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PRESENTATION

Operator

Good day everyone, and welcome to the Duke Energy conference call. Today's call is being recorded. At this time for opening remarks I'd like to turn the call over to the Vice President of Investor and Shareholder Relations for Duke Energy, Ms. Julie Dill. Ms. Dill, please go ahead.

Julie Dill - Duke Energy - VP of Investor & Shareholder Relations

Good morning and thank you for joining us today. With me are Paul Anderson, Chairman and CEO and David Hauser, Group Vice President and Chief Financial Officer. In addition Fred Fowler, President and Chief Operating Officer and Jim Mogg, Group Vice President and Chief Development Officer are also available to answer your questions today.

Most of you are probably aware that we are hosting a meeting for investors and analysts in Charlotte tomorrow. The objective of that meeting is to help you better understand the overall Duke Energy strategy and to put some context around how the proposed merger with Cinergy fits into our long-term vision. Today's discussion will be focused solely on the announcement we made yesterday regarding Duke Energy North America. We wanted to hold this call today so that tomorrow, we can essentially focus on just that – tomorrow -- and the future of Duke Energy.

As always, before we begin with our prepared remarks let me read to you the Safe Harbor Statement.

Some of the things we will discuss in today's call concerning future company performance will be forward-looking statements within the meaning of 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 the Form 8-K filed with the SEC and other SEC filings concerning factors that could cause those results to be different than contemplated in today's discussion

In addition, today's discussion includes certain non-GAAP financial measures as defined under SEC Regulation G. A reconciliation of those measures to the most directly comparable GAAP measures will be made available on our investor relations website at: www.duke-energy.com

Following our prepared comments we will open the lines for your questions. We would like to limit the questions today to those that relate to DENA's business, as tomorrow's meeting will provide us a great opportunity to discuss the rest of the business and the future outlook for the enterprise. With that, I'll turn the call over to Paul.

Paul Anderson - Duke Energy - Chairman and CEO

Thank you Julie and good morning everyone.

Yesterday afternoon, we announced that we have begun the process to fully exit DENA's business operations – substantially all of the business outside of the Midwest – over the next year. I wanted to explain to you why we're taking this action and the implications it has for our business.

Since I returned to Duke Energy in 2003, we have devoted enormous management attention to returning DENA to profitability. We've had some of our top talent focused on developing a sustainable business model for DENA and have made significant progress in improving the business. We have cut the trading book by more than half; mitigated the mark-to-market exposure we had with the disqualified hedges from the deferred plants and the sale of the southeast plants and; effective with the Cinergy merger, dealt with over two-thirds of DENA's generation portfolio.

As you will recall, we have been pursuing two parallel paths. Bobby Evans and the DENA team have been working on enhancing the value of the business by lowering costs and increasing revenues through tolling agreements, capacity contracts and of course, working through the legacy positions on the trading book. At the same time, Jim Mogg and his M&A team have been pursuing transactions, like a possible joint venture combination with various counterparties. Going forward the merger with Cinergy will certainly help us by dealing with a significant part of the generation portfolio, specifically the Midwest assets. In addition, Cinergy provides an alternative merchant platform for the future.

The results of the work from both of these groups in recent weeks have led us to the point we are at today. Specifically, Bobby and his team have determined that achieving our objective of break-even on a standalone basis by the end of 2006 is not realistic without taking on an

extraordinary level of additional risk. And while we have had several parties interested in working with us on the assets, and the value of generating assets has improved substantially since 2003, we've had great difficulty finding a workable model because of the size and complexity of the long dated legacy positions in the trading book. This complexity has prevented us from being able to form a joint venture on these assets, or even to sell portions of the book to interested parties. This is in part due to credit requirements and accounting standards which would have either influenced the form of the transaction or how the business would have ultimately been run.

As a result of this confluence of events, we have determined that the greatest economic value for the company would be to break the business into pieces and deal with the trading book and assets separately. By dealing with the assets unencumbered by the book, their disposition will be greatly facilitated. And we believe we can better transact the disposition of the trading book by breaking it into multiple pieces as well. Consequently, we met with the Board of Directors on Tuesday and made the recommendation to pursue the sale or other disposition of substantially all DENA's business outside the Midwest.

Duke Energy is at a stage now where we have the flexibility to operate from a real sense of control, and consequently, we can be very deliberate and very methodical in our decision making. Part of that decision making involved determining whether we should simply build our unregulated business off Cinergy's commercial platform, or combine the two companies and then rationalize the operations. By choosing the former, we would be able to accelerate the synergies associated with this business prior to actually completing the merger.

The end result is that we believe it is best from a shareholder value standpoint to exit the business. We intend to move on this as quickly as practical, while maximizing the value we can realize. We do expect that we will be completed within twelve months however.

So let me talk a bit more broadly about what the financial implications are of this decision.

David will go through all the detail associated with the financial impacts, but I did want to go over the highlights. First, Duke Energy will take a non-cash, pre-tax charge of approximately \$1.3 billion which reflects the impairment of the DENA assets and the impact of moving our trading book from accrual to mark-to-market accounting.

The total book impact of this write-down will be an impairment of about \$0.88 per basic share. This charge will be considered a special item for the quarter similar to the \$0.59 per basic share gain on the sale of TEPPCO in the 1st quarter. Additionally, we will recognize a gain in the third quarter of approximately \$0.39 per basic share on the transfer of a 19.7% ownership interest in Duke Energy Field Services to ConocoPhillips which will also be classified as special.

Overall, this decision will benefit the company in several ways. We will accelerate the cost savings we expected to get from DENA associated with the merger in the amount of about \$160 million. On-going earnings from continuing operations will improve and as a result, we are revising our 2005 incentive target from \$1.60 to \$1.65 per basic share. Duke Capital's credit risk profile will significantly benefit and our long-term liquidity position will improve as we eliminate the current collateral position. Finally, we expect the net effect on cash to be positive.

So let me turn the call over to David now to go through these impacts in detail.

David Hauser - Duke Energy - Group VP and CFO

Thank you Paul and good morning everyone. As Paul mentioned, the non-cash, pre-tax charge we will be recording in the third quarter 2005 will be approximately \$1.3 billion. This number is made up of a couple of different components. First, we have to write-down the assets to fair value so we will be recording an impairment associated with the plants in the west and the northeast, including the Fort Frances facility in Ontario. This write-down is estimated to be about \$400 million. Please note that our 50% interest in the McMahon Plant in British Columbia will be transferred to DEGT as it is an integral part of the gas processing operation there and is not included in any write-down.

Secondly, there will be a net charge of approximately \$900 million associated with bringing forward the value of the gas and power derivatives. We have sold power at prices below today's forward market curve so we will record a loss of \$2.3 billion. We have bought gas at prices below today's forward market curve so we will record a gain of \$1.4 billion. The net of these two is the \$900 million I mentioned.

The final piece of this calculation is a gain associated with gas which will be settled over the next 12 months. That gain is \$300 million and will be recognized over the next 12 months.

You should be aware that until such time as we complete the disposition of the book and the assets we will be recording operating results and mark-to-market movements in the contract portfolio. The absolute mark-to market movement is not quantifiable at this time. However, the simple way to view it is that a \$1 change in the spark spread will result in a \$60 million change in value pre-tax.

So let me talk a bit more about what is moving to Discontinued Operations and what will remain in on-going operations.

As a result of making this exit decision, all financial results associated with the plants and the trading books will be recorded in Discontinued Operations. This change will be retroactive back to the beginning of the year. As mentioned the accrual book will move to mark-to market accounting, and changes in the value of the book will be recorded here. Also recorded here will be any premiums or discounts on the disposition of the accrual book. All general and administrative costs directly incurred to manage both the plants and the book will be considered 'discontinued'. And finally any change in the value received for the physical assets that would impact the \$400 million impairment in the third quarter would be recognized in Discontinued Operations as well.

A number of items will continue to flow through our on-going operations however. These consist primarily of the results from the Midwest assets, certain corporate allocations, certain other contracts and, the remaining DETM business that has yet to be wound down. It is our intent to include these items in the "Other" EBIT line although we are making a final determination of the appropriateness of this. Consequently, we need to revise our 2005 guidance for 'Other' from \$200 million to \$310 million in net expenses, excluding any changes due to mark-to-market fluctuations on the Field Services de-designated hedges. This guidance for 'Other' does not reflect any insurance impacts associated with Hurricane Katrina. We do not anticipate significant losses on our systems but we do not know the status of some of the members of our energy industry mutuals.

As it regards tax, we will recognize the full cash tax benefit or liability once all the sales occur. So let me explain how this will impact our liquidity and credit metrics going forward.

As you might expect, a nearly complete disposition of DENA significantly strengthens Duke Capital's credit profile. DENA has outgoing collateral of \$1.6 billion, with almost \$700 million of that in letters of credit, and net cash collateral outstanding of slightly over \$300 million.

The projected proceeds from the sale of the assets should more than offset the projected cash outflows from terminating the DENA book, including all tax impacts. Specifically we expect to be net cash positive. While it is difficult to estimate the size of the cash impact we would expect the sum of all the transactions to generate more than \$500 million after tax.

It is important to note that, the uses of cash may temporarily exceed the sources of cash, depending upon the timing of the trading book disposition versus the realization of asset sale proceeds.

I'm very comfortable with our liquidity position and our ability to handle all the costs associated with the exit from the DENA business.

Now, let me turn the call back over to Paul for his closing remarks.

Paul Anderson - Duke Energy - Chairman and CEO

While all the employees of Duke Energy have worked incredibly hard over the past couple of years, probably no group has worked harder than the folks at DENA to re-position, re-focus, and re-arrange the portfolio. And now it's time to take the next step in our transformation and get a fresh start into the unregulated power business through our merger with Cinergy.

The new Duke Energy will continue to have a very viable unregulated business. We will combine our Midwest assets with the existing commercial platform at Cinergy. We will continue to trade – the great differentiator will be the tenor of the contracts we will be willing to enter into. Whereas 95% of DENA's trading contracts have terms in excess of one year, about 97% of Cinergy's trading contracts have terms less than one year. Consequently, Cinergy's value at risk is almost six times less than our current exposure. This is where we want to be – and this change will be a boost for Duke Energy.

While we are disappointed that we were unable to find a reasonable model for the west and northeast assets, our obligation is to our shareholders. Consequently, this is the right decision at the right time to maximize the value of the enterprise and continue to move forward toward our vision of being a premier energy company in North America. With that, we'll open it up for questions.

QUESTION AND ANSWER

Operator

Thank you, sir. We'll turn first today to Scott Soler with Morgan Stanley.

Scott Soler - Morgan Stanley - Analyst

Hi. Good morning.

Paul Anderson - Duke Energy - Chairman and CEO

Good morning, Scott.

Scott Soler - Morgan Stanley - Analyst

Paul, I had a -- one question for you and, David, I had one question for you. Paul, in general, I know there were a couple of key factors driving the sale, but is there also the fact that long term you guys were a bit concerned about -- with as high as gas prices are and are likely to stay for a while -- that it just continued to push out a potential recovery for gas fired generation? That's a very general question, but I was just curious if you could maybe comment on that.

Paul Anderson - Duke Energy - Chairman and CEO

Well, I would say in general we are disappointed that the recovery of the fundamentals of the market seem to have been somewhat stalled. The payment for capacity has been pushed ahead a bit. The gas prices have obviously hurt spark spreads. And in general I would say that part of it is, as we see the recovery being pushed out a little bit and, quite frankly, we're excited about the merger and we want to get on with it and not be distracted by waiting for DENA to recover.

Scott Soler - Morgan Stanley - Analyst

Yes. And then, David on -- regarding the pre-tax number, I could -- we can quantify this very back of the envelope, but do you guys have a fairly decent anticipation of what the NOL would be created by the event?

David Hauser - Duke Energy - Group VP and CFO

Well, the vast majority depends on what year we actually conclude the transaction because the tax benefits would occur in whatever year the sales occur. But we have had significant gains this year associated with the TEPPCO deal and the DEFS transfer for taxes. And so we would expect to use all of this by the end of '06.

Scott Soler - Morgan Stanley - Analyst

All right, thank you.

Operator

We'll take our next question from Craig Shere with Calyon Securities.

Craig Shere - Calyon Securities - Analyst

Hi. I have a couple of questions for David and Paul each. David, hopefully these aren't too long. One, do I understand the book value of the trading book and plants envisioned to be divested was perhaps \$900 million since you're subtracting, say, \$1.3 billion to come up with a book value day one of the negative \$400 million? And how would this -- does it impact the anticipated merger synergies with Cinergy on the unregulated side? Then I have a couple of quick questions for Paul after that.

David Hauser - Duke Energy - Group VP and CFO

Okay. Let me explain the numbers a little better. There's a \$400 million number that is the impairment of the plants. That's the physical assets. Then there's a \$900 million number that's the book, and that's split between the power negative and the gas positive. The total of those two numbers is the \$1.3 billion.

Craig Shere - Calyon Securities - Analyst

Okay. I'm sorry, what was the book value of the combined book and plants envisioned to be divested?

David Hauser - Duke Energy - Group VP and CFO

We haven't put out there what the book value of the plants is and we're not planning to disclose that at this point.

Craig Shere - Calyon Securities - Analyst

Okay. I think at the end of '04 you had \$6.7 billion of reportable segment assets for DENA. Is it a mistake to assume roughly 60% of that? Is it 60% percent of the megawatts?

David Hauser - Duke Energy - Group VP and CFO

I think the \$6.7 billion must have included a lot of trading activities. So yes, that's a mistake. But we're not going to go into what is the actual book value of the plants.

Craig Shere - Calyon Securities - Analyst

Okay. And -- any comment about the impact on unregulated merger synergies?

David Hauser - Duke Energy - Group VP and CFO

Well, effectively what this does is it accelerates the synergies and the synergy numbers will get quicker by going ahead and eliminating this section of the business.

Paul Anderson - Duke Energy - Chairman and CEO

But they'll be in discontinued ops or a good portion of them will be. We're going to have Tom O'Connor, who's running our integration efforts, going to go through that in a fair amount of detail tomorrow, for those of you who are coming to tomorrow's meeting.

Craig Shere - Calyon Securities - Analyst

Great! Paul two quick questions for you. One, you (Duke Energy) all were originally talking about future M&A activity that might roll DENA up to 30,000 to 50,000 megawatts to get economies of scale. Is the thinking now for the future to focus more on regulated operations as a primary driver for M&A activity? The final question, is the new management incentive plan assuming the non-Midwest DENA generation was divested since the beginning of the year? In other words, that drag since January 1, 2005 is not included in the \$1.65 number.

Paul Anderson - Duke Energy - Chairman and CEO

Yes. The answer to the second question is that's correct. With regard to our view of the merchant generation business, we feel that the best thing to do is to work with the Cinergy platform. We will have critical mass in the Midwest when we put our assets together with Cinergy's. In fact, we'll have a very complementary fleet in the Midwest and a trading position around those assets and a good strong base to go forward with. It will not be a nationwide kind of position that we were trying to become part of before, but I think that we feel that the more prudent approach is to take a lower risk regional approach with the Cinergy platform and let some of the bolder players make the big kahuna out there.

David Hauser - Duke Energy - Group VP and CFO

Can I clarify one thing on the \$1.65, perhaps, just to make sure we are clear. There will be some DENA losses that remain in ongoing operations because we cannot move them to the discontinued side. For example, it would be the Midwest assets and some others. Any losses that occur there for the entire year would be reflected in the \$1.65.

Paul Anderson - Duke Energy - Chairman and CEO

That's why the \$1.65 isn't higher, because if you simply took the arithmetic of what was DENA out, you would expect it to be higher. But it reflects the fact that there still will be some in Other.

Craig Shere - Calyon Securities - Analyst

Fair enough. And, Paul, just as a point of clarification, it sounds like you're still open to energy merchant consolidation but just on a more focused regional basis. Is that basically what you're saying?

Paul Anderson - Duke Energy - Chairman and CEO

Yes. I still think that it's going to be scope and scale that wins the day. I think we will start with a scope and scale in a region where we can achieve it on our own and look at what we can do from there.

Scott Soler - Morgan Stanley - Analyst

Thank you.

Operator

We'll take our next question from Terran Miller with UBS.

Terran Miller - UBS - Analyst

I have two questions. First is could you give us some indication of what you might do with the anticipated \$500 million of proceeds? And the second question, are you at all concerned that you will end up with some of the long-dated legacy trading assets still in the book?

Paul Anderson - Duke Energy - Chairman and CEO

Well, I'll take the second one and I'll let David answer the first. David's always got too much money, so I'm not sure what he's going to do with the \$500 million. But the intent would be to totally exit the book and the last thing we would want to do is to put ourselves in a position where we say come on in and cherry-pick this book. I think we've had significant interest in the book, not as a totality, but as large pieces of it. And our intent would be to sell the entire book, not to maintain a portion of the book.

David Hauser - Duke Energy - Group VP and CFO

With regard to the cash, we don't have a specific purpose, but we do see some good capital opportunities in the regulated businesses. So we would expect to deploy that capital in the businesses and we'll be looking at opportunities to do that. But no final decision has been made and I guess what is pretty clear is that we don't need to hold more cash. So we'll be looking at good opportunities for it.

Terran Miller - UBS - Analyst

But, David, in order to meet your credit indications in terms of maintaining investment grade at Duke Capital, you do not anticipate having to pay down any debt at Duke Capital with the proceeds?

David Hauser - Duke Energy - Group VP and CFO

No, we absolutely don't. We think the risk profile of Duke Capital improves pretty dramatically with this move.

Terran Miller - UBS - Analyst

Okay, thank you.

Operator

We'll move now to Leslie Rich with Columbia Management.

Leslie Rich - Columbia Management - Analyst

I'm sorry, David, could you walk through again the cash implications? You said the current collateral outstanding at Duke Capital is \$1.6 billion and that you'll get \$300 million of that back.

David Hauser - Duke Energy - Group VP and CFO

Yes.

Leslie Rich - Columbia Management - Analyst

But then you said it would generate \$500 million after tax and I'm just not clear how you get there.

David Hauser - Duke Energy - Group VP and CFO

Okay, let me explain it this way. The sale of the assets will generate cash. The disposition of the book will probably utilize some cash -- that's why you have a loss on the book. But a lot of the cash it will utilize is already put up as collateral, \$300 million. So when you net everything together, the total cash, including the tax benefits, will be north of \$500 million.

Leslie Rich - Columbia Management - Analyst

Okay, and that's realized over the course of 2005 and 2006.

David Hauser - Duke Energy - Group VP and CFO

Yes.

Leslie Rich - Columbia Management - Analyst

Okay. Thank you.

David Hauser - Duke Energy - Group VP and CFO

Okay.

Operator

We'll turn now to Robert Kwan with RBC Capital Markets.

Robert Kwan - RBC Capital Markets - Analyst

Great, thank you. Just trying to just better understand the move in the EPS target from \$1.60 to \$1.65, of \$0.05. You talked about EBIT from other going from a \$200 million loss to \$310 million for this year. Am I right to assume that you are moving all of DENA, even, or at least what you're selling, year to date as well into discontinued and so, therefore, we're eliminating some portion of the \$200 million loss that was expected for the year?

Paul Anderson - Duke Energy - Chairman and CEO

Well, yes. We will be moving everything that we'll be selling into discontinued, but there are some things that will still remain in Other. As David said, there'll be \$110 million of losses associated with what remained. For instance, we will still have the overheads for the Midwest plants. And we won't have any synergies from combining those with Cinergy's operations until we actually complete the merger. We will have -- there's corporate overhead associated with DENA operations that doesn't necessarily go away day one and again, that will show up in Other. So the net effect is that \$110 million of the losses that DENA has for the entire year will still remain in Other.

Robert Kwan - RBC Capital Markets - Analyst

Right, and then I guess the offset is you move, roughly speaking, \$200 million out of a loss position and then after tax that gets you to about the \$0.05?

David Hauser - Duke Energy - Group VP and CFO

The \$200 million -- we have consistently said we would expect DENA to lose \$150 million. I'm not sure -- the \$200 million number doesn't ring a bell.

Robert Kwan - RBC Capital Markets - Analyst

Okay, that's fine. Great, thank you.

Operator

Next we'll move to Dan Eggers with Credit Suisse First Boston.

Dan Eggers - Credit Suisse First Boston - Analyst

Hey, good morning.

David Hauser - Duke Energy - Group VP and CFO

Good morning, Dan.

Dan Eggers - Credit Suisse First Boston - Analyst

On the trading book and the \$900 million loss, if I looked at the disclosures in the 10-Q from the second quarter, it looked like that delta was only about \$200 million. First I'll make sure that math is right --

David Hauser - Duke Energy - Group VP and CFO

Right.

Dan Eggers - Credit Suisse First Boston - Analyst

And then secondly, what caused such a significant increase in the end of June on that book that was, I thought, flat?

David Hauser - Duke Energy - Group VP and CFO

The 10-Q deals with the cash flow hedges -- and that's the numbers reflected in there. And this includes everything, including the normal purchase, normal sale. So that's one factor. The other factor is that the market has moved pretty much since the end of the second quarter. So this is an all-encompassing number regardless of what the accounting was for it in the past.

Dan Eggers - Credit Suisse First Boston - Analyst

What would the all-encompassing number have been prior to this summer's pretty significant run-up in commodity prices? And I guess did that have a big weighing factor on the decision to go ahead and exit the business?

David Hauser - Duke Energy - Group VP and CFO

I don't have that number off the top of my head. It would not -- that is not the driver of this decision, though. The driver of this decision is the total business, not where the book is at this given point in time. Remember one other thing that in the numbers in the 10-Q, we did not split out the \$300 million that we'll recognize over the next 12 months. So that's \$300 million to the good that is netted against the \$900 million, looking at it the way you're looking at it. Does that make sense?

Dan Eggers - Credit Suisse First Boston - Analyst

So the net position you're saying is more like \$600 million, I guess?

David Hauser - Duke Energy - Group VP and CFO

Yes. We just have an accounting anomaly where we recognize \$900 million now and \$300 million over the next 12 months.

Dan Eggers - Credit Suisse First Boston - Analyst

Okay. What is going to be the process or have you guys made any progress on looking to sell the generation assets? Or has this been the strategic decision today and the actual transactions will occur over the next six, 12 months?

Paul Anderson - Duke Energy - Chairman and CEO

To date we have had a lot of conversations, but I'm going to turn to Jim Mogg on that because it's going to be his baby and he can kind of give you a little bit of background on how we got to where we are today.

Jim Mogg - Duke Energy - Group VP and Chief Development Officer

Yes, we've had a lot of conversations and, as was said earlier in the call, there are a lot of people interested in these assets. But trying to do the assets and the book together, it took a lot of the players out of the game. Specifically as to your question, we haven't decided whether we'll run an auction process or go to the 10 or so people that are the pretty obvious buyers and go at it that way. But we are laying that out and we're very confident that we can move these assets and realize a value that's good for our shareholders.

Dan Eggers - Credit Suisse First Boston - Analyst

Okay. And, David, just to clarify on the cash stream, the cash benefited in the NOL, the \$1.3 billion charges, say \$400 and some-odd million, you're going to have proceeds from whatever year you'll sell these generation assets for, offset by the \$900 million or \$600 million net on the trading book on negative where we are today. Shouldn't the proceeds be more than \$500 million if you were to add all this together?

David Hauser - Duke Energy - Group VP and CFO

We would expect them to be north of \$500 million. But we're just not comfortable getting very precise beyond that.

Dan Eggers - Credit Suisse First Boston - Analyst

Okay. Thank you, guys.

Operator

We'll move now to Gregg Orrill with Lehman Brothers.

Gregg Orrill - Lehman Brothers - Analyst

Thanks very much. I just wanted to confirm that the \$300 million of ongoing impact over the next 12 months in the trading book would reside in discontinued operations.

David Hauser - Duke Energy - Group VP and CFO

Yes, it does.

Gregg Orrill - Lehman Brothers - Analyst

Okay, thanks.

Operator

Marc Minikes with Citigroup, please go ahead.

Marc Minikes - Citigroup - Analyst

Yes, hi.

David Hauser - Duke Energy - Group VP and CFO

Hi, Mark.

Marc Minikes - Citigroup - Analyst

I have a question on the contract portfolio. Just how matched are you on the power versus the gas side? Do you guys still need to go out and buy gas to complete the delivery of those power sales?

Paul Anderson - Duke Energy - Chairman and CEO

No, we're pretty balanced at the heat rate of our plants, which is around a 7,000 heat rate.

Marc Minikes - Citigroup - Analyst

Okay. And then, how should we sort of look at this \$1 sensitivity? Is this over the 12 months or should this start tapering off as you unwind these positions?

David Hauser - Duke Energy - Group VP and CFO

As you unwind the positions, that number would get smaller.

Marc Minikes - Citigroup - Analyst

And is there any sort of timeline on how you're going to unwind these positions?

David Hauser - Duke Energy - Group VP and CFO

Within the next 12 months.

Marc Minikes - Citigroup - Analyst

Nothing more definite than that?

David Hauser - Duke Energy - Group VP and CFO

I think that the real key is we want to do this in a manner that we maximize the value, so the last thing you want to do is rush out and try to rush the disposition. We'll do it methodically and as quickly as we can without giving up a lot of value to speed it too much.

Marc Minikes - Citigroup - Analyst

I have one last question. This sensitivity number we should assume this is a cash number.

David Hauser - Duke Energy - Group VP and CFO

Well, this will move up and down as we go through. The cash number will be the number at the point of the transaction, whatever that ends up being.

Marc Minikes - Citigroup - Analyst

Okay, thanks.

Operator

Paul Patterson with Glenrock Associates, please go-ahead.

Paul Patterson - Glenrock Associates - Analyst

Hi, guys. Can you hear me?

David Hauser - Duke Energy - Group VP and CFO

Yes.

Paul Anderson - Duke Energy - Chairman and CEO

Yes.

Paul Patterson - Glenrock Associates - Analyst

I just wanted to clarify some things here. The \$150 million EBIT loss is now going to be a discontinued op. Is that pretty much the right way to look at it?

Paul Anderson - Duke Energy - Chairman and CEO

No. Part of it will be discontinued op and part of it will be in Other.

Paul Patterson - Glenrock Associates - Analyst

Okay, the amount that's associated with the Midwest generation assets you guys will keep?

Paul Anderson - Duke Energy - Chairman and CEO

Well, as David said, it adds up to \$110 million for the year because it has some overheads that can't be transferred to discontinued ops and some contracts that don't fit with the assets, etc. So it'll be split between the two.

Paul Patterson - Glenrock Associates - Analyst

2005?

Paul Anderson - Duke Energy - Chairman and CEO

Right.

Paul Patterson - Glenrock Associates - Analyst

Okay. And then in 2006 would we still expect there to be a considerable amount of overhead?

David Hauser - Duke Energy - Group VP and CFO

Well, it will remain split in 2006 until we can dispose of everything that has -- well, until the deal's done with Cinergy for Midwest, then it moves into Cinergy. For the other remnants, until we can sell those contracts they have to stay in Ongoing.

Paul Patterson - Glenrock Associates - Analyst

Okay. Now, does the...

David Hauser - Duke Energy - Group VP and CFO

That's a pretty small number really.

Paul Patterson - Glenrock Associates - Analyst

Okay. So the Midwest generation assets are not being written down. Is that correct?

Paul Anderson - Duke Energy - Chairman and CEO

That's correct.

Paul Patterson - Glenrock Associates - Analyst

And that's because you're not selling them?

David Hauser - Duke Energy - Group VP and CFO

That's correct.

Paul Patterson - Glenrock Associates - Analyst

Okay. But if they were to be, one would just assume that they'd be written down as well I guess?

Paul Anderson - Duke Energy - Chairman and CEO

We haven't looked at them that way.

Paul Patterson - Glenrock Associates - Analyst

Okay. But then the \$300 million gain that you guys are recognizing over the next 12 months is part of ongoing earnings? I mean, how does that work in with respect to what we're going to be seeing in 2006?

Paul Anderson - Duke Energy - Chairman and CEO

That will be in discontinued ops as well.

Paul Patterson - Glenrock Associates - Analyst

Okay.

Paul Anderson - Duke Energy - Chairman and CEO

It won't be part of ongoing earnings.

Paul Patterson - Glenrock Associates - Analyst

Okay, got you. Okay, thanks for the clarification, guys.

Operator

Michael Goldenberg with Luminous Management, please go ahead.

Michael Goldenberg - Luminous Management - Analyst

Good morning, guys.

Paul Anderson - Duke Energy - Chairman and CEO

Good morning.

David Hauser - Duke Energy - Group VP and CFO

Good morning.

Michael Goldenberg - Luminous Management - Analyst

I just wanted to clear up several things on the book value. If I understand correctly, the assets were at \$3.3 billion before the write-down and now they will be at \$2.9 billion. Is that correct?

David Hauser - Duke Energy - Group VP and CFO

The write-down is \$400 million and we're not going to get into what the total book value was because the book value consists of a variety of things. It consists of these assets, Midwest assets, and capitalized cost on the trading floor. If you looked at the book of the company, you'd see a number that's over \$3 billion. But that's from a variety of components, as I just said.

Michael Goldenberg - Luminous Management - Analyst

Okay. Is there any way -- now that you mentioned the Midwest and the assets that are up for sale, is there any idea you can give us as percentages or any sort of numbers as to the PP&E composition between the Midwest assets and the assets that you are putting up for sale?

David Hauser - Duke Energy - Group VP and CFO

I don't think that's something we want to get in today. We don't think that would optimize shareholder value at the end of the day.

Michael Goldenberg - Luminous Management - Analyst

Okay, got you. Okay. Now, as far as buyers you were talking about the -- once there were a lot of parties interested in the plants by themselves, but once you introduced the trading book that a lot of -- that the buyer list gets shorter. Is there any way you can sell the assets and -- even the underlying trading contracts assigned to a specific asset maybe to separate parties? Can you just talk a little bit about splitting those two up and targeting different buyers?

Paul Anderson - Duke Energy - Chairman and CEO

You mean sell the assets to different buyers than the book?

Michael Goldenberg - Luminous Management - Analyst

Yes, than the trading book.

Paul Anderson - Duke Energy - Chairman and CEO

Yes, that's what our intent is. To sell them together would require that the buyer of the assets take on the credit requirements of the trading book. And usually you don't necessarily have the same potential buyers for a trading book that you do for assets.

Michael Goldenberg - Luminous Management - Analyst

And the majority of the trading book can easily be split off for specific assets? That would not be an issue?

Paul Anderson - Duke Energy - Chairman and CEO

The majority of it could be separated from the assets, yes.

Michael Goldenberg - Luminous Management - Analyst

Okay. And one more question as far as where the trading contracts are. Are they mostly out in the West or are there a lot out in the Northeast where another party is currently in the process of liquidating their trading book?

Paul Anderson - Duke Energy - Chairman and CEO

The vast majority are in the West.

Michael Goldenberg - Luminous Management - Analyst

Okay, great. Thank you very much.

Operator

We'll now turn to Ashar Khan with SAC Capital.

Ashar Khan - SAC Capital - Analyst

Good morning.

Paul Anderson - Duke Energy - Chairman and CEO

Good morning.

David Hauser - Duke Energy - Group VP and CFO

Good morning.

Ashar Khan - SAC Capital - Analyst

David, I just - I think my numbers might be slightly off. If I take the \$0.05; after tax 47, pre-tax 74, and then I add the \$110 million increase in loss, that would imply \$185 million loss expected from DENA this year, which is slightly north from the \$150 million. Am I doing my math wrong or the loss was coming up to be higher than \$150 for the year?

Paul Anderson - Duke Energy - Chairman and CEO

I think our anticipation is that we probably would have missed the \$150 million target and that is reflected if you do the arithmetic purely, you would come up with closer to \$1.62 for our new target given what's left above the line. And we set the objective at \$1.65 to reflect the fact that we probably would not make our \$150 million bogey for DENA.

Ashar Khan - SAC Capital - Analyst

Okay. My second question is, could you break the NOL's -- what NOL's are you expecting out of this transaction? Could you provide that information?

David Hauser - Duke Energy - Group VP and CFO

I think the simple way to look at it is we expect to utilize all the benefit by the end of '06. I can't break it by year because the tax benefit depends on when the transactions occur. And we don't know which transactions would occur in '05 and which ones would occur in '06.

Ashar Khan - SAC Capital - Analyst

Okay. We might discuss this tomorrow, Paul, but when do you plan to file your proxy for the shareholder meeting?

Paul Anderson - Duke Energy - Chairman and CEO

I don't know if we want to bring that up. Keith Trent is here and he's responsible for filing it and I don't think we actually have a date.

Keith Trent - Duke Energy - General Counsel and Secretary

Sure, I can address that, Paul. We obviously are going through a process with the SEC where we're addressing and discussing with them the S-4 that we filed and can't completely say when that process will be completed. And we will be addressing some of the issues related to the DENA announcement as well. But I would expect that we're going to try as hard as we can to file and complete the S-4 by the end of September.

Ashar Khan - SAC Capital - Analyst

At the end of September?

Keith Trent - Duke Energy - General Counsel and Secretary

And perhaps slide in a little bit to early October, but that's the general range.

Ashar Khan - SAC Capital - Analyst

Okay, okay. I appreciate it. Thank you very much.

Operator

We'll turn now to Zach Schreiber with Duquesne Capital.

Zach Schreiber - Duquesne Capital - Analyst

Hey Paul and David. It's Zach Schreiber at Duquesne.

David Hauser - Duke Energy - Group VP and CFO

Hi Zach.

Paul Anderson - Duke Energy - Chairman and CEO

How are you, Zach?

Zach Schreiber - Duquesne Capital - Analyst

Good, how are you, sir? I have a question in terms of the trading book losses. How much of those losses were really from sort of higher natural gas prices versus how much of those losses were from an expansion of the heat rate, which was a loss on the mark-to-market -- actually implies higher sort of underlying value for the assets and their forward cash flows? Because if I understand, you sold more power than you procured gas, which makes you synthetically short natural gas. So I imagine higher natural gas prices hurts. But also, if spark spreads widen, then that would hurt that contract but it could imply a higher value for the assets. Do you see what I'm saying?

David Hauser - Duke Energy - Group VP and CFO

Yes, but the way we're looking at it is we have sold a lot of power forward. That power is now below today's forward curve. Thus you have the loss on power. We've actually bought a lot of gas and basically the book is balanced at 7,000 heat rate and that gas is now well in the money. The net of the two is the loss. A lot of that loss has occurred and has built up over time as opposed to at this point in time.

Zach Schreiber - Duquesne Capital - Analyst

I guess what I'm trying to understand is whether - I mean, it seems clear to me that the notional units of energy that you sold was greater than the notional units of energy that you procured on the cost of goods sold side. Is that true?

David Hauser - Duke Energy - Group VP and CFO

In the early days we were short gas but we've balanced between gas and electricity. In the early days, I'm talking a couple of years ago. The two have just moved and that's the number that falls out. But at this point in time we are thermally balanced at a 7,000 heat rate.

Zach Schreiber - Duquesne Capital - Analyst

Okay. And then in terms of cash, how much cash do you guys have on your balance sheet now?

David Hauser - Duke Energy - Group VP and CFO

The number we had at the end of the second quarter was roughly \$2 billion and we have plenty of liquidity to deal with this if we end up exiting the trading before we get cash from the assets.

Zach Schreiber - Duquesne Capital - Analyst

Looking at DENA and then the cash or sources and uses and recognizing your point on timing, I mean it would seem that the cash from the transaction should be substantially greater than \$500 million. Are there other kinds of contingencies having it flowing through this mark-to-market that you're thinking about that are not sort of evident to us that we ought to be thinking about to kind of bring our sort of net cash realized down to where your number is? What other kinds of contingencies are there and clearly folks are -- we're sort of missing something, right?

David Hauser - Duke Energy - Group VP and CFO

Well, the number will be north of \$500 million and we haven't elaborated on how far north. But there will be certain transaction costs associated with this deal and we're not able to quantify that at this point. So that's the contingency, if you will, that you're not thinking about maybe.

Paul Anderson - Duke Energy - Chairman and CEO

But if we don't get more than \$500 million, Jim Mogg will be very disappointed.

Jim Mogg - Duke Energy - Group VP and Chief Development Officer

That is correct.

Zach Schreiber - Duquesne Capital - Analyst

Is there any way to frame it? Is it \$500 million to \$1 billion?

David Hauser - Duke Energy - Group VP and CFO

Our lawyers and accountants say that we should not be trying to frame it more than that because we cannot estimate it closer than that.

Zach Schreiber - Duquesne Capital - Analyst

I got it. I have a question for Paul on the last comment in the press release on consolidation. There appears to be an evolving view of consolidation. Just wondering if you can talk to us, foreshadow a little bit, what we're talking about tomorrow in terms of consolidation. Is there more on the regulated side with the repeal of PUHCA and now with DENA being of more of a regional merchant, is that the ongoing focus?

Paul Anderson - Duke Energy - Chairman and CEO

Yes. I don't want to take the steam out of tomorrow's meeting because we think it's going to be a fun and exciting meeting, but I would just say in general we are getting more excited about the opportunities that the merger with Cinergy is going to provide and what's going to come out of building a new platform for an industry that we believe is going to go through consolidation on the regulated side, as well as the unregulated side. And that's part of our rationale here is we see some opportunities out there, we're excited about where we can go and we want to start focusing on that as opposed to focusing on fixing legacy positions at DENA.

Operator

We'll take our next question from Karen Taylor with BMO Nesbitt Burns.

Karen Taylor - BMO Nesbitt Burns - Analyst

Thank you. I just have a clarification question I think that's more for David. On Slide 5 in the second note you talked about an impact to equity of \$1.6 billion, as hedges are already included in equity. Can you just explain for me what that means in full and where the \$1.6 billion comes from?

David Hauser - Duke Energy - Group VP and CFO

The natural gas is cash flow hedges, so you mark those to market through other comprehensive income. So they've already -- that gain has been recognized in equity. So when you net all this, effectively the equity hit is bigger than the net income hit.

Karen Taylor - BMO Nesbitt Burns - Analyst

Perfect. Thank you.

Operator

And we'll turn now to Carl Seligson with K Road Management, LLC

Carl Seligson - K Road Management, LLC- Analyst

Yes, thank you. Good morning. I'm trying to put a few things together that I heard this morning and it relates to the fact that you mentioned that you might try to go to the 10 parties that you know are interested possible purchasers of these assets or you might offer them as a package or whatever. And I wondered whether you'd had any indications from anyone yet expressing a direct interest in any of the properties and how you came to a decision as to what the size of the write-down at this point would be without knowing what the assets might sell for?

David Hauser - Duke Energy - Group VP and CFO

In terms of the size of the write-down, the process that you go through there is you take the collective knowledge of the group and the group would include investment bankers that we had talked to about that, so that's how you come up with a number that you write down to. And, as you would guess, you're allowed to write assets down. You're not allowed to write assets up. That is the way you would come up with the number.

Specifically as to the 10, we have had a lot of interest from people interested in the assets. They've been balking at the book, as has already been talked about, the size of the book. We're very encouraged with those discussions. And we think by taking this action that we're now in a position to move forward on the assets.

Paul Anderson - Duke Energy - Chairman and CEO

I guess I'd just say in general we're not going to talk too much about how we're going to go about selling the assets, who we're going to talk to, what we might do because it puts a tremendous burden on Jim and his folks if we talk through the process in a public arena and everybody who's a potential buyer has an opportunity to listen in on these calls.

Carl Seligson - K Road Management, LLC- Analyst

I understand that. Have you hired a financial advisor and do you intend to have a data room?

David Hauser - Duke Energy - Group VP and CFO

We have a data room that's already up because of the other work that we've been doing and I would anticipate that we will employ a financial advisor as we go forward.

Carl Seligson - K Road Management, LLC- Analyst

Thank you very much.

Operator

Unfortunately, that is all the time we have for questions today. At this time, I'd like to turn the call back to Ms. Dill for any additional or closing remarks.

Julie Dill - Duke Energy - VP of Investor & Shareholder Relations

I want to thank everyone for joining us today. And a reminder, as always, the IR team here is always available for your questions. For those of you coming to Charlotte tomorrow, please travel safely and we'll see you then. Thank you very much.

Operator

With that, we will conclude today's conference. Thank you, everyone, for your participation.