pass those lower costs through to our customers. Improving returns on invested capital will deliver meaningful near-term earnings. And to our advantage, market fundamentals which impact our merchant gas plants, our Ohio generation and our International assets continue to improve.

And if these trends continue, we are well positioned to realize significant earnings growth from these fundamentals. I'll discuss each of these in a few minutes.

With solid operations and attractive returns you earn the right to invest and grow the business. Our major focus is going to be on wholesale generation in the Americas and renewable generation, particularly wind, in the United States.

Our business model will continue to emphasize long-term contracts to underpin the investments.

Our strategy is aligned with the Duke strategy of low-risk predictable earnings. The opportunities derived from our strategy should allow us to grow EBIT from these businesses at 8 to 10% CAGR through 2012, and that's from a 2008 base. We're using 2008 as a base year to more accurately portray to you the potential of this business post the synfuel operations.

Let me now turn to each of the business segments and the specific opportunities that we see in each one of those.

Commercial Power consists of our Midwest Generation and Duke Energy Generation services where we hold our wind investments. I'll start with Midwest generation which includes the primarily coal-fired assets of Legacy CG&E and the gas generation assets formerly in the DENA portfolio.

We have an exceptional fleet in the Midwest with a combined capacity of about 8,100 megawatts. The growing markets that we serve, our low-cost generation and our fuel supply diversity position us very well to meet our customers' needs for competitive electricity prices and to grow near-term earnings for our shareholders.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

The foundation of this fleet is 3,600 megawatts of base-load coal in MISO. Ninety percent of our sales from the coal assets are to the Duke Energy Ohio distributor under the RSP which runs through 2008. For this commitment we receive specified payments and a flow-through of fuel, environmental and purchased power costs.

When the generation is not needed for native load, the excess, about 10% annually, is sold into the market and we keep 100% of the margins.

We've invested significant capital in this fleet. By 2009 when we complete the program we will have invested over \$900 million in scrubbers and NOx control with approximately 75% of the fleet scrubbed.

These environmental investments, which we recover as we spend, have been a solid contributor to earnings growth and provide the flexibility for us to burn lower-cost high-sulfur coals. Our ability to source about 95% of our coal on the river further expands our supplier access and fuel optionality. That fuel flexibility has created near-term savings for our customers and in the future it ensures that our generation can always access competitively priced coal from a wide variety of sources.

Our non-RSP gas fleet consists of more than 4,000 megawatts of combined cycle and simple cycle generation, with over 3,100 megawatts of that located in PJM. Our sales of energy and capacity from the gas fleet are mostly short-term and we believe that's the right place to be right now as dispatch frequencies are increasing and capacity values are strengthening.

We are very optimistic that the near-term options to grow earnings contribution and improve returns on the gas assets have increased dramatically. And you can be sure that the Midwest gas fleet is getting a lot of attention at our company.

Let's now turn and take a look at the competitive position of the Midwest coal fleet, and then we'll look at the economic outlook for gas. Our generation remains committed through the RSP to the Ohio retail customer through 2008. And you've heard Keith and Sandra describe the various options under consideration post RSP.

We believe that under the various market structures contemplated, our coal fleet will deliver highly competitive service for our customers and attractive margins for our shareholders. This belief is supported by market fundamentals in that region that are conducive to increasing value.

First of all, MISO reserve margins continue to decline and could drop below 15% in the next several years. In 2008, our Ohio distributor is short 1,500 megawatts of peak-day capacity needed to ensure a 15% reserve margin, and significant new base-load generation has been slow to develop.

Most importantly, as this graph shows, the variable dispatch cost of our coal-fired generation, particularly the larger scrubbed units using lower-cost high-sulfur coal, compares very favorably to our estimated range for a full requirements market price in this area.

Now let me turn to the Midwest Gas assets. As I mentioned, we own over 4,000 megawatts of gas assets not dedicated in the RSP, which are subject to market prices. These assets are primarily located in PJM and constitute about 60% highly efficient combined cycle.

As we discussed on the second quarter earnings call, we now project that the actual losses from the gas units for 2007 will be cut in half and be break-even by 2009. The '07/'08 and '08/'09 auction sales noted here have been a big contributor to this improvement.

You know when we break even is interesting, but that's not the destination with these assets. Looking forward we feel very confident that EBIT growth will accelerate. The key value drivers of the next PJM capacity auctions, are increasing energy sales, enhanced flexibility in our operations and continued cost control.

For the 09/10 auctions we have nearly 2,600 megawatts of capacity uncommitted and currently available to receive auction pricing. That position is expected to grow to approximately 3,000 megawatts for the 2011/2012 auction as other contracts roll off.

The bottom line on the gas assets is we now have several options to improve value and we can be selective in choosing the best path forward. As I said, market values continue to improve, future options look promising, our Ohio and Indiana distributors have recently announced RFPs totaling about 2,600 megawatts of near-term capacity needs and our assets can meet those needs.

And we continue to discuss committing a portion of the gas assets to the Ohio customer for a long-term RSP extension. Each of these options, or some combination of these options, will significantly improve the returns on the approximately \$1.5 billion of net investment in these assets versus where we are today.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Let me now turn to our effort to develop a new growth platform in the renewable energy space. The growing U.S. wind market presents a very attractive and substantial opportunity. Wind power is expected to grow from approximately 12 gigawatts today to 50 gigawatts by 2015, with over \$75 billion and as much as \$100 billion invested.

And as you know, wind continues to receive significant federal and state regulatory support. The fact that the business has a foundation of long-term contracts and an expectation of double-digit returns has increased its attractiveness to Duke Energy.

But this market is fragmented with many small developers and a few major players. As projects move from development to construction and capital and credit requirements accelerate, consolidation is inevitable. Couple that with the need to efficiently monetize production tax credits, and you understand the several transactions that you've seen during 2006 and 2007.

We believe as this business consolidates and the build out accelerates, the project development skills of our Duke Energy Generation Services and the Duke brand can be a competitive advantage to allow us to create a low-risk complementary growth platform.

As I mentioned, the strong growth in wind is being supported by regulatory initiatives at both the federal and the state level. To date we have over 24 states and Washington, DC, that have adopted renewable portfolio standards. In aggregate these programs call for about 60 gigawatts of new capacity by 2015, yet to date wind is really the only renewable resource capable of being widely deployed at utility scale.

In the near term though, a continuation of a favorable federal tax regime including production tax credits and accelerated depreciation is going to remain critical to achieving the economic returns to continue the rapid build out of wind in the United States. We're optimistic that, with the broad support for renewables in the U.S., legislation will be passed for a continuation of this tax regime beyond 2008.

Our strategy is pretty straightforward when it comes to wind. We purchased the assets of Tierra back in May and with that a team of knowledgeable wind professionals. With this move we acquired the foundation for building out the mature projects and expanding the portfolio. During 2008 and into 2009 we expect to complete Happy Jack, Ocotillo and Notrees, giving us about 240 megawatts from these projects. We've committed to turbines for the first two projects and are finalizing turbine arrangements for the Notrees project.

At this time we're committing \$430 million to these projects and you should note that our model will emphasize securing long-term contracts to support these expenditures. Continuing into 2009 and beyond, we'll evaluate potential expansions of the initial projects as well as further development from our 1,000-megawatt portfolio of opportunities.

We're very excited about our wind energy developments and expect that they will be a long-term contributor to earnings growth in a platform that can be systematically expanded for the next several years.

Now let me turn to Duke Energy International and what we have going on there. DEI owns a portfolio of about 4,000 megawatts in four regions. Half of that is located in Brazil. The macroeconomic trends in Latin America have improved dramatically. Economic growth rates have averaged 5% for the last several years, inflation has been low and fiscal and trade performance has been improving.

As a result, you're seeing country credit ratings improving- most recently Brazil and Peru have been upgraded by S&P to one notch below investment grade. Power sector fundamentals as well are improving- they've been solid with high growth rates and tight supplies driving higher prices. As a result, we expect our Latin American portfolio to deliver significant earnings growth in the near term and position us well to participate in the growth going forward over the next few years.

Our current platform is purposely low risk. DEI has a narrow focus. We do one thing, that's wholesale generation, and we aim to do it well. We have little merchant risk. Over 90% of our 2007 capacity is either contracted or receives a system capacity payment. Approximately three-quarters of our portfolio is base-load hydro, which results in very little dispatch risk.

And our debt and the cash flows that service that debt are generally matched, so we don't have a lot of currency risk. This model has produced growing earnings and cash flows and looking forward we are forecasting \$200 million to \$300 million per year of cash from operations at DEI.

With that as a background let me cover our go-forward strategy. First and importantly, we will optimize the value from the existing assets, benefiting from the strong market fundamentals. Second, we will opportunistically invest in high-quality generation projects in Latin American markets. In doing so, we will continue to stress the contract-based, low-risk business model that we have followed to date. Subject to identifying the right opportunities in the right markets, DEI could invest up to \$1 billion of growth capital through 2012.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Let me make it clear that DEI will self fund this expansion from the strong cash flows that I referred to earlier. Some near-term opportunities that we're pursuing include hydro projects in Brazil, Greenfield and optimization projects in Peru and Central America and various acquisition opportunities. Successful execution of both aspects of the DEI strategy should contribute significant earnings growth over the next several years.

Let me summarize by saying that Commercial Businesses will provide upside complementary growth for the Duke Energy shareholders. We are very focused on day-to-day reliable operation for our customers and "sweating the assets" to improve the return on invested capital.

Market fundamentals are attractive and supportive of additional infrastructure investment in these businesses. Our model will look to long-term contracts to support these investments. And, beginning with the 2008 base year, we expect to outgrow ongoing EBIT at 8 to 10% CAGR through 2012, with steadily improving returns.

I thank you for your attention and now let's open it up to your questions. And none of the previous speakers told me there was a sticky spot on this carpet where you can't move once you step there.

## QUESTION AND ANSWER

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### Unidentified Audience Member

I wanted to ask you about EBIT base for 2008. Could you just remind us what the synfuel impact is and just give us sort of a flavor for what that 2008 EBIT?

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### Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses

If I recall, for the first two quarters we have incurred about \$50 million of additional synfuel O&M, which shows up in the Commercial Business unit cost. Of course, the benefit of the tax credit shows up below the line.

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### Unidentified Audience Member

Right. So should we just sort of analyze that do you think? I mean sort of \$100 million you add back to the EBIT to get to the base that you expect to be growing 8 to 10% also?

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### Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses

Have we projected what our synfuel is through the --?

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### Unidentified Company Representative

(Inaudible - microphone inaccessible)

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### Unidentified Audience Member

That's \$0.03 a share positive but that's not the EBIT number. The EBIT number like he was mentioning is a negative impact on EBIT but a positive on EPS, right?

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### Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses

Correct.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

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**Unidentified Company Representative**

(Inaudible - microphone inaccessible)

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

Right. But I think the number correctly is through the first two quarters we had incurred about \$50 million of synfuel losses.

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**Unidentified Audience Member**

When we're going forward and looking at this, how much is coming from sort of the recontracting, repricing of the commercial assets and how much is coming from wind and what have you? Could you just give a little bit more of a flavor for that?

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

Yes that's a great question. I think if you, and it's an important thing to understand, if you look at some of the improvements that we're seeing in the business, this term I used around sweating the assets and focused on improving the returns.

If you look at the 8 to 10% CAGR that we've referred to, you could get yourself to somewhere around 3 to 4% just organic improvement and the balance being from the additional investment of capital, with a significant amount of that improvement actually being driven by some of the improvements we're seeing in Latin America.

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**Unidentified Audience Member**

Tom, if we look at slide 41 where you show the amount capacity you have available to sell into the PJM auction, in the 08/09 auction you had 1,100 megawatts available of about 3,000 megawatts. How long until all 3,000 megawatts are going to be available to --?

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

I think as we've shown there it's '11/'12.

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**Unidentified Audience Member**

'11/'12 is all available, okay thank you.

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

Yes. We have some legacy contracts that continue to roll off. As we head into the 09/10 auction this year, we're up to about 2,600 megawatts that would be available to secure the market pricing. The other thing I ought to mention about that is about 600 megawatts, which is equivalent to our Fayette station, will be located in a different zone which we expect to get higher pricing than the balance of our capacity which is in the rest of market.

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**Unidentified Audience Member**

When you think about rest of market capacity pricing, what's your view on what the cost of new intrigue really is in rest of market and when the capacity price in auctions likely actually gets to that cost of new entrants?

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

I can answer the first one. The second one's a little bit tougher. But we generally, if you look at a new gas-fired combined cycle asset, we generally estimate that you're going to be somewhere in the range of \$175 to \$200 a megawatt day for capacity.

And of course a lot of that is driven off what do you think you can get for energy, what do you think you can get for ancillaries, what do you think you can get for other things. But generally in that \$175 to \$200 is what you should kind of think of.

Now how quickly it will get there in the rest of the market, what I'm very interested to see and I think you ought to focus on with regard to our assets but with regard to that market in general, is the 09/10 auction that's coming up. We've seen some escalation in prices in rest of market for the first two auctions. However we saw some pricing adjustments in the last auction in Eastern [MAC].

So I think the third auction will kind of give us a little bit of a run rate and that happens in October. And then again of course, we have another one in January which should further cement where I think this market is going and how tight it is and what capacity might be able to come in.

Yes?

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**Unidentified Audience Member**

I have two questions, first of all with regards to the wind business, over what time frame do you expect to complete the 1,000-megawatt build out? And then also how much of the CapEx in Commercial Power through 2012 is related to wind? And secondly on the International business, can you just give us some economics in terms of the reinvestment in that business, either in terms of return on invested capital or the cost per megawatt of new build?

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

On the wind business we have allocated \$430 million for the first three projects, and those are the projects that are in the budget through 2012. As I mentioned, we'll continue to evaluate and look at some of the other projects and if they make sense then we would bring those forward and take a look at whether it makes sense to move forward with those or not. Was another piece to the wind question? That was it, okay.

On the International, probably the best way to think about this is we have been driving and talking a lot over the last couple of years that we want double-digit returns out of the International business, not only the base business but, as we look out there, what would we be willing to invest in new capital into those markets. And so if you were to use something in the double-digit return basis, I think that will get you pretty close.

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**Unidentified Audience Member**

I'm not sure that this question is for you, but a couple of the speakers have referred to the problems of Illinois in the past.

And with the RFP expiring at the end of 2008 and with the affiliation of both your units and the Ohio distribution unit, and with the settlement that took place in Illinois where, after months of negotiation, both the distributor and the generator who are affiliated with each other had to give up some earnings. Do you see any possibility of that happening in Ohio? And if so, under what circumstances?

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

I'll give you my thoughts on it and then there's people much more qualified to answer it.

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**Unidentified Audience Member**

Well I hope so.

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Don't forget I own the generation. You know sort of our philosophy on this has been, and you can see it in the actions that we've been taking and how we've been driving towards the process, we have been talking to our customers for the last several months about a potential settlement.

And we think something along the long-term settlement that mirrors the RSP where you provide predictability, not only for our customers but for the company. You provide a structure which everybody knows what the potential pricing is long term going forward. You provide a structure which allows new generation to be brought into the RSP or built, again to provide long-term stability.

Everything we're doing and everything we're moving towards is to provide a balanced approach to this issue, recognizing that for us and for our customers, we want to stay away from the kind of volatility that you've seen in other parts of the country. And those are the kind of solutions that we, whether it's the generator or the distributor, will continue to look towards and continue to advocate for in Ohio. And we think those are the long-term best solutions for both us, our shareholders and our customers.

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**Unidentified Audience Member**

Great answer, thank you.

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

You're welcome.

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**Unidentified Audience Member**

How much of your 8 to 10% growth target is predicated upon getting an RSP treatment for part of your gas assets?

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

An RSP treatment for the gas assets, we have not modeled that into these numbers.

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**Unidentified Audience Member**

So that's we be over and above the 8 to 10%?

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

I'm sorry?

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**Unidentified Audience Member**

That would be over and above the 8 to 10% EBIT growth?

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

Yes, without the gas assets into the RSP we're projecting 8 to 10%. That assumes that we continue down the road with gas assets in the market. And as I mentioned to you, we're feeling very good about that right now.

Again I think the capacity auctions that take place here in October and January will tell us a little bit more, but we've got that option. We've got both Duke Energy Indiana and Duke Energy Ohio in the market for capacity that both Sandra and Jim referenced. We're very interested in that and will participate in those. And then there is of course the long-term commitment through an RSP extension.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

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**Unidentified Audience Member**

Okay.

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

But as we said today, the numbers modeled out have us in the market.

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**Unidentified Audience Member**

Thank you.

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**Sean Trauschke - Duke Energy - VP IR**

No other questions?

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**Unidentified Audience Member**

Just a follow-up question from wind and also International. On wind can you give us -- do you have an estimated total capital cost for your kind of project going forward? And also international operations in terms of acquisition going forward, where do you see the opportunity coming from? Are you going to be focused on generation?

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

Good, great question.

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**Unidentified Audience Member**

And just --?

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

With regard to wind, what we currently have built in is about \$430 million into the budget through 2012. Again, we've got about 1,000 megawatts of opportunity. And some of those are expansions of the existing projects. So as we look at those, if we think those make sense, we think those opportunities are there, we would bring those forward and figure out what's the best way to move forward. But as we currently sit today, we've got about \$430 million in the budget.

With regard to international --.

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**Unidentified Audience Member**

But, do you have the total per kilowatt cost?

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

Oh, total per kilowatt, I'm sorry. We're generally seeing numbers run around \$1,800 per kilowatt. You -- that's about a -- that's a pretty good number to focus on.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

With regard to international acquisitions, I think we'll be pretty disciplined. And if we saw an asset that we thought was in the right market, was in the right -- the right kind of asset that we'd like to own, which is wholesale generation assets in good markets that we're comfortable with being in, then we would look hard at that if we think it was complementary.

But, I would categorize those more that way as opposed to a big step-out acquisition in something that we're not currently doing. And we are, as I mentioned, very focused on wholesale generation in these markets. We've not stepped into the retail side of the business. We like the wholesale generation. We like the markets that we're in, and we feel we know those markets pretty well. So, that's generally where we would stay focused.

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**Unidentified Audience Member**

But, those markets that you are in, can you highlight which market do you see you have the greatest opportunity?

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

Well, I think if you just look in terms of size, Brazil's about 90,000 megawatts.

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**Unidentified Audience Member**

In the supply and demand, yes.

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

It's -- size-wise, that's going to drive a lot of the opportunities. And we really like the Brazil market. Peru's another sizable market, much smaller, but there's quite a bit of both economic and growth in power in Peru. And then, we see a number of things happening in Central America. But, if you tee them up, Brazil is the biggest market, probably where there's the biggest opportunity going forward.

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**Sean Trauschke - Duke Energy - VP IR**

Okay --.

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**Tom O'Connor - Duke Energy - Group Executive & President, Commercial Businesses**

Okay, thank you very much.

## PRESENTATION

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**Sean Trauschke - Duke Energy - VP IR**

I'm -- now, we're going to invite Jim and David back up to answer any of your remaining questions. Jim has been taking copious notes, so actually he has some observations he wanted to pass along. And then, we'll open it up to your questions for Jim and David.

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**Jim Rogers - Duke Energy - Chairman, President, CEO**

I think maybe what I should do is just sit over here with David and just kind of start this as a conversation, because what I've really done today is -- and it's fun for me to sit there and listen to the presentations. And I've been taking notes and listening to the questions.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

And as I listened to the questions, what I think I'd like to do is clarify a few points that have been raised so that we have really good clarity, because there are a couple of areas where there's some natural uncertainty, kind of given how the things are playing out in the various states. And I want to bring as much clarity to that as I can possibly can.

I know Carl had a question about August, and Jim danced around the answer. Yes, we had a good August. And -- but, I say that to you only to make this point. On our earnings call for the second quarter, we said we are on track to beat \$1.15 employee target. At the beginning of the conversation this morning, I said we're on track to beat the number. And I want to say again. We're on track to beat the number. So, I think that's really an important point that you all need to take out of our conversation today.

The other area that I'd like to touch on is the whole -- there was a series of questions for Brew, really trying to focus in and get a greater clarity in terms of, would there be an increase in this five-year period in terms of capital that we would spend on the nuclear? And we are in the decision-making process. And Brew did an excellent job of describing that, as well as David.

But, I think the important point for you all to -- maybe the better way to do it is, somebody asked a question about milestones in the context of Ohio. Let me give you some milestones that we'll be working to on the nuclear side, all of which will give us greater certainty and direction and give us a better focus on the timing.

First of all, as David said, we're going to be filing our construction operating license either at the end of this year or next year. And the way to think about that is, that's a process that can last up to 42 months. Nobody has really been through that process yet, but if you talk to the Chairman of NRC and others, you know that's -- for the first three or four applications through, it's going to be a pretty tough process. And it's going to go the maximum time, I suspect, although the NRC is really gearing up to be prepared to be able to move these applications through in a timely way.

The other thing you should look for is the filing of a certificate of convenience and necessity in North Carolina and South Carolina. We've clearly got to demonstrate we have a need for this plant. We believe we do in the future. And so the question is, what's the timing of bringing that plant on? And I think Brew did a great job of addressing that.

But, I'd make one other thing -- point. It's very clear to us that, and have heard it from our commissioners and speeches they've given and others, we've got to demonstrate, before we build a base load plant in North Carolina or for South Carolina, that we have done everything we can to purchase reasonably priced renewables as well as to have generated energy efficiency savings as much as possible.

I think this is almost becoming a pre-requirement in every state where there's going to be the building of new base load. I don't think that's any different in North Carolina. But when -- or South Carolina. But when we file, this is a process that can take 12 to 18 months. And as you all know, we've been very aggressive. We talked about the RFP, Keith did, in terms of renewables.

We've been very aggressive on energy efficiency. So, when the day comes when we seek a certificate for the nuclear plant, we're going to be able to demonstrate to the Commission and to our customers that we've done everything possible with respect to those two areas in a cost effective way so that we're -- turning to the base load is the only -- the next thing that we have to do in order to meet the load.

The other thing is, is looking for the announcement with respect to our agreement with Westinghouse, and Brew talked about that. So, when I look at all of these different factors, I would say to you, it's very difficult for us to envision significant additional CapEx on nuclear before late 2011 and most likely in 2012. So again, that's just to give you a sense of the timing and a sense of the milestones on that.

Let me now, if I may, turn briefly to Ohio. It's just an easy place to do business these days, and not really much uncertainty there. I think as you all think about Ohio, I'd ask you all to recognize that this is going to be a very noisy period as we work through this.

Think about the political dynamics. And Keith talked about them, and Sandra expanded on them. You've got a Republican legislature. You have a Democratic governor, who worked by the way very well together to get the budget out. You also have an election year next year where Ohio has been, in the past, a very pivotal state in terms of presidential politics. So, as you look at addressing the comprehensive approach that Governor Strickland has presented, you need to recognize that in the context of '08 being a very tough year politically.

And I would say to you that with all the uncertainty associated with his proposal and the end of the RSPs and all that, I would tell you, and this is kind of based on conversations I've had with various people in the state and talking to Sandra and Keith, I am very, very confident that we will resolve all these complex issues. And we'll do it in a favorable way for you, and we'll do it in a favorable way for our customers.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

I -- there's two or three different ways we can go on this, two or three different options that we have. And it's virtually in every one of the scenarios, given our current pricing, given what we think the market price is. We don't know what the market price is clearly. We have a view today with respect to 2009, but the reality is, we think that we can thread the needle. And there's a couple of different needles we could possible thread and get a good outcome.

So, we think we're really well positioned where we are. I think there's opportunities. I know Steve raised the question, and we don't have in our -- for a variety of different reasons, we don't have a coal plan in the five-year plan. But the reality is, we need generation in Ohio.

While we've added new generation in North Carolina and South Carolina, and Kentucky and Indiana, we have added no new generation in Ohio committed to the consumers of that state. And so, I see a terrific opportunity to do that. And I clearly think that's going to be one of the outcomes that you're going to see.

And actually, that's one of the number one concerns that the Governor has, the Senate and the House, they all have a concern that we don't have adequate generation for economic development and growth in the state. And that's really going to drive some consensus on this issue.

It's hard to handicap what happens this year, but I think this is going to be an effort where everybody rolls their sleeves up and tries to get legislation. I know it seems daunting from your perspective, because Governor Strickland's proposal is so wide ranging in the things that he has presented.

But, I think that we have a higher probability of getting it this year than next year. And if we don't get it next year, we're going to get it probably in '09 is the way to think about it. But, the other point I want to make because I know how you all talk to AEP from time to time and maybe even FirstEnergy and Dayton, and you all kind of work between the seams of all our answers, let me say I've been in conversations with every other CEO in the state in the last ten days.

And we've been talking a lot about this. And I'd make this representation to you. Every company in the state is focused on getting the right industry structure. And I just want to stop there and say, getting the right industry structure that works for all of us.

And as you all know, the RSPs were -- vary from company to company, because we're each at different places. I believe that we'll find a way through this that works for every company in the state and are going to be working together as one industry to get the right outcome and at the same time achieve the objectives of our Governor, because he's got some very clear objectives that he wants to achieve, particularly on renewables and on energy efficiency. And we're going to do our very best to be supportive of achieving his objectives. So, I think more to come on Ohio, but there's going to be a lot of noise.

The other area where there'll be a little noise, and I think Keith did a good job of saying, "Don't be shocked or surprised." And that's with respect to North Carolina. This is our first rate case in 16 years. We have a long history of working very well with our customers in that state and the Public Staff.

And we are -- Ellen and her team are working hard to work through this. We always have a bias for settlement of rate cases. But, this is the first on in a long time. And so, the way I would think about it is, while there's uncertainty today, I am also very, very confident that we're going to work through this in a way that makes sense.

But, in any -- when you -- particularly when you haven't had a rate case in so long, everybody feels like it's time to kind of get out and exercise and then play the new sport. So, you're going to see the whole litigation thing play out. And we might not have a settlement before the litigation positions are put out. We might not even have one afterwards, but at the end of the day, we're working very hard.

And I had a long conversation last night with Ellen and David and team, and we're -- and Keith, and we're working very hard to get a settlement, because at the end of the day, that's always the best outcome if you can find a way to do that. And so, we have a lot of things to work with, tools to work with to get a -- the good outcome. And I think we will with respect to that.

So, those are some of the areas that you all touched on in your questions that I wanted to amplify a little bit on. So, what I'd like to do now is to open it up to any questions that you might have before we close.

QUESTION AND ANSWER

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

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**Unidentified Audience Member**

Jim, I'm sure other people will talk about Ohio. So, I had a couple of other questions. Number one is, there was a definite absence today of any conversation about consolidation in the industry, which is something you guys have focused on in the past. Can you give your thoughts on what you see there, the success and the integration? And are you at a point now where you feel like you've earned the right to do another deal with this deal done so long.

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**Jim Rogers - Duke Energy - Chairman, President, CEO**

I am very proud of the way that the companies have come together. I'm very proud to have our operating as one company. I'm also very proud about how we have achieved the merger savings. So -- and we continue to work very well with the regulators, and it's been about as smooth as any combination can be, because every combination has its own kind of fits and starts. That's just the reality of putting two things together, any two things together.

And so, I actually think that we've got more work to do. I'm never satisfied until we get every nickel from the merger savings that we projected. But, I've -- I think we are doing a very good job at getting that done.

This initiative that Jim talked about, I'm always reluctant to say, "Simply the best." But what -- but, you all should interpret that is -- every company in the industry, I'm sure, sits up and says they're the best. But, the primary reason Jim is driving that initiative, it's really more about the message to our employees than the message to you. You'll make your own judgment about how good we are.

But the reality is, we want our employees totally focused on being the best and doing best practices. And in a sense, his initiative really kind of builds off of the integration process, because we're really driving to every best practice we can. And that's easier to say than do.

David is leading an effort with respect to our corporate center to take them kind of beyond the integration to the next level of cost. In the very beginning, I talked about we have a strong cost control culture. And I think that David's efforts with the -- our corporate center and shared services areas, coupled with Jim's efforts, coupled with the efforts that Brew is making, really come together and really give us significant cost savings going forward, which is a key to any merger.

It's not the first wave of savings that really prove it. It's the second and third wave. So, I think we're on the way. And I want to see more results in terms of Jim, David and Brew's efforts to really say tick in the box done, so more to do on that.

I do think that the consolidation, while it's been rather quiet since our merger was approved. We're a very fragmented industry -- continue to be. If you look at the size of our capital program, it's almost equal to -- I don't know our share price today, to our -- actually our market cap today and to think about, we're going to spend that much money over a five-year period. And at the end of that period, we have a very strong balance sheet.

So, we're in a very strong position. But, I do think there'll be more consolidation. It's just a matter of time. And we're in a little ebb in what I think has been a 15-year flow. And so, our approach is to focus on our business, deliver on the cost savings, deliver on these investments and be able to get the price increases and the timing right on them. And that's kind of the focus that we have.

If we get lucky and the right deal comes along, I'm sure our team will figure out how to make that work. And with David's leadership in the finance area, I am confident that there's no deal that we'll do that won't be a good deal. David, do you want to comment on all of this, because I thought that was a good question?

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**David Hauser - Duke Energy - Group Executive, CFO**

Okay. I think the challenge -- I think consolidation will get back in gear at some point. The challenge is, to the degree PE ratios are very, very similar, it challenges consolidation. And so, I think you'll see people beginning to deploy more capital. Some will do it well, some not as well. And I think that will generate opportunities as we go down the road.

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**Unidentified Audience Member**

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

One other question, did the 5% to 7% growth rate you talked about today, just a clarification of a couple of things that are in it, number one, the assumptions about the North Carolina rate case, both the pending case and the 2010 case, expectations that you get what you asked for, or is there cut-off expectations in your guidance?

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**David Hauser - Duke Energy - Group Executive, CFO**

The numbers that they were quoted were for price increases, not rate case increases, but total price increases. And those are certainly a haircut off what you'd ask for -- what you'd expect to ask for. And that's kind of the way the business works. So, we do have what we think are conservative assumptions in here as far as those price increases.

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**Unidentified Audience Member**

Do you have any contribution from the save a watt program in the 5% to 7% growth rate?

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**David Hauser - Duke Energy - Group Executive, CFO**

Yes. There is a contribution. We haven't put numbers around that in the public domain, but there is a contribution. There's an assumption that it proceeds.

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**Unidentified Audience Member**

And last one, the Ohio rate -- to the Ohio then going on, what do you guys show for earnings growth out of Ohio without the construction of the new power plant? Is there any growth there?

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**David Hauser - Duke Energy - Group Executive, CFO**

The Ohio growth without construction is modest. But, you also would have growth potentially out of the gas plants if they start serving more into Ohio. So, there's two sides to that coin. There's the retail side. It's modest. There's the gas plant side, which could come in also.

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**Jim Rogers - Duke Energy - Chairman, President, CEO**

And I just want to add to amplify a little bit on David's answer so there's absolute clarity about this, when we talked about the average rate increases in each of these jurisdictions, we weren't just talking base rate increases. We were talking also fuel -- our projection of how the fuel prices will increase, whether coal or natural gas going forward. So, it's an all-in price because politically, kind of thinking about it in a broader context is a better way to think about it.

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**Unidentified Audience Member**

I wanted to ask you about the potential impact of a recession on your plans. In the past, we've seen that recessions have changed projections for demand and supply and the cost of new builds, and we haven't had a real recession in a real long time. And some people think that it might be more likely now.

So I was wondering, if you -- if there was a recession, soon let's say, what would you guys -- would there be any impact on your CapEx plans? Are they pretty much set as they are? Just what was -- what's your sense about that, because it is sort of a topical issue now?

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**David Hauser - Duke Energy - Group Executive, CFO**

Well if you look at the Carolinas, we grow a percent and a half or so a year. It appears the Carolinas are on an excellent run in the residential and commercial areas. And it would be surprising to me to see a recession that had a significant impact on that growth.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

So, as far as our CapEx though, we clearly -- if a recession came into play, we'd clearly have less capital to hook up new customers. And we spend 350 -- \$350 million a year or so on that. And we'd also be taking a look at needs for future power plants like the CCs and CTS that we've talked about. And those are such short lead times that you could shift those around if you had a recession.

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**Jim Rogers - Duke Energy - Chairman, President, CEO**

Actually, we spend quite a bit of time really looking at our load forecasts and to David's point, recognizing that we have a lot of flexibility with the building of gas plants that really give us the capability to adjust, push out, pull forward, just depending on how -- what the economy -- how fast the economy is growing and how fast our load is growing.

But, we're not going to make -- think about it. In the 70s and 80s, our industry made a huge mistake on projecting load. In the 90s, the merchants and IPPs made a huge mistake on projecting load. And we're now in a period where there's a demand. It's pretty clear that demand is growing pretty fast, notwithstanding your suggestion of a recession in that there is a great potential to make a mistake now as we've built -- move into the cycle of building base load plants.

So, we are really working hard. And actually, we've changed a lot of our criteria for what we believe our confidence factors ought to be in our analysis of projected load. So, I think we have a more robust assessment. And we have specific levers to pull if the load doesn't show up.

But, I think that when you look at investment in energy efficiency, you look at investment in the digital grid, when you look at aging infrastructure and the need to put more money in distribution and transmission, I'd say by and far, any change in the economy is not going to change our need to make those significant investments going forward. Sam?

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**Unidentified Audience Member**

As you -- over the next couple of years, you've articulated an overall rate path of about 3% per year. But, part of that is, you've got an RFP to look at renewables and things like that with the base load as sort of a last resort. And it almost seems like you're positioning yourself to let the market come and say, it's going to cost this versus maybe what we were thinking.

Do you think there's a -- as you look at the political and regulatory landscape, is there some headroom built in there? Are they looking at the world through rose-colored glasses? And you may have to go back with them -- back to them with a bigger than expected upward rate path?

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**Jim Rogers - Duke Energy - Chairman, President, CEO**

I think we've tried to be conservative in our projections here. I think one of the issues that's evolving and people haven't totally come to grips with is actually the cost associated with renewables. I'm of the school that, yes, we need renewables. We've got 24 states with renewable portfolio standards. But, the reality in a rising price environment, at some point, the regulators are going to focus on, wow, that's significantly above the cost of coal plant. Or, that's significantly above a cost of a nuclear plant.

And so, we're really being careful. And I think that you heard us talk about this, or Jim talk about this, is that maybe we don't want to own renewables other than the ones that -- the wind business, that we're really doing purchase power agreements in states where we have rates, because there might be kind of a different pressure as prices rise. So, I don't think that the regulator has totally come to grip with what the cost implications of renewables are.

I think on energy efficiency I believe, and that's why we've been so active on this in trying to build a new regulatory model, there is going to -- there continues to be a major push at the state level, at the federal level to pour more money into energy efficiency. And that's why we're working so hard to get the business model right where we can make as much money building a power plant as we can investing in energy efficiency.

And maybe not as much if it's 90% of what it already costs, but when you look at it on a risk-adjusted basis of building a major plant versus the incremental expenditure on energy efficiency, that might be a better stream of investments, at least with a -- for the lower risk profile.

So, I believe -- in North Carolina when they passed the law, an important feature in the law was, it really gave the Commission the ability to say no to renewables if it's above a certain price. It's modeled a little bit after the New Mexico law. And that's one of the reasons we're such advocates to have renewable portfolio standards at the state level so that the local regulator can make the choice, do we want renewables and at what price?

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Because, I think it's the price component that's left out of national standards. And so from our standpoint, we think as prices rise, all these questions come into play more and at the end of the day, lead to greater emphasis on energy efficiency.

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**Unidentified Audience Member**

You were emphasizing cost cutting before. The -- does the 5% to 7% growth rate incorporate cost cutting at corporate level, at unregulated businesses? And also related to that, there was -- in the CapEx, there's \$225 million a year of corporate and other. What is that for? And is that going to accomplish -- is that going to increase returns in the other businesses or overall?

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**David Hauser - Duke Energy - Group Executive, CFO**

The O&M expense that's reflected in the plan increases at a rate less than the rate of inflation. So that would say, yes, it does reflect some cost cutting. And with regard to the \$225 million, that includes several pieces, including -- it has some major IT projects in it. It has the fundamental IT infrastructure replacement of servers and all that kind of activity. It also has the IT required to make energy efficiency work. So, it has a lot of IT dollars for those types of activities. So, the vast majority of it is IT-related.

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**Unidentified Audience Member**

(inaudible) The IT for the energy efficiency, would that eventually be recoverable at the utilities?

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**David Hauser - Duke Energy - Group Executive, CFO**

Yes, it would be recoverable at the utilities.

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**Unidentified Audience Member**

And that's the majority of that IT expenditure? Or --?

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**David Hauser - Duke Energy - Group Executive, CFO**

Well, there's a lot -- there's IT. It's really in a variety of buckets. But, the IT infrastructure would be allocated to the utilities. It would be allocated to energy efficiency. And it would either be recoverable or, if you follow the energy efficiency model and use the 90% that we filed for, it might be reflected in that. It depends on how energy efficiency ultimately occurs, jurisdiction by jurisdiction.

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**Unidentified Audience Member**

As a follow-on to that David, you mentioned that there were half a million meters in the Midwest that -- or somebody, Jim did, that you had to go into the homes to look at them. Is part of that money for changing over to AMI or something similar to that or --?

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**David Hauser - Duke Energy - Group Executive, CFO**

Yes. There is money in the plan to replace those meters and go to more digital.

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**Unidentified Audience Member**

And do you have to go to the regulator, or you would anticipate going to the regulators for again, advanced authorization for you doing that and some kind of assurance that it would go in a rate base or --?

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**David Hauser - Duke Energy - Group Executive, CFO**

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Yes. The fundamental issue is this. The meter on the side of the house, or wherever it's sitting, is working today. And when you take it out, there is what would be a cost that needs to be recovered. In order to go do all this activity and replace all those meters, you need a methodology to recover the old cost. So, I think the issue's really that straightforward. And that's what we would seek approval of.

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**Unidentified Audience Member**

But, that's not near-term?

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**David Hauser - Duke Energy - Group Executive, CFO**

I think that's something -- we have not filed for that, but I think that's something we'll be looking at in the near future.

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**Unidentified Audience Member**

A question, I'm trying to get a better handle on what the price increase could be in Ohio. The default position, there are many different outcomes of what might happen there. But, the default position would appear with some tweaks and changes to be going to market. And could you tell us what the current market cost of generation is? And then, compare that with what that power cost is that is being charged to your customers currently?

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**Jim Rogers - Duke Energy - Chairman, President, CEO**

That's a good question. And our current price under the RSP to our customers is roughly \$61, \$62. If you look at the market price today, it really is a function of -- if you were market -- again, you've got to think of it in terms of the shape of the load and the shape price. And it's -- there's pretty easy to get what around-the-clock price is. It's a little more complex and often when there's a difference of opinion in terms of what the value of the shape is. And it varies from time to time.

But, I think our current estimate, as I saw in Tom's presentation is the current market price is more like mid 60s, again kind of driven by what you believe the value of the shape is. And as we look out, we see that price rising in '08 and in '09 as the market tightens in the Midwest.

So again, I think that we have two options. And they're both good options from a customer standpoint as well as from an investor standpoint. We can either go to market at the end of '08, and that's what the law says, or we can extend the RSP. And both of them are good options and more to come on that. But, that's sort of the price delta.

We had the conversation earlier, and Jim was talking about customer satisfaction in Ohio and Kentucky. The reality is, we raised prices over 20% in Kentucky. And we've had 25% and 30% increases over the last three years in Ohio. So, all of that is in the rear view mirror.

And our rates in that area are higher than rates in other parts of the our system. But, that's just the nature of in some areas, rates go up here and then they go up at a different pace in other areas, depending on how you're adding generation, et cetera.

But, the important point is that the big rate increases, in our judgment, in Ohio, are behind us and that we don't have an Illinois or Maryland scenario in our future under either scenario of going to market or extending the RSP. And that's why I was so confident that we'll come with an outcome that makes sense for you as well as our customers.

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**Unidentified Audience Member**

Thanks. I would suppose that the Governor and other political interests have those numbers. Have they expressed any interest -- any acceptance of an increase on that order of magnitude or what might be unacceptable to them?

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**Jim Rogers - Duke Energy - Chairman, President, CEO**

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

Well, I don't -- I've not had a specific conversation with them about those numbers. I'm fully -- I know they're fully aware of the numbers. But, let me make an important point. We have a new governor. He -- in Ohio.

He's worked very well with the legislature, as I mentioned a moment ago, to get the budget done. He has a -- and I've known Governor Strickland for a long time and a time he when was a congressman. He's from the southern part of Ohio. He's on a mission to put Ohio in a place where they're addressing energy issues in a broad, comprehensive way. And he's proposed to build this broad and comprehensive.

And I think he's the type of guy that's going to work very well with the legislature to come up with the right answer. But, we're approaching silly season, and I can't predict behavior of politicians in election year. I'm not that smart, although it's kind of a fun sport to watch, but not so much fun when you have a -- you're trying to get something done in the state politically between both parties.

You'll read a lot of headlines, and you'll read a lot of we're laying the gauntlet down. And this is our non-negotiable position. You'll hear all that. You'll read all that. But let me tell you, behind the scenes, people are working pretty hard to get the right outcome. And so, I believe that he's sensitive to the prices. He knows where the prices are in Ohio versus other parts of the country. He clearly does not want an Illinois or Maryland. I don't think he's going to get that under any scenario.

And so the question is, how can we knit all this together in a way to make a seamless transition? And as I've said to the legislature, to the Governor, to anybody that'd listen to me, our job is to provide reliable electricity and to make sure we have adequate supply. And yes, we have uncertainty at the end of '08 with respect to the RSP. But, our mission is to make sure we work our way through that in a way where it's seamless to our customers from a reliability standpoint.

But quite frankly, the sooner we get this resolved, the easier it'll be for us to make it seamless. So, we're putting -- we're really focused on getting an outcome as soon as possible. And if it's comprehensive legislation this year, yes, there's going to be people that are going to have rifle shot type legislation.

I'm not sure the Governor's going to be very excited about that as an option. But at the end of the day, whether it's market or extension of the rate stabilization plan and whether it's for two years or for ten years, all those options are on the table. And I think we're going to be working very hard to get an outcome that makes sense this year with the recognition that the closer to the November election, the -- a lot more difficult it is.

And let me just add one thing just while I'm thinking about it just to be complete. What if it's the worst case? What if we don't get legislation? What if we're stopped from going to market? And I can kind of envision that as a possibility, although clearly under the law, we have the right to go to option -- to go to market at the end of the period.

I think a worse case scenario is you keep the existing RSP in place in '09. And you ought to do your analysis along that line and see what that looks like, because that might be the worst-case outcome. And quite frankly, if you do the math on that, that's not a bad outcome. So, I'm confident that we'll be at the right place. I'm confident there's a lot -- there's going to be a lot of noise and a lot of smoke. But, I think from an investor perspective, we're going to do fine.

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**Unidentified Audience Member**

Jim, kind of thinking long-term and the potential for coal plant development, especially in Ohio but really regionally and nationally, how much does the future of coal plant development hinge on the technological advances for capture and sequestration? And what happens if that technological advance is actually a roadblock?

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**Jim Rogers - Duke Energy - Chairman, President, CEO**

I think the carbon capture and sequestration technology has been oversold from a standpoint of timing. I think it's -- clearly, the technology is there. But, it's a very massive undertaking to think about really scaling up. We do carbon sequestration today in west Texas and in Oklahoma and some places. We'd have to scale up the reinjection of carbon that we do today one-hundredfold to just take the existing coal plants in the country.

We don't know what the rules are. I used to run gas storage. And these are complex sets of rules. And what about migration? And what about liability? So, if you look at carbon capture technology, and I think the MIT study is a great study to read, because it basically says if we don't scale up and have some huge carbon capture projects in this country soon, because it's all about -- it's not really all about the money, although we need significant money to do this.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

But it's all about building, doing it and having one generation of operating experience, then go to the second generation and third generation, so there's a time element in this. I think this is a 15-year process before we really can commercially scale this up. And one of the things that we spend time arguing and trying to stress and educate people on the hill about it is, let's make sure that when we do our emissions cap, the trajectory, it matches up with our technology roadmap. And let's be realistic about the timing.

So, I think you have to think about carbon capture a decade and a half off. I think you have to look for it to be there, there's going to have to be significant investments. And there's going to have to be significant experimentation with respect to it. There's going to have to be a development of rules. And quite frankly, I think if we make our mind up as a country to do it, we can do it.

In terms of coal in this country, I remember the number of coal plants that were on the drawing board several years ago, and there's significantly less today. The opposition has been great. But, one of the realities is that we need, as suppliers in this industry, to exhaust economically available renewables as well as energy efficiency and then, where the only alternative is really coal, gas or nuclear.

And quite frankly, one of the things that puts our company -- and differentiates us from a lot of companies in California and Florida and the northeast, 98% of our electricity, 98% of our energy comes from coal and nuclear. So, we have a lot of stability. We can actually absorb more gas plants and use more gas in our own specific portfolio. But, I think there's a huge risk of using more gas in this country, as our North Carolina Commission recently recognized with the improved Cliffside plant.

But, if you exhaust cost effective energy efficiency renewables and you think about, we're not really building the LNG terminals on the pace that a lot of us -- a lot of people projected, it's going to leave you with coal and nuclear. And quite frankly, nuclear is the best option, because there isn't the uncertainty with respect to carbon-capture sequestration. And if you're in a carbon-constrained world, nuclear becomes your first choice for base load.

And so, as we look at this, and that's why Brew and his team are working hard along with others to develop the nuclear option, we think it's going to play a key role in the future. The only issue is the timing, and it's the timing driven by the considerations that I've just shared with you.

But, coal plants are going to be part of the future also. So again, it's really about timing and getting the sequencing of the options, because we only have five to generate electricity to get that sequence right.

Take one more question, then we'll wrap.

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**Unidentified Audience Member**

That's a lot of pressure, the last question. The question's back on Ohio, just to kind of clarify something. When you talk about receiving low \$60 shape price, am I correct you're referring to residential, small commercial customers?

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**Jim Rogers - Duke Energy - Chairman, President, CEO**

I said -- I've said, our average price was \$61.

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**Unidentified Audience Member**

Okay. But, is that -- that's --.

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**Jim Rogers - Duke Energy - Chairman, President, CEO**

That's the shape price.

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**Unidentified Audience Member**

Yes. So, does that -- that's not what industrial customers are paying though, more flat load type customers?

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

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**Jim Rogers - Duke Energy - Chairman, President, CEO**

We have separate contracts with them, and they're paying a different price, a lower price.

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**Unidentified Audience Member**

Can you talk -- is the spread similar though between they're paying and what market price is relative to what this shape load is and where you might see market at? Or, is that a wider, more narrow spread for the industrials?

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**Jim Rogers - Duke Energy - Chairman, President, CEO**

I would think that the less peaking the load, and this number in particular, I think industrial rates, because of the around-the-clock nature, are easier to kind of meet that load at a lower cost than a real peaky load like residential load, for instance. And so, we factored that in -- and in the contracts that we have with them in the state.

And that's kind of an issue that's playing out actually in North Carolina, because what we've really done is we've gone in asked for parity to really hold the rates in a sense and let the rate increase be with the peak to your load, because it costs more to serve that load but to also make sure the rates are low enough, particularly in North Carolina, so we can attract more investment in the state, so we can create more jobs, because we have a lot of people moving to this state and great residential growth, but we need to create jobs.

And we've lost a lot of our textile business and other industrial loads, and we need to attract that business and then truly force us to go back and rethink the cost incurrence relationship between residential and industrial load.

And I will say that it -- the way it's structured in Ohio today and Indiana, it's really structured in a way to encourage industrial load to stay in the states and for new load to come. And one of the things we're trying to do in North Carolina is get the rate structure in a way where it encourages investment in the state, and it creates some new jobs.

That is in our interests, and it's in the long-term interests of the people that we serve in those states to make sure we have a robust economy, notwithstanding the predictions of recession.

I dare anybody to think recession and come to Charlotte and try to buy a house, as I just did. It didn't feel recession-like, unless I'm buying at the top of the market and the whole dag-on thing is just going to go into the ditch next week. And then, I made just a bad investment, because the economy is -- you're downtown in Charlotte and you see building cranes everywhere, very strong.

Well with that, maybe I should wrap it up. And first of all, I want to thank you all very much for taking time to be with us today. And I also want to thank you for your good questions, because as I sat there and listened, there were a lot of great questions about our business. And I hope we've answered them for you in a complete way. And I also hope if you have any follow-up questions that you would give our team a call and follow up with them. If you have time to come to Charlotte or come visit our facilities, we would welcome that.

The thing that I hope you take out of today is that we have stepped up and presented you with a five-year plan. And we've tried to make it as clear as we possibly can in terms of the way forward, so we want as much transparency in the way forward as we could possibly share with you. And I hope we've achieved that today.

We have some great challenges in front of us, but as you think about our value proposition, we've got growth of 5% to 7%. That growth is driven by reinvestment in the business at a time in history when reinvesting in a business is really critical.

The key to our success, particularly in the regulated part of our business, is not only hitting the right regulatory outcomes, and you can tell we're very focused on that, but also to make sure on these projects, new plants, that we're laser-focused in bringing those in on time and under budget. And we're laser-focused on making sure the regulator is with us every step of the way.

Sep. 11. 2007 / 8:00AM ET, DUK - Duke Energy Corporation Analyst Meeting

In the same way we don't want surprises for you, we don't want surprises for those that regulate us. And we're going to work hard to make that a reality in both arenas. The other thing is that we continue to grow the dividend. And I think that's a very important thing. But, we're going to grow it in a way so that our payout ratio just sort of kind of trends down a little bit over the five-year period.

And we're also doing this without any public issuance of equity. And as David talks about, you look at our balance sheet and you look at our numbers in the five-year period, and when you think about how strong those numbers are and how strong that balance sheet is.

And then you stop and think about, wow, they've been able to do that, at the same time investing \$23 billion, almost equal to our market cap today, in that five-year period, I think that would be a remarkable achievement if we can do it. And I have every confidence that we can do that.

So, we're on a good track. We've got a good story. We're going to stay focused on what we're doing. And at the end of the day, we're going to deliver what we promised. And this year, we're going to -- we've under-promised, and we're going to over-deliver.

So thank you all very much, for your interest in our company. And thank you very much for being here.