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PRESENTATION

Operator

Good day, everyone, and welcome to the Duke Energy third quarter earnings conference call. Today's conference is being recorded. At this time for opening remarks, I would like to turn the conference over to the group executive of investor relations and chief communications officer, Ms. Julie Dill, please go ahead.

Julie Dill - *Duke Energy Corporation – Group Executive, Investor Relations and Chief Communications Officer*

Good morning and welcome to Duke Energy's third quarter 2006 earnings review. Leading our discussion today are Jim Rogers president and chief executive officer and David Hauser, group executive and chief financial officer.

Also available to take your questions are Jim Turner, group executive and chief commercial officer, U.S. Franchised Electric and Gas; Steve Young our controller; Fred Fowler, group executive and president, Duke Energy gas; and Greg Ebel, president of Union Gas. As you know, Fred will be president and CEO, and Greg will be CFO of the new gas company, the new name of which we announced this week – Spectra Energy.

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 the discussion of how we're fulfilling our commitment to investors and as part of that discussion, Jim will share the results of our merger score card. Following those prepared remarks, we'll open the lines for your questions.

Before we begin, let me take a moment to read the Safe Harbor statement. Some of the things we will discuss today 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 Duke Energy and Cinergy's 2005 Form 10-Ks 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 combined under SEC regulation G. A reconciliation 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 – President and CEO*

Thank you, Julie, and good morning everyone.

Today we reported ongoing earnings per diluted share of 48 cents, compared to 56 cents per diluted share for the same period last year.

We didn’t have the kind of quarter we expected. We’re disappointed that our efforts didn’t translate into stronger financial results for the quarter. However, given our solid performance in the first two quarters of the year, we are confident that we will achieve our revised employee incentive target for ‘06.

Last year’s quarter had every one of our businesses hitting on all cylinders. We were not as fortunate this year, as nearly all of our businesses were off the expected mark for the quarter.

In Franchised Electric, we were not able to repeat our near-record performance from last year because of several factors. First, our bulk power marketing sales opportunities were much lower than last year, both on price as well as on volume. Second, weather was not as hot as we experienced last year. And thirdly, O&M costs were higher, with the largest increases occurring in our nuclear operations. Together, the combination of these factors had the single-largest impact on our results this quarter as compared to last year.

In DEGT, our costs were up by $35 million due to a number of factors, some of which will come back to us in future periods – but we were down nonetheless.

Weather also played a factor in our International operations. Drier than normal conditions impacted our operations in Brazil and Peru.

Crescent’s 2005 quarter was very robust with two major sales, but this year we didn’t have the same level of activity. In addition, we decreased our ownership percentage this year for a portion of the quarter.

David will go over all of this in more detail in just a moment. But before I turn the call over to him, I want to clarify the reference in our press release regarding our employee incentive target for 2006.

Many of you might remember that when the board authorized us to exit all of DENA’s business outside the Midwest last year, they also authorized us to change the employee incentive target. That was intended to recognize that we wouldn’t have those results for the year. As a result, our target went from $1.60 per basic share to $1.65, since DENA was expected to produce negative results for the year.

Consistent with that same philosophy, we anticipate that the board will adjust this year’s target as a result of the board’s authorized sale of the Commercial Marketing and Trading business. We had included 4 cents for this business in the $1.90 incentive target – so that amount would be excluded. Consequently, our employee incentive target for 2006 is now expected to be $1.86.

I want to assure you that, in no way does this adjustment, or our third-quarter performance, diminish our commitment or our ability to deliver on our long-term earnings growth expectations. As we have said before, over at least the next three years, we expect Duke Energy to grow 4 to 6 percent in ongoing diluted earnings per share. And Spectra Energy expects to grow ongoing diluted earnings per share 5 to 7 percent over at least the next three years as well.

Let me turn the call over to David to give you more details around this quarter’s financial results.

David Hauser – *Duke Energy Corporation – Group Executive and Chief Financial Officer*

Thank you, Jim.

First, we'll look at Franchised Electric & Gas. That segment's EBIT increased by $72 million over the third quarter of 2005. As you would expect, the addition of Cinergy's regulated operations had the greatest impact on that increase.

Our new franchised operations in the Midwest contributed EBIT of approximately $181 million, net of a $17 million charge for rate reductions required as part of merger approvals in Ohio, Indiana and Kentucky.

On a similar note, rate reductions in the Carolinas had an impact of approximately $39 million for the quarter. You'll recall that we agreed to recognize in the first 12 months substantially all of the five years of the merger savings that we're sharing with customers.

Excluding the impact of these rate reductions, our results in the Carolinas were down $70 million from last year's quarter. Bear in mind, the 2005 quarter was the second-highest ever in terms of earnings for Duke Energy Carolinas. Lower results this year were primarily due to three factors:

First, bulk power marketing results were down $40 million. As you know, natural gas prices were high last year as a result of an active hurricane season. That gave us more opportunity to sell our excess power into markets that depend mostly on natural gas for generation.

For example, in September 2005 we sold bulk power at an average price of $140 per megawatt-hour, compared to $40 per megawatt-hour this September. We've also had less capacity available to sell into the wholesale markets this year, due to some unplanned outages. Across our generating fleet, we had 30 more outage days this quarter compared to the previous year's third quarter.

Secondly, O&M costs were up by approximately $20 million. While a number of factors contributed to those higher costs, the most significant increases occurred in our nuclear operations.

Finally, last year's weather in the Carolinas was 19 percent above normal, while this year's third quarter was only slightly above normal. This equates to a variance of approximately $17 million.

Offsetting those results, we recorded Clean Air amortization of approximately $62 million during the quarter, down $23 million from last year. As you'll remember, we booked additional amortization last year as a result of very strong third-quarter earnings. In this year's quarter, we were back to normal levels.

Now let's move on to Natural Gas Transmission.

This segment's reported results were down by $26 million compared to the third quarter of 2005. On an ongoing basis, results were down approximately $41 million, excluding a special item – a $15 million gain related to the sale of units by the Duke Energy Income Fund in Canada.

In the third quarter, the Canadian income trust issued nearly 9 million additional shares to public unit-holders to fund the purchase of assets from DEGT. Those units were issued at a per-unit price greater than the carrying value of our original investment. While the number of shares owned by DEGT did not change, its ownership interest in the trust decreased, from approximately 58 percent to approximately 46 percent, as a result of that transaction.

Lower ongoing results for the quarter were due to a $35 million increase in O&M costs, primarily related to:

- Repairs associated with a lightning strike at one of our processing facilities in western Canada
- Higher insurance costs this year as a result of 2005 hurricane activity
- An $11 million increase in expenses associated with project development costs for the Southeast Supply Header and expansions on the Maritimes & Northeast and Gulfstream systems. But keep in mind that those expenses will be capitalized once the projects receive approval from FERC; and
- A $10 million increase in operations associated with pipeline integrity projects and general timing. Last year, the FERC mandated an accounting change associated with integrity work. Consequently, those costs were capitalized last year, but expensed this year. Also, we completed more maintenance work in the third quarter of this year, compared to the same period last year.

Other factors were the impact of revenue sharing at Union Gas, and lower equity earnings from Gulfstream related to project financing.

Strong processing margins at our Empress facility in western Canada, which we acquired in August 2005, had a positive impact on the quarter. Empress' results were $27 million higher than last year's quarter. Continued strength in the Canadian dollar added another $6 million.

On an annual basis, a $1 change in frac spreads affects Empress' EBIT by $25 million.

Next, let's turn to Field Services.

You'll recall that in July of 2005 we reduced our ownership in Duke Energy Field Services by 19.7 percent, resulting in a gain of $576 million. In addition, we recognized a benefit of $38 million related to de-designated hedges.

Excluding those special items, ongoing results from our 50 percent ownership in Duke Energy Field Services were $71 million higher than last year's quarter.

Ongoing results continued to benefit from strong commodity prices, as well as improved overall marketing results.

Duke Energy Field Services paid dividends of approximately $75 million and tax distributions of approximately $77 million to Duke Energy during the third quarter.

Now we'll take a look at Commercial Power.

As a reminder, this segment includes our Midwest gas-fired plants, the former CG&E nonregulated generation acquired when we merged with Cinergy, and Duke Energy Generation Services.

We saw a $68 million improvement in segment EBIT from continuing operations, compared to the third quarter of 2005. CG&E's nonregulated operations in Ohio contributed $69 million of EBIT, before the impacts of purchase accounting.

In addition, our Midwest gas-fired plants contributed $5 million of EBIT in the quarter, compared to a $10 million EBIT loss in the third quarter of 2005.

This is largely the result of our Hanging Rock and Washington plants in Ohio being certified by PJM in June 2006 to provide regulation services to the ISO. That has enabled these units to realize additional revenue from PJM that they were not able to earn in 2005.

Those positive impacts were offset by approximately $17 million in net purchase accounting charges related to the merger.

There are a couple of key things to remember about our purchase accounting adjustments:
- First, while the majority of the impact is recorded in Commercial Power, there are adjustments associated with other items – most significantly, the debt we acquired – and that is reflected in our interest expense line. For 2006, that number will be about $10 million.
- Year-to-date, we have recorded net pre-tax charges of approximately $60 million associated with purchase accounting. We expect that the total for the year will be slightly less than $100 million.
- That amount – approximately 5 cents on a diluted earnings-per-share basis – is slightly less than what was expected when we discussed these adjustments in the second quarter. We have continued to make refinements in the valuation of Cinergy's assets and liabilities, and consequently we have reduced our estimate for the change in the impact of purchase accounting in 2006 by 3 cents on a diluted earnings-per-share basis.

At this time, we expect to recognize net pre-tax charges of approximately $90 million due to purchase accounting in 2007.

As you heard Jim discuss earlier, we are on track to achieve our employee incentive target, which is expected to be revised to $1.86 as a result of the sale of our Commercial Marketing and Trading business.
But as we told you back in February when we provided the components of the $1.90, and reminded you again last quarter – any impact of the purchase accounting adjustment that is either above or below the original assumption of 3 cents would not affect the achievement of the incentive target for employees.

Because we consider purchase accounting charges to be ongoing, you should expect to see our ongoing earnings for the year to be about $1.78 per diluted share. How do you get there? Take the new target of $1.86 less 8 cents (the difference between that original 3 cents and our new estimate of a negative 5 cents).

One final note on Commercial Power – as a result of the recent decline in crude oil prices, we re-evaluated the economics of running our synfuel facility at Oak Mountain, and restarted that plant on October 12th.

Moving on to International:

Ongoing earnings for International were down by approximately $15 million for the quarter compared to the same period in 2005. Ongoing results for third quarter 2005 excluded a $20 million impairment associated with our equity investment in the Campeche facility in Mexico.

The lower ongoing results in the third quarter of this year were due to:
- First, higher regulatory fees and lower average sales prices in Brazil, as a result of higher-priced contracts rolling off
- Secondly, higher purchased-power costs due to unfavorable hydrology in Brazil and Peru, partially offset by favorable hydrology in Argentina
- And, finally, lower margins and an unplanned outage at National Methanol.

We don't want to leave you with the wrong impression about the outlook in Brazil, as the fundamentals in that country continue to improve. That can be seen in how the price of power has increased through the auction process. In 2006, the weighted-average auction price was 65 Reals per megawatt-hour, compared to approximately 105 Reals per megawatt-hour for the 2008 to 2010 auction period – more than a 60 percent improvement.

Now let's turn to Crescent Resources:

Crescent's ongoing results of $54 million were $66 million below the third quarter of 2005, when we closed on a number of large transactions. The 2006 quarter's ongoing results excluded a $246 million pre-tax gain related to the creation of a joint-venture partnership with Morgan Stanley Real Estate Fund. This occurred on September 7th, at which time Crescent moved from consolidated to equity accounting.

The transaction provided Duke Energy with approximately $1.4 billion of after-tax cash proceeds. As part of this transaction, Crescent was recapitalized and borrowed approximately $1.2 billion of new debt, which will be off-balance sheet.

Last week, Moody's assigned Crescent a credit rating of Ba2, its first rating as a stand-alone company, and S&P assigned it a credit rating of BB. We consider this a positive outcome for this type of business.

It's worth noting that, going forward, interest expense at Crescent will be capitalized as part of individual project costs, as opposed to expensing it in the current period. As such, you should expect to see higher earnings in the short term, and lower earnings as the projects are sold in the future.

And finally, our "Other" category:

Other's ongoing loss from continuing operations was $82 million for the quarter, an improvement of $96 million over the third quarter of 2005.

Those improved results were primarily due to the negative impact of mark-to-market charges last year associated with our de-designated hedges, and fewer economic hedges this year. The quarterly variance related to this change in the value of the contracts was approximately $124 million.

At the end of the third quarter, the remaining portfolio of contracts was approximately 1.25 million barrels of oil. At this time, we have not hedged any of our production for 2007.

Governance costs were higher by $33 million, primarily due to the addition of Cinergy's businesses.

Our insurance costs were virtually flat year-over-year. You'll recall that we recorded charges of approximately $62 million in the third quarter of 2005, as a result of the hurricanes and other property losses.

In this year's quarter, we recorded a charge of $58 million related to our interest in a mutual insurance company, which has ceased writing business and is in the process of settling all claims.

Not included in ongoing results are special items for costs to achieve the Cinergy merger and the gas spinoff. In the third quarter of this year, we spent approximately $19 million to achieve the benefits of the Cinergy merger, and approximately $10 million toward the gas spinoff.

I'll close with just a few more items before I turn it back over to Jim.

At the end of the third quarter, we had a net cash balance of approximately $2 billion – $2.9 billion of cash, cash equivalents and short-term investments, offset by $900 million of commercial paper outstanding. Early in the fourth quarter, we closed on the sale of our commercial marketing and trading business, which brought in pre-tax cash of approximately $700 million.

We've been getting some questions about what we're doing with all of that cash going forward. We've used some of it to pay down commercial paper. We expect that the majority of the remaining cash on hand at year-end will remain with the power company, after we ensure that the new gas company's working capital needs are satisfied.

The Board has approved the re-initiation of our share buyback program of up to $500 million beginning in January. We will be putting in place a plan, such that shares of Duke Energy post-spin will be bought if the stock price hits the pricing point established in the plan.

Interest expense totaled $337 million for the quarter, compared to $228 million for the third quarter of 2005. That increase was primarily the result of bringing Cinergy's debt onto our balance sheet at the time of the merger.

Our effective tax rate for the quarter was 37.1 percent, compared to a rate of 34.5 percent for the same period last year. This is due to an increase in state taxes as a result of establishing an additional tax reserve in the quarter. You may have noticed on our special items schedule, that the tax recognized along with the Crescent sale was much higher than the normal rate. That's because this reserve is reflected as part of the Crescent transaction. On a year-to-date basis, our effective tax rate is 34.3 percent, which is in line with the prior year.

And we want to make you aware that, as you look for SEC filings this quarter, the legal names have changed for the following entities:

- Duke Power Company became Duke Energy Carolinas LLC
- Cincinnati Gas & Electric, or CG&E, became Duke Energy Ohio Inc.; and
- PSI Energy became Duke Energy Indiana Inc.

We have also deregistered Cinergy Corp, but we will make their financial statements available on the Web site.

Now I'll turn the call over to Jim to report on how we're meeting our commitments to our investors, including a progress report on our merger goals and the gas company spinoff.

Jim Rogers – *Duke Energy Corporation – President and CEO*

Thank you, David. In the last seven months, you have seen a fundamental change in the mix of businesses in the Duke Energy portfolio. We believe the strategic moves we made this year will create significant value over time.

As I did last quarter, I would like to discuss these moves in the context of what matters most to you.

Our first commitment is growing earnings and dividends over time.

This commitment has been over-arching, despite the incredible amount of work required for: One, the merger integration; two, the steps taken to decrease our portfolio risk; and thirdly, the preparations to spin off the gas business by year-end.

As I said at the beginning of the call, we are confident we will achieve our revised 2006 employee incentive target. And as I mentioned earlier, we continue to stand by the growth rates for both Duke Energy and Spectra Energy, post-spin.

Our next commitment is achieving the full value of our portfolio.

As you know, we've been working to change our mix of businesses in a way that we believe reduces our portfolio risk in the future. In September, we secured Morgan Stanley as a joint-venture partner for Crescent Resources. And in October we completed the sale of the Commercial Marketing and Trading business to Fortis. These transactions – providing us with nearly $2 billion in after-tax proceeds – have allowed us to recognize gains this year that we would have otherwise received over time. We plan to re-deploy the bulk of these proceeds into our lower-risk, energy infrastructure businesses beginning in 2007.

Re-balancing our portfolio has reduced our risk profile and will create significant value as we reinvest in our businesses going forward. However, this new mix of businesses will translate into something less than our 2007 earnings aspiration of $2 per ongoing diluted share for the two stand-alone companies.

We believe that the trade-off of lower earnings in '07 for a more stable and lower-risk company in the future is in our shareholders' best interest over the long term. Details around each company's 2007 employee incentive target will be provided when we start our road shows in December.

The next commitment is reinvesting in the business.

Over the next three years, Duke Energy anticipates an average CapEx spend approaching $3.5 billion annually to meet future customer demand, upgrade our transmission and distribution systems, and install environmental retrofits.

In the quarter:

- We broke ground on the $425 million scrubber project at the Allen Station in North Carolina. To meet evolving federal and state clean-air requirements, we estimate investing $1 billion in scrubber construction through 2010 – and the majority of these costs are locked in.
- We continued moving forward with our plan to build a new nuclear station by filing a request with the North Carolina Commission to recover our upfront developmental costs. We estimate that we will spend approximately $125 million by the end of 2007 to do preliminary development work and to prepare a Construction and Operating License.
- We filed our application with the Indiana Commission for a new IGCC plant.
- And last week, we filed updated cost estimates with the North Carolina Commission relating to the modernization of the Cliffside Steam Station. We wanted to bring to the attention of the Commission – before it issues a Certificate of Public Convenience and Necessity – the significant increases in equipment and labor costs that are being experienced throughout the industry. While we believe that building Cliffside Units 6 and 7 continues to be the right way to meet the future demand of our customers, we want to make sure our regulators and other stakeholders have a full understanding of the cost pressures we are beginning to see. We expect the Commission will reopen the record for additional evidence in December. And we anticipate a decision from the Commission in the first quarter of next year.

We are also reinvesting in the gas business.

Over the next three years, Spectra Energy anticipates an average CapEx spend of about $1.5 billion annually, with over $1 billion of that being expansion capital. This map illustrates the more than two-dozen projects we have – some are under construction, and others are in various stages of development.

In the third quarter we announced our intent to build the "Lebanon Connector" – a joint venture between DEGT, Alliance Pipeline and NJR Pipeline Company; and the Southeast Supply Header – a joint venture of DEGT and CenterPoint – signed an agreement with Florida Power & Light for about half of its planned capacity.

The open season on the Mid-Continent Crossing pipeline ended in July. The results made it very clear that additional pipeline capacity is needed to provide market access for the Barnett, Woodford and Fayetteville shale reserves, as well as other mid-continent reserves. It is still too early to know what the final scope of this proposed project might ultimately be. However, we are currently focusing our commercial discussions on a 300-mile pipeline segment that would run from Arkansas to northern Alabama.

Due to the competitive landscape, it's possible that all of the projects you see on this slide won't be built as currently proposed. However we continue to see growing demand in the northeast and Florida markets. And as you've heard Fred say, this may be the most opportunity-rich environment we've ever seen for gas infrastructure.

The next commitment is developing a strong leadership team with a deep bench.

In September, we announced the organizational structure and executive leadership for the stand-alone electric company. You may remember that during the merger, Paul said "we had to get bigger to get smaller." In that context, I really believe there comes a time when you have to get more streamlined and more focused to get stronger.

This slide shows Duke Energy's senior leadership, post-spin. We've created a more centralized organization, with clear lines of authority and accountability. Because much of our growth and expansion will occur in our Regulated Generation and Nuclear areas, the heads of these operations now report directly to me. It is important to have a top-level "spotlight" on the new plant initiatives in these areas.

Each player on this team has broad and extensive experience in the energy industry. I've done the math and my direct reports have an average of 20 years experience in the energy business. We have a deep bench in almost every spot. I think it is important for you to get to know our team, and we are committed to creating opportunities for you to meet them over the next year, so that you can judge for yourself.

Lastly, we are committed to delivering clear and transparent communications.

When we completed our merger with Cinergy, I announced that we would keep a "merger scorecard" to track our progress on a number of key metrics. I told you then that, regardless of the results, we would come back this quarter and report them to you. While we're going to show you the entire scorecard, I am not going to comment on each category. We'll discuss it in more detail along with the other measures during our road show.

First, we're on target to achieve our three-year workforce reduction goal of 1,500. We've already reduced our workforce by 1,200, which exceeds our target of 960 for this year. And with the centralization of the corporate center and shared services of the power business, we expect additional workforce reductions.

Costs to achieve the merger are well within our target number of approximately $450 million. Those costs through September total about $240 million.

The progress we made toward achieving our Non-Fuel O&M target was masked primarily by higher nuclear costs. Nevertheless, we are seeing significant cost benefits from the merger. By way of example, our Power Delivery and Supply Chain areas have identified more than $50 million in annual savings by sharing best practices from the Carolinas and the Midwest, and by collaborating on process improvements.

And as David mentioned earlier – virtually all of these savings are currently being offset by the five years of rate reductions we agreed to provide our customers in the first 12 months.

Under Operational Results, you can see that we are not where we want to be in three of the four categories we are tracking. At this time, it appears that we will not make our reliability targets this year – and that is due, in part, to unplanned outages at two of our largest baseload generating units.

In regard to customer and employee engagement, we are on target for customer satisfaction, based on customer surveys we have been conducting.

We are tracking 17 individual savings initiatives or "integration milestones" – for such things as IT, HR and accounting systems. All of these are on target for completion this year.

While it is not reflected in the scorecard, we are actively managing 228 separate merger conditions that we agreed to with our five states. They fall into five categories:

- Day 1 Requirements
- Commitment to Community
- Financial Requirements
- Customer Service and Reliability, and
- Affiliate Transactions

I believe that our agreement to work constructively with our states on these conditions is one reason why we were able to complete our merger in 11 months.

Next, I'd like to show you how these last seven months have been a period of execution in positioning our company for future growth.

One: We closed the Cinergy merger and are realizing the benefits.
Two: We completed the sale of the West and Northeast unregulated plants and trading book.
Three: We completed the joint venture for Crescent Resources.
Four: We closed on the sale of Commercial Marketing and Trading.
Five: We repurchased $500 million of the $1 billion in Duke Energy stock authorized for buyback.
Six: We announced numerous expansions on the DEGT system.
Seven: We announced plans for plant expansions – baseload coal, IGCC and nuclear – and we filed for cost recovery of our upfront nuclear development costs.
Eight: We received FERC approval for our acquisition of the Rockingham plant in North Carolina.

Still to be completed is the gas spinoff.

Regarding the spinoff, let me close with a brief update on where we are.

- We remain on target to complete the spinoff, effective January 1.
- This week, we announced the gas company's new name – Spectra Energy – and its NYSE ticker symbol which is expected to be SE.
- We submitted our request for a Private Letter Ruling to the IRS, and we continue to expect a response this month.
- While the State of Virginia has approved the spinoff – the only state approval necessary – we still need SEC approval. We filed our first amendment to the Form 10 last month in response to questions from the SEC staff.
- We proposed to the Board that each shareholder will receive one-half share of Spectra Energy for every share of Duke Energy held. If that is approved, and using 100 shares as an example, you would have 100 Duke shares with an 84-cent dividend, and 50 Spectra shares with an 88-cent dividend.
- After a favorable preliminary assessment of the spinoff, Moody's placed under review for possible upgrade the long- and short-term debt issued by Duke Capital.
- And as we mentioned, we plan to start our road show in December.

I know our prepared remarks have taken a bit of time today. Also, we were not able to set up all the one-on-ones that were requested for EEI in Las Vegas next week. But we do want a chance to answer as many of your questions as possible. So, next Monday afternoon we will have a two-hour informal Q&A session – we call it "Duke Unplugged" – with Fred Fowler, Greg Ebel, David and me instead of the standard company visitation tables. Hopefully, this will give everyone a chance to come and get their questions answered.

So, with the remaining time we have, let's go ahead and open up the lines for your questions.

Operator

Thank you, sir. [OPERATOR INSTRUCTIONS] We'll hear first from Craig Shere. And Mr. Shere, your line is open, please go ahead.

Operator

I apologize, we'll take our next question. Paul Patterson, please go ahead.

Paul Patterson – Glenrock Associates

Good morning, guys, can you hear me?

Jim Rogers

Yes, very well. Good morning, Paul.

Paul Patterson – Glenrock Associates

Morning. Listen, I wanted to touch base on a couple of things. First of all the O&M, there's also some issue with respect to Carolina law. Some people are suggesting that this getting paid, getting in rates the expense that's associated with looking at the building of new plants might require and that you guys might be trying to do something in that area? And then the buyback plan, it sounds like there are some pricing points associated with that? And if you could elaborate on that, I think that would be really helpful.

Jim Rogers – President and CEO, Duke Energy

First, with respect to our O&M related to our nuclear costs. We've got higher costs associated with some of our outages this summer. So as a consequence of that, we saw a tick up in those costs. With respect to North Carolina, we filed to recover the project development costs. It's our judgment we have the ability -- or the commission has the authority and the ability to act on that request. The broader question, Paul, with respect to construction work in progress or something similar to that, it may well take a legislative change in the state in order to achieve that. And we are prepared, in the next session of the legislature which starts in January, to pursue it.

Paul Patterson – Glenrock Associates

Okay.

Jim Rogers – President and CEO, Duke Energy

What was the third question, Paul?

Paul Patterson – Glenrock Associates

The pricing point plan – the buyback plan that you guys have announced?

David Hauser – Group Executive and CFO, Duke Energy

Yeah, we'll be putting in place a grid that will be effective -- effectively January 2nd, but I don't think we'll put in the public domain what the pricing points will be on the grid.

Paul Patterson – Glenrock Associates

Okay. Thanks a lot.

Jim Rogers – President and CEO, Duke Energy

Thank you.

Operator

And we'll hear now from Scott Thomas of Lehman Brothers.

Scott Thomas – Lehman Brothers

Morning, folks. Can you hear me?

Jim Rogers – President and CEO, Duke Energy

Morning, Scott.

Scott Thomas – Lehman Brothers

Just a couple of quick things. Can you tell me how much of the purchase accounting was recognized in this quarter?

Jim Rogers – President and CEO, Duke Energy

David?

David Hauser – Group Executive and CFO, Duke Energy

Yeah, it's $17 million.

Scott Thomas – Lehman Brothers

Just the 17 million there?

David Hauser – Group Executive and CFO, Duke Energy

Right.

Scott Thomas – Lehman Brothers

Okay. And in terms of the de-designation of hedges, how much of that was particularly in this quarter was that whole amount?

David Hauser – Group Executive and CFO, Duke Energy

Yeah, that was the entire swing I gave you of $120 some odd million. Does that sound right, Steve?

Scott Thomas – Lehman Brothers

Okay. And then --

David Hauser – Group Executive and CFO, Duke Energy

$124 million.

Scott Thomas – Lehman Brothers

124?

David Hauser – Group Executive and CFO, Duke Energy

Yeah.

Scott Thomas – Lehman Brothers

Okay and then lastly, just -- in terms of the outages that you made mention of big base load, were those in this quarter? And would those have impacted the electric side?

Jim Rogers – President and CEO, Duke Energy

It did indeed. The outages were at FE&G. And they not only affected us from a cost standpoint, but also from available power to sell either to our customers as well as to make off-system sales.

Scott Thomas – Lehman Brothers

Can you isolate the effect of those two outages just so we can that they were unexpected assuming we can take those out going forward?

Jim Rogers – President and CEO, Duke Energy

We have not broken down the outages. We do know that the sales of bulk power marketing were down $40 million. But that's a combination of price and volume.

Scott Thomas – Lehman Brothers

Okay. Thanks, folks.

Jim Rogers – President and CEO, Duke Energy

Thanks, Scott.

Operator

Next we'll hear from Nathan Judge, Atlantic Equities.

Nathan Judge – Atlantic Equities

Good morning. I just wanted to follow up on your 2007 objective of $2 per share. Could you just remind us what price for commodities you're using for that and what you're looking for now?

Jim Rogers – President and CEO, Duke Energy

Well, we put that number out as being it was in the low $60s when we created. It was about $61 when we created the $2 per share.

Nathan Judge – Atlantic Equities

Is that consistent with -- or has that changed?

Jim Rogers – President and CEO, Duke Energy

Fred?

Fred Fowler – Group Executive and President, Duke Energy Gas

I don't think we've made public yet what we're looking for in 2007. I think we'll cover that in our road show, Nathan.

Nathan Judge – Atlantic Equities

I know there's quite a bit of refinement. But could you just kind of walk through that 3-cent incremental change, how that's going to impact and where that's going to fall into? And specifically on the interest expense, I think you mentioned there was a $10 million impact. Is that going forward?

David Hauser – Group Executive and CFO, Duke Energy

First of all the interest expense is $10 million for the entire year. It declines next year to about $8 and about $6 in the next year. For total next year, you'd expect $90 million of purchase accounting. And the big change that occurred in the 3 cents was all in the Commercial Power area this year.

Nathan Judge – Atlantic Equities

Okay. Thank you very much.

Jim Rogers – President and CEO, Duke Energy

Thank you, Nathan.

Operator

Now we'll go to Stephen Huang with Citadel.

Stephen Huang - Citadel

Hi, good morning, guys.

Jim Rogers – President and CEO, Duke Energy

Morning, Steve.

Stephen Huang - Citadel

Wanted to just double check here, I guess on some of the CapEx items. You guys talked about two new projects on the pipeline side and you also have nuclear development costs, are all of these reflected already in your CapEx forecast or some of them adjusted out?

Jim Rogers – President and CEO, Duke Energy

They're all reflected in the numbers that we gave saying we would be spending approaching $3.5 billion next year on the power company side and the pipelines would be spending $1.5 billion. So it's in those numbers.

Stephen Huang - Citadel

Okay. And you guys mentioned that the cash is going to stay over at power. But with these new projects on your pipelines, is there enough capitalization without the cash. Are all these new projects coming on?

Fred Fowler – Group Executive and President, Duke Energy Gas

We think we're okay. We are going to have a new financing vehicle that we're going to start-up next year with an MLP and our gas transmission part of the business, as well.

Stephen Huang - Citadel

Okay.

Greg Ebel – President, Union Gas

There will be starting cash and that's something that we'll work through with Duke towards the end.

Stephen Huang - Citadel

Okay. So it's not like all of it’s going over to Duke, I mean?

Fred Fowler – Group Executive and President, Duke Energy Gas

That's correct.

Stephen Huang - Citadel

Okay and when we think of -- have you guys allocated what these new project budgets will be? Lebanon, Southeast and --

Fred Fowler – Group Executive and President, Duke Energy Gas

No, we're not to the final stages. We're not to the stages of development around the project to have totally defined amounts for them yet.

Stephen Huang - Citadel

Okay.

Fred Fowler – Group Executive and President, Duke Energy Gas

That's the kind of things we'll speak to in December.

Stephen Huang - Citadel

The road show will give us a lot more clarity on that?

Fred Fowler – Group Executive and President, Duke Energy Gas

It should, yes.

Stephen Huang - Citadel

Great, thank you.

Jim Rogers – President and CEO, Duke Energy

Thank you, Stephen.

Operator

Now we'll hear from Ashar Khan with SAC Capital.

Ashar Khan – SAC Capital

Good morning. Sorry I missed -- I was moving from one call to the other. Jim, you mentioned that synfuel is back on and then I probably did not hear this properly. You said the 2007 $2, that's not going to be able to achieved including synfuels? Could you just repeat that if I'm right the $2 included when you gave it a year ago? and including synfuels is it not being achieved or could you just take us back to your comments regarding that?

David Hauser – Group Executive and CFO, Duke Energy

Well, this is David. Let me make a comment or two. When we gave the $2, we didn't give a lot of detail of what made it up and that was an aspiration so we intentionally didn't give a lot of detail. We are, in fact, running the synfuel plant and if oil prices stay where they are, they will be a positive contributor next year. And Jim did explain why we were moving away from the $2. That has to do with – we changed our portfolio and sold part of Crescent and sold the trading floor. And created a more conservative company.

Ashar Khan – SAC Capital

Okay.

David Hauser – Group Executive and CFO, Duke Energy

But we are very committed to our growth rate of 4-6% per year in the company and 5-7% in the gas company going forward.

Ashar Khan – SAC Capital

Okay. But David is there, there's no -- and I guess there's nothing compared to the $2 that you can share with us. I guess that would be shared at the road show you said?

David Hauser – Group Executive and CFO, Duke Energy

That's correct.

Ashar Khan – SAC Capital

Okay. Okay. Thank you.

Jim Rogers – President and CEO, Duke Energy

Thank you.

Operator

Moving on we'll hear from Paul Fremont with Jefferies.

Jim Rogers – President and CEO, Duke Energy

Good morning, Paul.

Paul Fremont - Jefferies

Good morning. Just a follow up to Ashar’s question. If we put all of this together, the movement off of the $2 number is Crescent, the sale of the trading floor, and I would assume lower commodity price expectations for oil. Is there anything else that we should be sort of sensitive to the change in that $2 number? For instance, additional costs of running two companies versus running one company?

David Hauser – Group Executive and CFO, Duke Energy

I think you hit on the big things and the reality is we'll be coming out with separate road shows for Spectra Energy and Duke Energy. And we'll will be doing both of those in December. That's where you'll get the detail you're after, but your thought process sounds reasonable to me.

Paul Fremont - Jefferies

Thank you.

Jim Rogers – President and CEO, Duke Energy

Thank you, Paul.

Operator

Next we'll hear from Vedula Murti with Tribeca.

Vedula Murti - Tribeca

Good morning.

Jim Rogers – President and CEO, Duke Energy

Good morning.

Vedula Murti - Tribeca

I think my questions have been pretty much being asked, but can you give specific dates of your road show when you will be more specific in your views?

Jim Rogers – President and CEO, Duke Energy

Our thoughts are we do it in early December, but we haven't really firmed up the date yet. We’re waiting on SEC approval, which we expect towards the end of this month and the first of next month.

Vedula Murti - Tribeca

All right. Thank you very much.

Jim Rogers – President and CEO, Duke Energy

Thank you.

Operator

And next we'll hear from Craig Shere with Calyon Securities.

Craig Shere – Calyon Securities

Hi, I apologize. I've been on and off quite a bit. So if you covered this, my apologies again.

Jim Rogers – President and CEO, Duke Energy

No problem, welcome.

Craig Shere – Calyon Securities

Thank you. Fred, I guess this is mostly for you. I know Jim's thinking more of industry consolidation, Fred you've talked about value creation through an MLP and also, I think there's already one Canadian income trust and the possibility of another's been floated. I want to touch specifically on that and the Canadian tax law. Does that have any impact on some of your potential decision-making and value creation? And for the creation of an MLP with regulated, are you having to give a small bone to the shippers to make sure that you're not in the courts arguing about whether your tariff should be cut because of taxes?

Fred Fowler – Group Executive and President, Duke Energy Gas

Yeah, let me take the MLP question and then I will let Greg talk to you about the Canadian income trust because he's been on top of that since the announcement. You know, you have to be careful on which assets you do put into limited partnership. So one, you wouldn't choose an asset that you had that regulatory vulnerability on. The other thing that you want to make sure that you do, you want to move something over that has a high tax basis. That you have a high tax basis so you don't have a bunch of tax leakage, as well. We do have assets that fit that profile.

Greg Ebel – President, Union Gas

Yeah, I think the other point, I guess, Craig, are the income funds is that we plan to seed these with small amounts and use them as competitive financing vehicles.

Fred Fowler – Group Executive and President, Duke Energy Gas

That's the real driver for us as well as the investment income trust is basically we are -- we were competing with those people on projects. And in order to be able to compete with them, we had to have that lower cost of capital.

Craig Shere – Calyon Securities

Right. Well, I mean, I'm trying to understand when you say things that don't have that regulatory hurdle. Do you have natural gas pipelines that are not regulated?

Fred Fowler – Group Executive and President, Duke Energy Gas

They're regulated, but if you threw us at a rate case, they would probably lose more than they would gain by getting the impact of the MLP.

Craig Shere – Calyon Securities

I see what you're saying because of the --

Greg Ebel – President, Union Gas

And you're right, there has been a change in the tax law in the Canadian front. The first point is that the income fund is not particularly material to us from an income perspective. So they're going to put up their results for the quarter next week, but still very small. But again, we've set that up from a competitive perspective on a -- using financing vehicles for a perspective. Now the Federal Government in Canada is leveling the playing field, then we've got the benefit of Spectra itself, which obviously will have great assets and an excellent balance sheet on the same basis it would today.

Craig Shere – Calyon Securities

I don't know how much you all are going to let me preempt your road show here, but can you give a sense for the proportion of Spectra assets that are under-earning what otherwise would be in a rate case? I mean, that could be good candidates for MLP?

Fred Fowler – Group Executive and President, Duke Energy Gas

I think you're right. We'll wait until the road show and we can --

Craig Shere – Calyon Securities

Okay.

Jim Rogers – President and CEO, Duke Energy

Good call. Good call.

Craig Shere – Calyon Securities

Thanks a lot.

Jim Rogers – President and CEO, Duke Energy

Thank you.

Operator

There appear to be no further questions at this time. However, I'd like to remind our audience once more, to press star one if you would like to signal for a question. And we have no further questions. I'd like to turn the conference back over to Ms. Julie Dill for any closing or additional remarks.

Julie Dill - Group Executive, Investor Relations and Chief Communications Officer

Thank you, Erin. As always the IR team is happy to take your follow-up questions. If you would normally call John, just be aware that he is off getting his daughter married. So the rest of the team will be happy to help you out. Thank you for joining us, and we'll talk to you next quarter.

Operator

Once again that does conclude our conference today. Thank you for your participation.