



Conference Call Transcript

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PRESENTATION

Operator

Welcome to the Duke Energy third-quarter earnings 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, Sean Trauschke. Please go ahead sir.

Sean Trauschke - Duke Energy Corporation - Vice President of Investor Relations

Good morning, and welcome to Duke Energy's third quarter 2007 earnings review. Leading our discussion today are Jim Rogers, Chairman, President and Chief Executive Officer, and David Hauser, Group Executive and Chief Financial Officer. Jim will begin today's presentation by providing a general overview of our results, then David will provide more detail and context around our company's results and those of each of our businesses. Jim will close with a discussion of our outlook for the remainder of 2007 and beyond. Following those prepared remarks we'll open the lines for your questions.

Before we begin, 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 the 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 to the most directly comparable GAAP measures is available on our Investor Relations website at www.duke-energy.com.

With that, I'll turn the call over to Jim.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Thank you, Sean. Good morning everyone, and thank you all for joining us today. Most importantly thanks for your interest and investment in Duke Energy.

We had a strong third quarter. As we said in our news release this morning, we reported ongoing diluted earnings per share of \$.48 for the third quarter of 2007 versus \$.29 in the third quarter last year. This reflects an improvement of approximately 21% in combined segment EBIT from our three major business segments, US Franchised Electric and Gas, Commercial Power, and Duke Energy International. These strong results were partially offset by lower contribution from Crescent Resources. As you all may recall, most of last year's third quarter included Crescent as a wholly owned sub rather than an effective 50/50 joint venture..

Our quarterly results also reflect the efforts of employees in the Carolinas and the Midwest, who met our customer's record demand for power in both regions with superior operational performance. They worked around-the-clock to keep our generation, transmission and distribution infrastructure performing at peak efficiency. I appreciate their dedication and hard work, without them this performance would not have been possible.

Based on these results, we expect our annual earnings to finish well above our 2007 employee incentive target of \$1.15 on an ongoing diluted EPS basis.

We are pleased with our third quarter results. We are also pleased with the progress we continue to make in our businesses, increasing sales, controlling our costs and advancing our legislative and regulatory initiatives.

David is going to give you more detail around the quarter's results, after that I'll provide updates on the five year plan we presented to you at our September 11th analyst's meeting, particularly our legislative and regulatory initiatives to recover the significant investments in our infrastructure we plan to make over the next five years.

With that, let me turn it over to David.

David Hauser - Duke Energy Corporation - CFO

Thank you, Jim.

As Jim noted Duke Energy reported ongoing diluted earnings per share for third-quarter 2007 of \$.48 versus \$.29 in third quarter 2006. The \$.29 excludes the results of the natural gas businesses which were spun off as Spectra Energy in January 2007, and which are now included in discontinued operations.

Now I'll begin reviewing our business segment results. I'll start with our largest business segment, U.S. Franchised Electric and Gas. The segment reported third-quarter 2007 EBIT from continuing operations of \$760 million an increase of \$82 million when compared to last year's third quarter. The year-over-year improvement in segment EBIT was driven by favorable weather conditions, the completion last quarter of merger-related rate reductions, and increased wholesale volumes. These drivers were partially offset by higher operation and maintenance costs, lower weather normalized sales volumes, and increased clean air amortization.

First let me put the favorable weather in perspective. In the Carolinas, the number of cooling degree days was the highest ever recorded in both August and September. In the Midwest, it was the hottest August on record in Cincinnati and the third hottest on record in Indianapolis. The month of September ranked within the top 10 in both of those cities. Overall, the EBIT contribution from weather was about \$100 million.

As we discussed in last quarter's call, the merger-related rate reductions ended in the second quarter of this year except for a small amount that we will continue to share with our customers in Kentucky over the next five years. Additionally, long-term contracts effective in early 2007 drove the increase in wholesale volumes, primarily in Indiana.

These positive drivers were partially offset by higher operation and maintenance costs. The rise in operation and maintenance costs is actually a reflection of how well we are doing this year. The increase is primarily driven by the impact of increasing the accrual of our anticipated Short-Term Incentive Plan payout to reflect above target results. I think you will agree this is a good thing as the plans incentive is based on Duke Energy's ongoing earnings per share for 2007. If it had not been for the additional incentive plan accrual, O&M costs would have been flat.

After normalizing for the strong summer weather, sales volumes were down modestly for the quarter, particularly related to textile customers in the Carolinas. While we added 62,000 new customers for all of FE&G, we were affected by general market conditions such as the softening in the home building industry as well as related industries.

Also partially offsetting these increases was regulatory amortization expense for North Carolina's Clean Air Program of approximately \$75 million for the quarter compared to approximately \$63 million during the same quarter in 2006. The good news is, that we have now met our amortization obligation under the Clean Air legislation. As I mentioned earlier, regional growth continued to add to the total customer base in the third quarter 2007. Approximately 46,000 new customers were added in the Carolinas since the third quarter 2006, a 2% increase. Approximately 16,000 new customers were added in the Midwest in the same time period, a 1% increase.

For the quarter, the EBIT contribution from bulk power marketing was approximately \$12 million, net of the impact of the sharing of profit with industrial customers. Next, I'll review Commercial Power. For the quarter, Commercial Power reported segment EBIT of \$121 million from continuing operations compared to \$57 million of segment EBIT in the third quarter 2006. The segment's improved EBIT was driven by higher retail margins resulting mainly from the timing of the recovery of fuel and purchased power costs, higher overall prices and favorable weather.

We continue to be pleased with the improving performance of our Midwest gas-fired generation assets. For the quarter, those assets contributed positive EBIT to the segment. The improved results for the quarter were driven by record generation volumes and higher revenues from capacity and tolling agreements.

In fact, there was a 50% increase in the generation volumes quarter-over-quarter. We don't expect this every quarter, but we do think that it highlights the tightening capacity market in PJM.

Last month we participated in the PJM capacity auction for the 2009, 2010 planning year with 2,600 megawatts. The weighted average capacity price for the 2600 megawatts sold in the auction is \$118 per megawatt day. The quarter's positive drivers were partially offset by costs related to high production levels at our synfuel facilities. The expense for running the synfuel facilities is included in Commercial Power, but of course the tax credit, which more than offsets the expense, is in income taxes. The year-to-date impact of synfuel operations on earnings is about \$.04. If crude oil prices remain in their current mid- \$90 range, the phase out for the year would be about 65% which would result in reversing \$.01 to \$.02 of this benefit in the fourth quarter.

Finally, for the third quarter, Commercial Power EBIT included \$5 million of mark-to-market gains on economic hedges. Consistent with Duke's past practices, we consider any mark-to-market impact as part of ongoing earnings.

Now let's turn to International business. For the third quarter of 2007, Duke Energy International recorded segment EBIT from continuing operations of approximately \$92 million, an increase of \$24 million when compared to last year's third quarter.

DEI's improved results for the quarter were driven mostly by higher pricing in Latin America, particularly in Peru, where power demand in northern Peru resulted in higher prices when compared to last year. The positive driver was partially offset by lower sales volumes in Argentina due to drought conditions in that country.

DEI is developing two small hydroelectric power plants in Brazil with a combined installed capacity of 32.5 megawatts. The total investment is approximately \$100 million over a three-year period. This investment demonstrates our commitment to a measured approach toward expansion in this segment using internally generated cash flows.

Next up is Crescent Resources.

Ongoing results for this segment were down from \$54 million in the third quarter of 2006 to \$10 million in third quarter 2007. The lower current year results reflect the September 2006 change from 100% ownership to an effective 50/50 joint venture.

Reduced residential developed lot sales and legacy land sales also contributed to the segments lower results. You should note that third quarter 2006 ongoing results excluded a \$246 million pretax gain related to the creation of joint venture partnership with Morgan Stanley's Real Estate Fund.

Next I'll review our Other category. While it is not considered a business segment, Other primarily includes costs associated with corporate governance, and Duke Energy's captive insurance company, Bison Insurance Company Limited.

For the third quarter of 2007, Other reported an ongoing net expense from continuing operations of \$49 million compared to \$132 million in the prior year's quarter. The reduction was primarily due to lower costs related to captive insurance and our focus on driving down corporate costs.

Last year we recorded a charge of \$58 million related to our interest in a mutual insurance company which had ceased writing business and was in the process of settling all claims.

Now I would like to go through a few other important financial items. At the end of the third quarter, we had a net cash balance of approximately \$1.1 billion. Approximately \$1.6 billion of cash, cash equivalents and short-term investments, offset by approximately \$500 million of short-term commercial paper outstanding.

Interest Income and Other was \$73 million for the quarter compared to \$21 million in the third quarter of 2006. The increase was primarily due to interest income related to an anticipated federal tax settlement. Interest expense from continuing operations was relatively flat over last year. For the third quarter of 2007, it is \$178 million compared to \$182 million for the third quarter 2006.

Income tax expense from continuing operations for the third quarter of 2007 was \$223 million compared to \$310 million in the third quarter of 2006. And the effective tax rate for the third quarter of 2007 was approximately 27% compared to approximately 39% during the same period in 2006. The lower effective tax rate in 2007 was primarily due to synfuel production. The third quarter effective tax rate reflects the recognition of approximately \$66 million of synfuel credits. We still expect the effective tax rate for 2007 to be approximately 27% including the effect of the synfuel tax credits.

With that, I'll turn it back to Jim.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Thank you, David.

Let me start with a snapshot of the five-year outlook that my team gave you during our analyst meeting in September.

We expect 5 to 7% ongoing diluted EPS growth through 2012 from the 2007 base of \$1.15 our employee incentive target.

We plan to spend approximately \$23 billion over the next five years, nearly \$19 billion of this capital is supporting our Franchised Electric and Gas business segment. Almost 25% of this capital will go towards new coal, IGCC, Gas and renewable generation resources to meet our customer's growing demand. That system growth is also driving our proactive legislative and regulatory strategy which will be my focus for the next few minutes.

This slide reflects our current regulatory agenda. It shows you, at a glance, the progress we're making on these initiatives. As you can see, comprehensive energy legislation has been signed into law in both North and South Carolina. Now let me spend a few moments talking in more detail about some of these other items.

The first item on the list is the North Carolina rate review. You'll recall that in June, Duke Energy Carolinas filed with the North Carolina Commission to increase its electric rates by 3.6% effective January 1, 2008.

As we often do, we worked with the public staff and industrial customer groups to achieve a proposed partial settlement which we filed last month with the Commission. If approved the partial settlement will reduce overall customer rates without significantly impacting current earning levels. This is due to a corresponding downward adjustment to the amortization of Clean Air expenditures.

It also permits us to include our remaining Clean Air expenditures of over \$800 million in rate base in the future. These expenditures will be made in 2008 through 2010.

The proposed agreement gives us an 11% return on equity with a 53% equity component, which translates to an overall rate of return of approximately 8.6%.

We've also agreed to share 90% of profits from bulk power marketing sales with customers as opposed to the current 50/50 sharing arrangement. Hearings were held last month on this and other issues. We are complying with a data request from those hearings and would expect a Commission order on the settlement in the unresolved issues later this year.

Next is Ohio. Our view is that legislation, clarifying the post-2008 market framework in Ohio, is both appropriate and necessary. We continue to focus our efforts on the recently passed Senate Bill 221 which we believe provides a workable framework for the development of new technologies, the building of new generation, environmental improvement, as well as energy efficiency. However, the initial proposed legislation provided little guidance to the Ohio Commission.

In response, many suggestions offered last week by Ohio's electric utilities and other stakeholders in the state, the Commission's role was more clearly defined. We believe this is a more balanced approach that gives the Commission the necessary authority though assure long-term price stability and to stimulate investments in energy infrastructure while preserving customer choice. The bill was recently unanimously passed by the Senate and now moves to the House for consideration. We are working aggressively to see the amended bill enacted as quickly as possible. There is more work that needs to be done with respect to this bill and we believe that will happen in the House process. We expect enactment by the end of the first quarter next year.

One more note on the Ohio front. Last week you saw that the Ohio Commission affirmed our 2004 rate stabilization plan which had been remanded by the Ohio Supreme Court to the Commission for further consideration of two specific issues.

Not only does the Commission's ruling provide for continuation of the existing rate structure, but it also approves recovery of rate components reflecting the cost of new pollution control equipment on Duke Energy Ohio generating stations and capacity cost associated with power purchase contracts to meet customer demand.

You heard David mention the positive EBIT contribution of our Midwest gas fleet to our third quarter earnings. With a continuing tightening of the Midwest power markets, especially in the western PJM region, our Midwest gas plants are becoming more valuable. So much so that we're increasingly indifferent economically as to whether these assets are dedicated to native load customers under a rate stabilization plan, or are dedicated to pure market-based sales.

Before I update you on our plans to meet our customer's increasing demand for electricity, let me first update you on the exceptional drought we are experiencing in the Southeastern part of the United States and the Carolinas. In fact, today in *USAToday*, there was a story that talked about the acuteness of this drought. Clearly the acute shortage of rainfall in the past several months has created an increasingly serious situation for water users in our region. The good news for Duke Energy is that a significant portion of our generation in the Carolinas is located on two lake systems, the Catawba-Wateree and the Keowee-Toxaway, that include a network of dams and reservoirs that we operate to maintain adequate water supplies throughout the region.

Working with our customers and other water users, particularly in the Catawba-Wateree River Basin we have seen water conservation efforts mitigate somewhat the impact on the drought on useable water storage levels. The significance and the importance of these assets to our region can be best seen, and I say this through the eyes of someone who has just learned about this system over the last year and a half, of comparing it to what's going on in Georgia with Lake Lanier and other regions. This system is a very valuable asset.

Assuming rainfall even approaches more normal levels than we have seen in the past several months, we should be able to manage through the summer of 2008 without any disruption to our electric customers. Water conservation remains a key. Our overriding priority is reliability, so the next several weeks are critical in our contingency planning to conserve water in the rivers and lakes for essential uses. Meanwhile, we thank everyone in the region for continuing to conserve water until normal rainfall returns.

Now an update on our efforts to modernize and expand our generation fleet.

We continue to move ahead on our plan to build a new unit at our Cliffside Steam Station in North Carolina. The comment period on the air permit ended Wednesday, so we expect the permit to be issued by the end of this year. Issuance of the air permit is the last regulatory hurdle we need to clear before beginning construction of the plant.

In Indiana, we expect the Commission to issue an order by year-end approving the need and associated rate-making treatment for our proposed 630 megawatt IGCC plant at Edwardsport. We expect an air permit for the project to be issued in the first quarter of 2008 with construction beginning shortly thereafter.

We plan to file our Integrated Resource Plan with the North and South Carolina Commissions in December. We believe our IRP will show a growing need for the Lee Nuclear Station and the positive impact it will have on the communities we serve in the Carolinas.

Because our resource plan is showing a need for the Lee plant, we have continued to prepare to seek all necessary regulatory approvals for the plant. We're on track to file, yet this year, our application with a Nuclear Regulatory Commission for a combined construction and operating license for Lee.

We are also planning to file a Certificate of Public Convenience and Necessity in South Carolina in 2008. These actions are necessary steps as we continue to pursue the option of building the new plant.

As we have said before, we won't make any significant commitments on equipment, labor or materials until we have secured all necessary and appropriate regulatory approvals.

Also this year we will file CPCN applications to build two 600 to 800 megawatt combined-cycle natural gas power plants in North Carolina. One at our Bucks Steam Station by 2010 and other at our Dan River Steam Station by 2011.

Renewable power is also a growing component of supply portfolio. Last month in Indiana we issued an RFP for up to 200 megawatts of renewable energy by 2011. This is in addition to the renewable RFP Duke Energy Carolinas issues in April. We received several economically viable options from that RFP and will decide soon which to pursue.

We are also making good progress on increasing the role energy efficiency will have in meeting our customers' future energy needs. Last month we filed our save-a-watt plans in South Carolina and Indiana. Indiana is a state where we already have extensive demand side management programs and our Energy Efficiency filing expands those ten fold. You will recall that we filed our save-a-watt plan last spring in North Carolina and we expanded our current energy efficiency offerings in both Kentucky and Ohio.

At the federal level, our focus continues to be on climate change legislation that is moving through the Senate. In our view a viable bill must have four key components.

First -- It should control greenhouse gas emissions through an economy-wide market-based cap and trade program that utilizes a safety valve price mechanism.

Second -- It should support the development, demonstration and deployment of new technologies that will enable the nation to reduce greenhouse gas emissions over the long-term.

Third -- It should remove barriers to the deployment of zero-emission nuclear energy.

And fourth -- A fair allocation of allowances should be made to consumers who rely on coal during the transition period to when we can deploy new technologies to capture and store carbon.

While the recently introduced Lieberman Warner Bill has cap and trade, we don't think it adequately protects the economies and the customers of the 25 states that produce more than 50% of their electricity from coal. This is primarily due to the bill's provision for higher allowances. We will continue to work with the two senators and their counterparts on the Environment and Public Works Committee to develop effective and economically sustainable climate change legislation and with fairly allocated emission credits.

Now I'd also like to give you a quick update on our commercial businesses. You heard David talk about the strong quarterly performance in the Commercial Power and International Energy segments to our third quarter earnings. This is further evidence of how the value of these assets has improved even since our analyst conference in September.

As we told you in September, we expect our Commercial Power, Duke Energy International and Crescent segments to grow ongoing EBIT at a combined 8 to 10% on a compounded annual growth rate basis through 2012, and that's off of a 2008 base.

In our International business in Latin America, the economic trends continue to dramatically improve. As a result, we are investing, as David mentioned, in high quality generation projects, including the two Brazilian hydro plants.

In September we told you Duke Energy International could invest up to \$1 billion of growth capital through 2012.

Finally, as you know, earlier this year we purchased 1,000 megawatts of wind assets under development in the West and Southwest United States. We committed \$430 million to the first three projects, or 240 megawatts in this portfolio and we expect to break ground on the first project in Texas this year. I believe we've given you all a good sense of the many steps we've made in the third quarter and for the year. When you add them up, we continue to make progress toward our goals including maintaining a strong financial position.

We're very focused on our operations, on controlling our costs and earning fair returns for our investors. Our current dividend yield is approximately 4.6% and we expect even stronger earnings growth in the future. We believe this is a great value proposition for our investors.

With that, let's open the lines so that David and I can take y'all's questions.

QUESTION AND ANSWER

Operator

Certainly. (OPERATOR INSTRUCTIONS) We'll take our first question from Dan Eggers with Credit Suisse.

Dan Eggers - Credit Suisse - Analyst

Good morning. First question is on Ohio. You thought there was more work to be done with House legislation. Can you just give us a run-down on what you think still needs to be added to get Ohio where it needs to be.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Well I'm going to be, Dan, circumspect, with respect to this, because we're in that, negotiating discussion, working through the solutions phase, now that it's out of the Senate, into the House, and we're working with the various stakeholders in the state to get greater clarity with respect. I think one of the areas that needs to be defined in a clearer way is with respect to the Commission's ability to allow us to go to market in the whole process of the renegotiation and how that'll work going forward. So there's work that needs to get done there.

It is unclear whether a utility, for instance, can recover capacity costs not associated with planning reserves. And there's a need to get clarity with respect to that provision.

And I probably could give you six or seven other areas, but I think it would be more prudent from my standpoint and for our ultimate success to leave that to those on the ground in Ohio to work through the details of this going forward, but on balance, this, the Senate did a good job of taking the Governor's proposal and shaping it in a way that's allowing us to move forward and the next step is the House. They set a clear procedural schedule, they seem committed to dealing with it and I think we're all confident that with a little good luck and some further refinement we can get legislation that makes sense.

Dan Eggers - Credit Suisse - Analyst

Fair enough. On the coal plant progress for development, I know you guys are making good progress as far as permits are concerned, are you running into any resistance even with the progress around building these plants given opposition elsewhere in the country both on conventional pulverizers as well as the IGCC front?

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

I think there is a full-court press by environmentalists throughout the country to block the building of any new coal plant and they're seizing on anything they can find that would throw up a roadblock to the building of new coal plants in this country. And I think that's across the country. And there's no place that that's an exception.

But as we look between now and 2030 in the United States where we need a 40% growth, we will experience a 40% growth in demand, we need to add additional generation. We've worked hard to put a lot of effort into investments in energy efficiency as well as investments in renewables. And renewables are quite frankly a little higher priced than coal generation. But we're working very hard to make sure we're maximizing those in support of our need to build both coal and nuclear. So more to come on all that.

By the way, our plant in Indiana, when that is completed, will be the most efficient coal plant in the United States and we have plans working with both EPRI as well as the Department of Energy to develop a carbon capture and sequestration project there that will ultimately, if we can get the details worked out, offer hope with respect to using coal in the future and capturing the carbon that is a consequence of the burning of the coal.

Dan Eggers - Credit Suisse - Analyst

Okay, I guess one last one, Jim, you talked about success in water conservation with the current drought conditions, but obviously some pretty sizable water consuming generation being proposed in the region by you guys as part of your generation plan. Any thoughts on reconsideration of what might get built just to manage some of the resource considerations?

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

I think given the timeline, adding additional generation now to deal with the issue over the next year or two is just not doable. But we are doing some things that will make a difference. We're, and let me give you just one example of that.

We're adding new piping and valves to a back-up system, it's one of a multiple back-up systems at our McGuire Nuclear Station which will allow the plant to operate at lower lake levels. We expect this work to be completed by early 2008. Cost of this work is part of normal operating costs and the power plants in the basin generate about 9000 megawatts of electricity to serve our customers needs.

So that's just one example of things we are doing. We are looking around the region to make sure there's adequate back-up power going forward, but our current expectation, and remember for us, job one is reliability. Our current expectation is if we, if we get close to normal rainfall we're going to have no problem meeting the demands on our system through next summer.

Dan Eggers - Credit Suisse - Analyst

Got it, thank you.

Operator

We'll take our next question from Paul Patterson with Glenrock Associates.

Paul Patterson - Glenrock Associates - Analyst

Good morning, guys.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Paul, welcome.

Paul Patterson - Glenrock Associates - Analyst

Just to sort of follow-up on Dan's question on Ohio, I know you need to be circumspect and that there are a lot of different issues you're dealing with, but it sounds like, if I understood your comment correctly, I guess the single biggest issue is the discretion that PUCO has in terms of determining whether or not you go to market, is that fair to say?

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

I think that's one of the key issues, I think the other key issue is, how do you establish the value of the deregulated generation. I think on that specific, what I call the deregulated generation that has been dedicated under an RSP that has kind of been a concern.

The Senate addressed that in a way, in a clear way, but there's more work that needs to get done in other provisions, and like all legislation, you really have to look at all the pieces and make sure they're internally consistent. And as we work through this, we want to make sure they all tie together and don't leave any kind of gap that would create appeals in the future. But we're comfortable that they, addressed the issue of that valuation going forward, but there are some other issues that are critical to be addressed, but more work to do on that.

But on balance, we're moving in the right direction. And I think that's the important point.

Paul Patterson - Glenrock Associates - Analyst

Okay, you guys feel pretty confident about getting it done in early 2008?

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Well, you can never predict.

Paul Patterson - Glenrock Associates - Analyst

Right. Sure.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Legislative processes, I'll tell you that, but I think what's important to me is the Senate unanimously voted out the bill. That doesn't happen very often. And that says that they believe there's a sense of urgency here to act and move forward. The House immediately set a schedule that, to me indicates that they will be finished in January, we used the date the first quarter because we know how these things slip in the process, in terms of our own expectations. But I think there is a recognition within the state that we need to address this immediately, because the rate stabilization plans end, at the end of '08, and they also recognize the closer we get to the presidential election, the harder it will be to work through something that makes sense.

So, to me, the fact that the House has set such a tight schedule says we get it done in the first quarter and it gives us enough time to have a seamless transition to '09, and that is really critical to maintaining reliability to our customers in Ohio.

Paul Patterson - Glenrock Associates - Analyst

Okay, great. Thanks a lot.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Thank you.

Operator

We'll hear next from Steve Fleishman with Catapult.

Steve Fleishman - Catapult Partners - Analyst

Hi, Jim.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Steve, welcome.

Steve Fleishman - Catapult Partners - Analyst

Hi. On your commentary on the DENA assets, would you say that you're, may even be on track to meet the break even by '09 for those or even kind of ahead of that?

David Hauser - Duke Energy Corporation - CFO

This is David, initially we had said that they would, initially we said they'd lose \$60 million this year, then we updated that to \$30 million and I think we're in good shape to meet or improve on that. And we haven't changed our '09 guidance of being at break even in '09 at this point.

Steve Fleishman - Catapult Partners - Analyst

Okay. And then, how much was the O&M increase at the utility you talked about related to primarily the incentive comp?

David Hauser - Duke Energy Corporation - CFO

For just the utility that was \$36 million.

Steve Fleishman - Catapult Partners - Analyst

Okay.

David Hauser - Duke Energy Corporation - CFO

For the total company, that was \$51 million.

Steve Fleishman - Catapult Partners - Analyst

Okay. And then, finally, is there any more specific timeline on when the Indiana Commission will rule?

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

I was in Indiana just this week and based on briefings there, the thought is it'll probably be more like late November, early December.

Steve Fleishman - Catapult Partners - Analyst

Okay, thank you.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Thank you, Steve.

Operator

We'll take our next question from Jonathan Arnold with Merrill Lynch.

Jonathan Arnold - Merrill Lynch - Analyst

Good morning.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Welcome.

Jonathan Arnold - Merrill Lynch - Analyst

Couple of quick questions. You mentioned I think \$100 million of weather in the utility. I just want to be sure that is versus normal.

David Hauser - Duke Energy Corporation - CFO

That is \$100 million versus normal in the utility.

[Editors Note: Recall that 3Q06 was considered a relatively normal weather quarter. Therefore, the 3Q07 variance to 3Q06 and the 3Q07 variance to normal weather is approximately the same.]

David Hauser - Duke Energy Corporation - Group Executive, CFO

Jonathan Arnold - Merrill Lynch - Analyst

Where are you David, year-to-date on weather in the utility?

David Hauser - Duke Energy Corporation - CFO

Year-to-date.. I tell you what, let us dig that number out and we'll tell you that in a minute.

Jonathan Arnold - Merrill Lynch - Analyst

A slightly related one, to what extent could you put, is it possible to put a figure on how much weather versus normal may have benefited Commercial Power, and to what extent that is causing you to track and to what extent towards the market?

David Hauser - Duke Energy Corporation - CFO

Our estimate is that's about \$10 million of benefit in Commercial Power in the third quarter versus normal.

[Editors Note: Recall that 3Q06 was considered a relatively normal weather quarter. Therefore the 3Q07 variance to 3Q06 and the 3Q07 variance to normal weather is approximately the same.]

Jonathon Jonathan Arnold - Merrill Lynch - Analyst

Okay.

David Hauser - Duke Energy Corporation - CFO

And of course, keep in mind that all of this weather would be offset by the increase in the incentive accrual that occurred because of the higher earnings that we're experiencing.

Jonathan Arnold - Merrill Lynch - Analyst

Right.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Jonathan, I would add to David's answer by saying that, and that's why we've, almost at the point of economic indifference, we see the supply demand balance tightening fast in PJM West and as capacity markets develop there, we really see the potential for improvements there coming fast. And so, I think it's not just whether, and it is in the short-term, but I think there's an underlying fundamental at work here that's, that will translate into greater value from those assets.

Jonathan Arnold - Merrill Lynch - Analyst

Great.

David Hauser - Duke Energy Corporation - CFO

Let me circle-back to your first question. We pulled that up. The weather for the year-to-date versus last year, versus, yes, versus the prior year is about \$190 million.

Jonathan Arnold - Merrill Lynch - Analyst

\$190?

David Hauser - Duke Energy Corporation - CFO

Yes, versus the prior year.

Jonathan Arnold - Merrill Lynch - Analyst

Could you, and the incentive comp accruals you gave of \$36 million and \$51 million, do they have, are they higher year-to-date numbers or was that just an accrual you made in the third quarter that relates to the year?

David Hauser - Duke Energy Corporation - CFO

It is basically a third quarter accrual. Because that is when we reached the conclusion we'd be above target on the incentive.

Jonathan Arnold - Merrill Lynch - Analyst

Okay, so the whole of the above target element is captured in that \$51 million?

David Hauser - Duke Energy Corporation - CFO

Yes, in other words, that's nine months worth of the above target, but it was all booked in the third quarter.

Jonathan Arnold - Merrill Lynch - Analyst

Okay, and if I could, just one other quick thing. You mentioned you would have to reverse out \$.01 or \$.02 of the synfuels year-to-date in the fourth quarter if oil prices stay where they are. Why would you not have to accrued that now, if that's where the oil forwards are?

David Hauser - Duke Energy Corporation - CFO

We closed the books September 30th and the phase out at September 30th was 50%. As oil prices have moved around since then, we did not go reopen the books and remark to market.

Jonathan Arnold - Merrill Lynch - Analyst

Thank you very much.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Jonathan, thank you so much

Operator

Next from Goldman Sachs, we'll hear from Michael Lapidès.

Michael Lapidès - Goldman Sachs - Analyst

Hey guys, Michael Lapidès here. Quick question on Indiana regarding Edwardsport. Can you provide some commentary on some of the political push-back and discussions that are occurring regarding approval or potential approval of the plant and the role of various political figures in terms of discussing it with the Commission?

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

We have experienced strong support in Indiana across the board. What I mean by that is, at the local level, at the state level, as well as at the federal level, as you may know, we have more than \$400 million of tax credits and incentives that came out of -- from DOE, from the state legislature and from local communities, so they not only supported vocally, but they have supported the building of this plan in a financial way.

There was recently a hearing down in Bloomington, Ind. and the overwhelming group that were there were in support, they actually bussed down from Edwardsport. People got together, went down there and made it clear it was critical to the success of their community that this plant gets built because on a local level, this is a plant that will provide great tax base to fund their schools, it will also provide jobs. And from an

environmental standpoint, it will allow us to put in place the most efficient coal plant in the United States, and we're building it on brown fill site and a 50-year-old plant will not operate as a consequence of replacing it with this new plant.

And we've gotten support from environmental groups in the state because we are committed to doing a carbon capture and sequestration project there. And if you remember the MIT study, the MIT study made it very clear that if we're going to be able to use coal in the future, we need to have some major carbon capture projects developed over the next five to ten years. This will be the first commercial coal gasification plant built in the United States. The geology in Indiana is almost perfect for carbon capture, I mean sequestration, so we are working to develop that.

So we've got state and local support, federal support, we have the major environmental groups support, we still have some groups that oppose it because they oppose all coal plants. But on balance, we think across the state there is strong support for building of this plant at every level.

Michael Lapidès - Goldman Sachs - Analyst

Got it, thank you, much appreciated. Where do you think this heads in terms of cash returns during construction and whether the project ROE will differ from the current normalized ROE at your Indiana utility, at PSI?

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

That's really a good question and I'm trying to think how to answer this and I guess the way I would say is that we've asked for an incentive ROE with respect to this and that will be a judgment that will be made by the Commission with respect to that. In Indiana we have CWIP so we're allowed to get cash as we go, as we build, and the way the proposed order is written, is that when they approve the need for the plant, they approve the mechanism that allows us to recover the cash during the construction. So, that approval will give us both the ability to build and the ability to recover as we go. And that will, we're totally confident of that because that's exactly the way the law works once the certificate is granted. It will be the Commission's judgment with respect to what the ROE is, it'll either be the current ROE or the incentive ROE, but that would be a judgment that they will make.

Michael Lapidès - Goldman Sachs - Analyst

Okay, thank you. Much appreciated guys.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Thank you

Operator

We'll take our next question from Ashar Khan with SAC.

Ashar Khan - SAC Capital - Analyst

Good Morning. David, I just want to understand, if I have my math right, you earned \$.31 in the last quarter of, fourth quarter for the Duke Energy Company, and according to your tables, you're at \$1.03, \$1.04. So if we match last year's results, we should be at like in the \$1.35 range. And is that, and then what you're also saying if I heard that majority of the gain from the weather has been cancelled by the compensation hit. So I guess there's growth in earnings from that level onwards in '08. Could you, could you, are any of my assumptions wrong?

David Hauser - Duke Energy Corporation - CFO

Yes. Let me just go through them a little bit. If you look at last year, we made about \$.23 in the fourth quarter when you strip out Spectra and all that.

[Editor's Note: The actual ongoing recast diluted EPS amount for fourth quarter 2006 is \$.24.]

Ashar Khan - SAC Capital - Analyst

Okay.

David Hauser - Duke Energy Corporation - CFO

So that would be one significant difference. Let, then if I look at the weather discussion, we had about \$100 million in Franchised Electric and about \$10 million in the Commercial. So about \$110 million total offset by about \$51 million increase in the incentives. So you still had \$50 to \$60 million net benefit there.

Ashar Khan - SAC Capital - Analyst

Okay.

David Hauser - Duke Energy Corporation - CFO

Did that answer both?

Ashar Khan - SAC Capital - Analyst

Okay, okay. No I was just, I thought you earned like \$1.07 for the whole company last year. No?

David Hauser - Duke Energy Corporation - CFO

No I think that's right. I think that is right.

[Editor's Note: The actual ongoing recast diluted EPS amount for 2006 is \$.99. The \$1.07 referenced in this discussion represents an illustrative amount that was discussed on Duke Energy's 2006 fourth quarter earnings call on February 6, 2007. As was noted when the \$1.07 amount was presented, this amount was not intended to reflect a GAAP presentation for discontinued operations but rather was intended to provide an illustrative presentation of the relative allocation of Duke Energy's ongoing diluted earnings per share, as originally presented for 2006, between the operations included in the spinoff of Spectra Energy and those retained by Duke Energy.]

Ashar Khan - SAC Capital - Analyst

Okay, because then I guess -- there's something on the table because your on-going earning tables said, for 2006 year-to-date the earnings were \$.76. So I guess there's a discrepancy in the math somewhere.

David Hauser - Duke Energy Corporation - CFO

We'll take a look at that and we'll figure it out and the IR folks can talk about it, but I don't know the answer off the top of my head.

Ashar Khan - SAC Capital - Analyst

Okay, so if you match your earnings then you're saying you'll be like around \$1.27 - \$1.28 level range?

David Hauser - Duke Energy Corporation - CFO

We aren't getting that specific, but, but we're very clear that we'll be well above our incentive target.

Ashar Khan - SAC Capital - Analyst

Okay. Okay, thank you.

David Hauser - Duke Energy Corporation - CFO

Thank you very much.

Operator

We'll take our next question from Nathan Judge with Atlantic Equities.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Nathan, welcome.

Nathan Judge - Atlantic Equities - Analyst

Good morning, just wanted to ask a question about the assumptions as far as earnings with regard to those plants, Cliffside and IGCC plant. When you look out, I believe those plants are going to be completed sometime tentatively in the 2012 period. At the analyst day, I think you said you're going to be going into rate case. Would those plants then begin fully earning in 2013? Is that the expectation?

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

I think it works a little different than that. First with the IGCC, because we have CWIP we'll get both cash and earnings during the building of that facility, and that will start once we start construction. In North Carolina, we have the potential for CWIP and we do that without having a general rate case, that just automatically happens during that period of time because we don't, as I remember, do not have scheduled a general rate case in Indiana until the end of the five-year period. But we still get the cash and the earnings along the way.

In North Carolina, I think we have a rate case schedule around 2010, and at that point, the way the law works, we'll go in and then make adjustments with respect to CWIP at that time and going forward. But during the interim we will be accumulating AFDC which will affect earnings during that period of time, but would not translate into cash.

David Hauser - Duke Energy Corporation - CFO

Let me add one thing that you might be focusing on, Nathan. If you look at 2012 when the coal plant comes in service, there is a lag between when it comes in service and when rates are granted. So your assumption that it would be fully covered in rates in 2013 is a good presumption, but all of what Jim said is absolutely true, too. So it is just 2012 that is the anomaly in the way we modeled it.

Nathan Judge - Atlantic Equities - Analyst

So kind of thinking through that, it means there's potentially some up-lift, pretty meaningful up-lift as these plants come on in 2013?

David Hauser - Duke Energy Corporation - CFO

We haven't run our models out -- now you're asking us to do a six-year forecast.

Nathan Judge - Atlantic Equities - Analyst

Just with regard to the impact, and this goes back to the analyst statement, rates go up 5% with CWIP assuming that the Edwardsport plant would be approved.

David Hauser - Duke Energy Corporation - CFO

I would have to say your logic is good, but we haven't run 2013.

Nathan Judge - Atlantic Equities - Analyst

Thank you very much

Operator

We'll take our next question from Lason Johong with RBC.

Lasan Johong - RBC - Analyst

Good morning. My question is on Edwardsport. What makes the geology in Indiana so receptive to carbon sequestration? Are we talking about limestone, are we talking about old gas and oil wells? What are we talking about?

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

I think primarily, the Edwardsport plant is really built in the coal producing region of the state. And it's primarily a limestone formation there, and that's why it is so conducive to capture, I mean storing CO2.

Lasan Johong - RBC - Analyst

So have your scientists discovered a catalyst that would bind CO2 to limestone in a fashion that doesn't take 200 years for a ton to bind.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

You've just moved beyond my expertise with that question.

What I've been told is that the, again, there is some sequestration done today in the United States and it's primarily in the Southwest where you're re-injecting CO2 into reservoirs to get additional oil and natural gas out.

Here, the situation is that you would be re-injecting it into these limestone formations and we would start out by only doing a portion of the CO2, and you should remember that it's easier to capture carbon coming from syngas than coming from the emissions of a coal plant. So it would be, in the technologies well-developed to capture carbon, the thing that we will be testing. This is why it will be a test project to see exactly how storage works, and can we manage any seepage from it?

There's a lot of technical questions that need to be answered. And that's why we believe in this country and that's part of the debate on Capitol Hill. It's going to take a decade to a decade and a half to really develop carbon capture and storage technology and to take it to a commercial level in this country. This plant, in this location, offers an opportunity for us to develop that technology.

Lasan Johong - RBC - Analyst

So basically the idea of this is not necessarily to provide energy, but it's more of a technology research venture?

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

With respect to the plant itself, we need the energy and it is the least (inaudible) option for us to build this coal gas plant. So we'll be taking all the output of the plant, and because it's our most efficient plant, it will be one of the first that's actually dispatched in our system because of the efficiency of the plant. It's-- the experimentation part will be on the capture of the carbon and storage which will be done contemporaneous with the operation of the plant. Now there's some technical issues around that because as we've talked, reliability is number one in running that plant. As much as we can run that plant, the highest load factor is our goal line. We're prepared to try to do both, because it's so critical, not just to our company, which is the third-largest consumer of coal in this country, but it's so critical to our entire country that we get it, we develop this technology going forward.

Lasan Johong - RBC - Analyst

Have you compared emissions output on this plant, to, say a CCGT, a conventional CCGT?

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

I think I haven't, and I really couldn't make that comparison for you.

Lasan Johong - RBC - Analyst

Okay, thank you.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Thank you very much.

Operator

We'll go and take our final question with Annie Tsao with AllianceBerstein.

Annie Tsao - AllianceBerstein - Analyst

Good morning.

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Good morning, Annie.

Annie Tsao - AllianceBerstein - Analyst

A few questions for both of you. First, David, you said we should assume effective tax credit for '07 to be 27%. What should we anticipate for '08, and what kind of central tax credit should we assume?

David Hauser - Duke Energy Corporation - CFO

You should assume 33% for '08, and there is no synfuel for '08 anymore.

Annie Tsao - AllianceBerstein - Analyst

That's what I'm trying to clarify. And also, Jim, any back-up plan for the drought situation in case you don't get the water level to normal?

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

We have built a number of contingency plans because our goal line is to work our way through this problem in a way that is seamless to our customers. So I mentioned a few moments ago the work we are doing around the McGuire nuclear station. The other things we're doing is lining up potential supplies and looking at alternative supply sources during some critical periods going forward. So our team, and we're very proud of our team in terms of the work they've done to develop a wide range of contingencies so at the end of the day, we're able to continue to supply power 24 by 7 when people throw the switch.

Annie Tsao - AllianceBernstein - Analyst

And you mentioned also Lieberman and Warner legislation. you don't think they protect consumer? Can you (inaudible) a little more detail?

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Yes.

Annie Tsao - AllianceBernstein - Analyst

Why you think that way?

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

This bill, one, does not have a safety valve which the Bingaman bill did. and that is a flaw in the bill in terms of protecting consumers against the volatility in the rise of price of CO2 during these early periods when technology has yet to be developed.

The second thing is, is that they have not allocated the allowances in a way that in my judgment are fair particularly to those states that are so dependent on coal. About 50% of the electricity in this country comes from coal, and actually it's concentrated in 25 states. And in these 25 states, under the Lieberman bill, you could see prices increase as much as 30 and 40% unless they adjust these allowances. So that the industrial heartland in our country in the southeast is faced with what I would call a carbon tax or new charges on their generation.

So this, like many issues in the energy area and the environmental area, are not issues of Republicans versus Democrats. They're really issues between regions of country and what fuel we're dependent on. And so, to the extent we're dependent on coal, the way this legislation is structured, it basically punishes those who are dependent on coal. And that, to me, at the end of the day, is equity issue, a fairness issue. And quite frankly, that is going to have to get resolved before you really get complete support from Congress to pass any legislation on carbon in this country.

Annie Tsao - AllianceBernstein - Analyst

Thanks.

Operator

And Miss Tsao, was there anything further?

Annie Tsao - AllianceBernstein - Analyst

No, thank you..

Jim Rogers - Duke Energy Corporation - Chairman, President and CEO

Thank you all very much for being here today. We appreciate your interest and investment in our company, and we're working hard to deliver for you. Thank you all very much.

Operator

And that does conclude our conference. Again, thank you all for your participation. We do hope you enjoy the rest of your day.