



Conference Call Transcript

DUK - Duke Energy Corporation Analyst Meeting

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CORPORATE PARTICIPANTS

Jim Rogers

Duke Energy Corporation - Chairman, President, CEO

Sean Trauschke

Duke Energy Corporation - SVP - IR and Financial Planning

Keith Trent

Duke Energy Corporation – Group Executive, Chief Strategy, Policy & Regulatory Officer

Jim Turner

Duke Energy Corporation - Group Executive, President, COO - US Franchised Electric & Gas

Lynn Good

Duke Energy Corporation - Group Executive, President - Commercial Businesses

David Hauser

Duke Energy Corporation - Group Executive, CFO

CONFERENCE CALL PARTICIPANTS

Alan Schriber

Public Utilities Commission of Ohio - Chairman

David Hardy

Indiana Utility Regulatory Commission - Chairman

Ed Finley

North Carolina Utility Commission - Chairman

Mary Sheridan

Capital Research - Analyst

PRESENTATION

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

Good morning. Welcome, we're really delighted to have you all here today. We appreciate your interest and investment in Duke Energy. Please continue to eat breakfast, I'm just the warm-up act.

You're going to have an opportunity today to hear from and to talk with the executive management team that is here today. Two who are here who will not be speaking today, and I'd like to ask them to stand, Dhiaa Jamil who leads our nuclear operation. He has a set of slides in the back of the book that really describes in detail our nuclear operation. And Marc Manly who is our General Counsel and responsible for our Human Resources.

We have five objectives that we would like to achieve this morning. First, we want you to meet the Chairmen of three of our five state commissions. They will offer their regulatory philosophy, insights into where our industry is today and where it's headed in the future. You will have an opportunity to ask them questions in that part of our program.

Our second objective is to update you on our capital program for 2009 to '13, which is almost \$25 billion, and to review with you our financing plans that underpin that plan. David Hauser will lead that discussion today.

Our third objective is to provide you with greater clarity as to our regulatory plans and initiatives over the next five years and Keith Trent will lead that discussion. Our fourth objective is to give you a deeper look into the operations of our regulated and commercial businesses. Jim Turner will talk about our regulated businesses and Lynn Good will dive into our commercial businesses.

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The fifth objective is to reaffirm our value proposition that we talked about in detail at our meeting last year on September 11th. And let me for a moment reiterate our value proposition so there is clarity with respect to that as you listen to the presentation and you prepare your questions.

First, we are committed to the strength and the integrity of our balance sheet. We have one of the strongest balance sheets in the industry and we have made decisions and plans to protect that balance sheet. As you all know, job one for our company is to provide affordable, reliable and clean electricity 24 by seven.

And the only way we can do that year in and year out is have access to capital and have to access to capital at reasonable cost. And so the strength of our balance sheet is critical to our ability to carry out our mission. So we are committed to the strength and integrity of that balance sheet.

Secondly, we are committed to our dividend and its growth. We believe that we can grow it at 4% a year during the next five years. Of course, any decision with respect to our dividend is subject to Board approval, but our plans are predicated on growing it at that rate. And that is critical because it is critical to our ability to attract capital and to carry out our mission of delivering electricity to our customers.

Our third objective is that we are committed to achieving 5% to 7% growth in earnings per share during the next five years. It's important that we achieve that because it will support our dividend growth. David will discuss our value proposition in detail, how we will achieve it and the timing over this five-year period.

Our senior team has spent much time thinking about the economic conditions of today and the financial markets. And after much discussion, we have assumed several things about the next several years. First, we have assumed that we're going to be in a recessionary economy.

It's not certain yet whether this will be a two to three quarter recession or what the economists call a V recession, which is characteristic of every recession that we've had since 1980, or it will be a U recession, which is very similar to the recession that we had in 1980. And that lasted four to six quarters.

It's our belief that it may well be a U and that offers special challenge for us in the power sector because, for every U recession that we've experienced in our industry, at the end of the recession there's been a significant rebound in the economy and significant rebound in the demand for electricity. So as we look forward, we have to plan for that rebound, even as we're working our way through a very recessionary economy.

We certainly believe there will be softening of demand during this recessionary period, we've seen signs of that. But clearly underpinning our plans, underpinning our investor proposition is the recognition that we're in a recessionary economy.

The second assumption that we made is that over time the unprecedented volatility that we're experiencing today in equity, debt, commodity and currency markets will smooth out. But quite frankly, we're not sure when. And we've made plans and will be acting accordingly over the next several years.

We've also assumed that credit markets will continue to thaw. As you all know, last week we issued \$900 million in debt, some five-year and some ten-year term, at reasonable rates, quite good rates quite frankly, given the market that we're in. David will discuss at length this issuance by Duke Energy Carolinas. So we have the assumption that the credit markets will continue to thaw.

Consequently, based on these assumptions and as we said in our November 5th earnings call, in the short-term we have made decisions to defer and delay capital in 2009. And as I said then, in the regulated business you can defer and delay maybe for a year, reinvestment in your transmission distribution generation, maybe you can do it for two years and in some instances three years.

But at the end of the day, this capital's non-discretionary. To maintain the reliability of our service, we have to reinvest in our assets in order to maintain the quality of service that we provide to our customers. And we'll talk more about that in a moment.

It's our judgment that in '09 our earnings will be flattish, but we will be able to achieve the 5% to 7% growth during this five-year period. We will provide more precision around our earnings, as we have in the past, when our Board approves our employee incentive target, and that will be in January.

So we have five objectives, we'll spend a lot of time today in these discussions. And I know your questions will come with respect to, can you really deliver on the value proposition that you've proposed. We believe we can. We've made plans to do that.

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We recently made a series of changes within our organization in our leadership to not only strengthen our team but to reposition our team to deliver on these commitments that we're making to you today. Some of the moves are developmental, some are positioning, for instance, with Ellen Ruff taking a leadership role with respect to our nuclear project. It's to really be better positioned to drive forward with the development of that project, which we believe will come online in 2018 to 2020.

So with that as background, what I'd like to do at this time, if I may, is to ask our three chairmen, if they would, to please join me on the stage. And what I would like to do is introduce them. If you all could come forward. And I'm going to introduce them in alphabetical order, I'm showing no favoritism here, that would be wrong. Their bios are in the book.

Welcome, that would be great. First, Chairman Ed Finley, he's a lawyer who has spent many years practicing in the public utility sector in North Carolina. He was appointed chair of the North Carolina commission in 2007. Chairman David Hardy who is also a lawyer who spent many years practicing law in Indiana and Kentucky is the chair of the Indiana commission and he was appointed in 2005.

And finally, Dr. Alan Schriber who is not a lawyer. He's an economist who has been a professor and an owner and president of broadcasting corporation and he has the distinction of being the chair of the Ohio commission for the past decade, appointed under both the Republican governor as well as the Democratic governor, which shows his great ability in the clinical process to be able to do that and to serve so long as chairman of the Ohio commission.

So what I would like to -- is I'm going to ask each of them to spend ten or 15 minutes talking with respect to how they see the future. And I'm going to go in reverse order and start with Chairman Schriber to kick it off. And Chairman, you can stand up here or just do it from sitting there, whatever you're most comfortable with.

Alan Schriber - *Public Utilities Commission of Ohio - Chairman*

Well either way. Thank you, Jim, and thank you for inviting us to New York. And it's nice to see -- and one of the things about ten years is that I recognize an awful lot of faces here and a lot of them have already heard this spiel. But they're going to hear it again, I guess, and I'm sure I'll hear some of the same questions I've heard many, many times. But that's fine because a lot of good folks.

As most of you know, the present mandate under which we're working in Ohio is to implement the provisions of a significant piece of legislation that was enacted this past summer. And in doing so we are very, very, very, very busy because most of that is supposed to be accomplished by the end of this year for rates to go into effect January 1st of '09.

Now there are several provisions, as most of you are aware and I know you're aware, but I will go through them quickly and sort of where our thoughts are but certainly not our decisions. Clearly rates are paramount.

We have to consider certain rate plans. One could be what we call an Electric Security Plan, which would be a plan that we would employ to get rates into effect over several years in an attempt to avoid rate shock. There is also what we call our market rate option, which a company may choose. And that would be sort of a blending in of market rates with standard service offer as we move forward.

Now interestingly, I'm going to take a little credit for this, the Electric Security Plan, I was on my way to Columbus one day, driving from Cincinnati. And I was on the phone and someone said, well what are we going to call this? And I said, how about just Electric Security Plan?

And that's where ESP came from, it was just driving down the road and one of those moments where you have some nice windshield time and you're able to day dream a little bit. So that's where the ESP came from and the MRO, the Market Rate Option, was something that was clearly pushed by the utilities within the context of the legislation and the political process.

The other significant component is the advanced energy component, or I should call it the alternative energy component of the legislation. And there's two pieces to that. We consider alternative energy to consist of both advanced energy, which is certain forms of nuclear, advanced nuclear, whatever that is, I'm not quite sure, and then clean coal technology.

So there are certain benchmarks that are in place to be met by companies in 2025 -- up to 2025. They roll in either advanced energy or renewable energy, and there are certain requirements for renewable energy.

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Now -- excuse me -- taking all of this into consideration, having been in this gig for a while, ten years now and six years in the 1980s, I've probably conducted 50 public hearings. And it's no secret that in many of these public hearings people will be brought in by the bus load and they will be prompted as to how to testify and what to say before the commission. And it's pretty obvious.

But I have to tell you that within the last couple of months I've heard testimony like I've never heard before. We've heard from people who are clearly scared to death, fixed income, retirees. And having done enough of these, we do have the ability to distinguish between those who really, really are serious and those who aren't. Everybody's serious, obviously, but the people out there are very, very, very concerned.

And I'm not saying that that's going to have an overwhelming influence on outcomes, but I think it's something that we need to consider. And I think the companies need to think about that as we move forward, that in this particular time -- I mean, can you imagine, in a deflationary period, having a situation where prices in once sector are moving up significantly? It doesn't make a huge amount of sense.

Furthermore, as a state, it's very, very difficult to sanction significant rate increases when your state is really a desperate economic situation. And Ohio is clearly in a desperate economic situation.

So these are the kinds of things that we have to carry forward in our minds as we deliberate these rate plans. And that's not saying -- believe me, that's not saying that there are outcomes already in place or at least in our minds.

What it means is that I think we all have to be cognizant of the fact that we're in some pretty dire straights out there. And I think we will be considering that as we move forward and what impact that has remains to be seen.

Nevertheless, as you know, we're pretty busy and it's not as if we just have electricity companies' rate plans to be considered, we have gas, we have water, we have cases all over the place in front of us. And typically -- well, by law, rates have to be -- in any rate case you have 275 days to put rates into effect, otherwise the company can put them into effect, subject to refund.

We've got cases sitting there with gas companies and water companies and electric distribution companies that are well over a year old. And they're going to stay that way because our mission is to get these plans out by the first of the year. And I guess that's a mandate and I think we'd like to get it done.

So with that, Jim, thank you for the opportunity to have a few minutes. And we'll answer questions later and we'll shift it over to Dave. You're on.

David Hardy - Indiana Utility Regulatory Commission - Chairman

Drinking -- what I do best. In contrast to Ohio, we're relatively different and, certainly on a relative basis, relatively quieter. We have not had the legislature make the same choices that Ohio did. And from that standpoint, the way we do it is essentially the way we have done it for a number of years.

That said, we are still busy in the sense that we have had the gas companies come through, we've looked at their rate structure and we have gone forward with a circumstance where they have decoupled their rates and enabled themselves to take the next steps to look at the way they do business.

What we have done as a commission is to continue to be involved in that process so that we can see that, if something works, whether that something is transferable to the other company. And we look at those things on a regular basis, just to see if we are feeling our way and having any measure of success at all. So far that's been a two-year process and I think will give us a lot of insight as we begin to look at the same kind of issues on the electric side.

On the electric side, we are entering an active period in the sense that the last capacity in Indiana was brought online in 1989. We now have a project underway that will probably show us additional capacity in 2012, perhaps 2013, given the vagaries of the construction interval.

That is something that the legislature has done that is different from other places in the sense that in 2000 they passed a statute that provided for a form of non-traditional regulation, should someone fit within the definition of what we call our clean coal statute.

Duke, as you're doubtless aware, has applied under that statute and we have ultimately issued the commission's authorization to go forward on that. That decision was appealed and has now been blessed or upheld by the Court of Appeals in Indiana. Whether that will be the end is hard to

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say because the opportunity to appeal to the Supreme Court is still timely. Whether that appeal will be made is unknown to me, although we should know that answer fairly soon.

The corollary appeal on that plant, that I'm sure the company will cover in greater detail, is that the air permit that accompanies it has been appealed to the Court of Appeals and the Court of Appeals has not yet spoken. Nonetheless, what we are looking at is a circumstance where it is important to us to look at the construction of additional capacity, because two things say it rather well in a capsule form, I believe. Indiana has the fourteenth lowest electric rates in the nation.

And really, the startling thing that came out of the DSM investigation is that Indiana is the sixth highest per capita user of energy in the United States. We are a heavily industrialized state, we have a number of users and it's hard to say that those two concepts aren't coupled.

From the standpoint of the state, we are, I believe, one of the very few AAA-rated states as a state in the United States. And we, though, are beginning to see weakness, certainly the revenue projections that were made by the state have not come close to the projection. So we are seeing earnings as a state to be fairly flat.

Nonetheless, what we have is support from the administration and from the legislature because, certainly in the interval I have been there, which is approximately three years, I think we have seen more coordination between the administration and the commission and the legislature, because they have an enhanced comprehension of the significant role that the utilities play in the well being of the state.

So we're busy and I would imagine we will remain busy. But I think so far we're a little bit ahead of the game. And I think Indiana is well positioned to go forward in a positive way. Ed?

Ed Finley - North Carolina Utility Commission - Chairman

Thank you, David. The regulators in North Carolina I think share the concerns of the power companies in looking to the future and determining how best to meet demand that they confront. Historically in North Carolina the increase in demand has been at the rate of approximately 3% per year and that has slowed more recently to approximately 1.5% per year.

The industrial load has fallen off due to slowdown in the textile and furniture businesses. Commercial and residential load has increased both in terms of increased population within the state and increased usage per customer. Who knows what this current economic condition will foretell about the future but, nevertheless, we would expect, as the volatility calms down, that the demand in North Carolina will continue to grow.

All of the generation sources that are available to the power companies have their drawbacks or their critics or their concerns that are raised by those generation sources. Duke is working on the construction of its Cliffside plant in western North Carolina. That's the last coal-fired plant on the drawing board in our region of the country.

That application that Duke submitted for that plant received substantial environment opposition. The coal generation has always been an emitter of pollution. In North Carolina we've taken substantial steps to reduce the ozone emissions through the Clean Smoke Stacks legislation that the power companies have been cooperating in implementing.

The greenhouse gases are the newest criticism, as you know, of coal-fired plants. And we have an active environmental community, well organized in North Carolina. They watch with care what the utilities commission does, what happens in the legislature with respect to energy legislation. They're well organized and well funded and they appear in all sorts of proceedings.

We have integrated resource proceedings where we have the power companies predict what their demand will be in the future, how they intend to meet that demand. Those used to be sleepy little cases that no one paid too much attention to.

Of late the environmental community has come out in force at those proceedings and they've argued, for example, that the projections of demand are inaccurate. They have hired experts to say that the projections of demand are inaccurate because the power companies have not factored in what energy efficiency and demand-side management and renewables can do.

Many people in the environmental community adhere to the philosophy that energy efficiency, demand-side management and renewables will solve all of our future energy needs and we don't need to be planning for base plant construction. That's the type of attitude that we're seeing a lot these days and must be confronted.

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So coal, we shouldn't, in my view and I think in most of the regulators' view, just dismiss coal for the future because the fuel source is indigenous, it's relatively cheap, it's abundant. In North Carolina it's relatively close to where it will be burned. The technology is not quite available yet to capture and sequester the greenhouse gases, perhaps we can make some strides towards solving that problem but that's some ways away.

We're concerned about the cap-and-trade legislation, if and when it is passed, what effect it might have on North Carolina. Such a high percentage of the electricity that's generated in the state is generated from coal-fired plants.

If those emissions allowances are auctioned and if the money that's generated by the auction is not returned to the state for the benefit of the rate payers, that could have a significant impact on the level of rates in North Carolina and South Carolina. And traditionally they have compared favorably to the rates in other parts of the state.

The power companies tell us that they will, as Jim has indicated, rely on renewable resources to meet their long-term needs. Jim indicated that they're looking at 2018 or 2020 to bring nuclear plants online.

We've followed what they're doing with their Lee plant in Cherokee County, South Carolina. We've given them some money or authorized the recovery of money that they have incurred for development cost in that plant.

But there are a lot of ifs about the nuclear generation. There's still a concern over the waste and the Yucca Mountain repository in Nevada. The environmental community is concerned about that, as well as they're concerned about coal.

I think the executive director of the Sierra Club in North Carolina is reputed to have said she's not going to spend all of her resources fighting nuclear at this point because she thinks that's going to be such an expensive alternative that it will not be used because of its expense.

And I think Duke has indicated that its projected cost of the Lee construction, the latest projection is \$11 billion. That's a change from what we had heard in the not too recent past of \$8 billion.

And truth be known, I think it's difficult to tell what any nuclear units will cost. It's been so many years since we built those plants in the United States, we have new procedures before the Nuclear Regulatory Commission. The contractors are reluctant to commit to what they will do the job for. There's a long lead-in time, there's a new NRC procedure.

So there's a lot of uncertainty about what that cost will be, but obviously nuclear is a clean source, there are no greenhouse gases. We have a new procedure in North Carolina that reduces some of the risk that the power companies confront in recovering their costs, what we call our Senate Bill 3 legislation that removes some of the uncertainty.

At periodic intervals Duke and Progress can show what their costs have been, what their projected costs will be. They can get an approval on the prudence in the reasonableness of those costs. That gives them some certainty, unlike legislation in South Carolina and Florida. However, before they can actually put those costs into rate base, they must have a general rate case.

I know that's part of the 2007 legislation that perhaps the power companies are a bit disappointed in, but that's what it is. And Senate Bill 3 was a comprehensive piece of legislation, it had all sorts of stakeholders, all sorts of meetings, all sorts of publicity, all sorts of legislator interest.

It was a compromised bill, it gave something to the environmentalist, it gave the power companies the opportunity to recover some of their reagents and some of the costs they incur to clean up their smoke stack emissions more quickly on an annual basis. And it had this facet of the legislation that made it a little bit easier to recover their cost of the major plant additions.

The fuel of source of late has been natural gas. Natural gas has the drawback of reliability of the source and the variability of the price. With liquefied natural gas being a national market for liquefied natural gas, it can go all over the world and that affects the price.

The gas local distribution company people will tell you that the highest and best use of gas is to burn at the end use home or business and the best use of that is not to generate electricity. So even natural gas has its critics.

The renewables, there's certainly a renewed interest in renewable. Our Senate Bill 3 wraps requirement in North Carolina, a requirement that 12.5% of the sales of the power generated in North Carolina by 2021 must be generated by renewables or energy efficiency. That, in my view, is an ambitious goal. It has proven so far to be a relatively expensive way to generate power.

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Hopefully as the market develops and improves, those prices will come down. There is a lack of reliability in most renewable generation, you can't generate power from windmills unless the wind blows, you can't generate power from hydroelectric sources unless the water flows and you can't generate power from solar facilities unless the sun shines.

So they're low capacity facilities. Some of them emit greenhouse gases, are renewable sources but nevertheless there is emissions of greenhouse gases. So it's a tricky little area that we're -- perhaps renewables are best used in providing a swing source in between other additions.

Energy efficiency and demand side management is another solution that has a lot of potential. The interest historically in energy efficiency and demand-side management has risen and waned as prices do, or as the demand for power changes.

The problem with that of course is that its success is dependent on the consumer. The power company can't control the consumer and neither can the regulator control the consumer. The consumer has got to make a choice to make an investment in energy efficiency demand-side management facilities. And the consumer has to weigh the long-term benefit of that. And whether they are economically willing to make that investment is up to the consumer.

And with the prices in North Carolina being as they are for power, relatively modest in comparison to what's happening in the rest of the country, there's not quite as much incentive in North Carolina to engage in those practices as California, for example, where it's more successful.

We are grappling, the commission and the power companies are grappling with implementation of the Senate Bill 3 legislation that I mentioned a moment ago. We are reviewing fuel requests and requests for riders that pass these renewable energy efficiency costs through to consumers on an annual basis.

We're looking at ways to implement the base plant provisions of the act, we're finding little glitches, little concerns. We know that there's some interest in perhaps going back to the legislature. Who knows what'll happen if that occurs, we may be opening up Pandora's box, I just don't know.

Let me mention briefly that the composition of the North Carolina Utilities Commission is changing. We have seven members of our commission, we have one vacancy, Jim Kerr who was the president of NARUC in the year before this one has gone into private law practice. He was very active in the energy field, very knowledgeable.

Jimmy Ervin has just been elected to the North Carolina Court of Appeals. Jimmy has served on our commission for nine years. He's a very knowledgeable person. He was chairman of the NARUC Energy Committee, one of the brightest people you'll ever know.

I was looking for a case, we were working on an order recently, and I said, Jimmy, isn't there a case out there that addresses the procedure that the commission can follow as far as accepting evidence -- isn't it more relaxed than the Court of Appeals. I said, I know that there's a case out there, I seem to remember that there's a case out there, but I can't remember. I can't seem to find it.

And he said, well that's the Carolina telephone case that was cited in 1987 at Volume 275, Page 666 of the North Carolina Report. That's the type of man that Jimmy is and we will miss his expertise.

Two of the seven seats are up for reappointment next year, 2009, Howard Lee and Lorinzo Joyner. We have a new governor, Beverly Perdue, Democratic governor. My assumption is that the Easley administration and the Perdue administration will be talking about filling these seats, but that could have an impact on the decisions that we render and the philosophy that the commission adheres to.

My philosophy, I sort of come out of my legal practice for 30 some years was in representation of public utilities. And I sort of take a long view of those types of things that you can, if you're too stringent and too strict on the public utilities in the short run, you end up paying more for the cost of the product in the long term. But that's only my philosophy and other people can have different philosophies and that's, I guess, why we have seven commissioners.

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

Chairmen, thank you very much. Let me ask, before we open it up to any questions, are there any follow-on comments that you all would like to make?

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Alan Schriber - Public Utilities Commission of Ohio - Chairman

Yes, thanks, Jim. I'd like to follow up a little bit because I spoke in generalities and I'd like to draw it in a little bit more to Duke, if I can. As you know, our legislation provides, as a deregulated or restructured state, that notwithstanding that, that a generation, if one selects an electric security plan, they are entitled to have a revenue pass for new construction of generation.

But we're putting a supreme emphasis, down the road, on demand response. And I think -- I hope I don't misrepresent the thrust of all the things that Jim has said, because I do tend, in fact, if I interpret it correctly, that demand response, be it save-a-watt or the fifth fuel or what have you, can be a very compelling way to substitute for generation. And we know that demand response is there, we know there are ways to get there.

They, meaning Duke, has in Greater Cincinnati, out by the Cincinnati airport in Northern Kentucky, a facility to demonstrate exactly what the house of the future can look like. And it's quite fascinating.

The thing about electricity, and natural gas for that matter, is that unlike any other commodity I can think of, you don't know as a consumer what you've spent until you get your bill, which ended a period ten days previously. So we know that AMI, Advanced Metering Infrastructure, is on the way, needs to be on the way so that consumers can have some control over what they do.

And in fact, what Duke has proposed, and you can see it in their facility -- their experimental facility, that, if you as a consumer choose to, you can have actually Duke take care of those things for you. So if you don't want to get up and run your dishwasher at 3:00 in the morning, I think Duke would have the capabilities to do that for you. I know I wouldn't. But --

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

I'll run right over.

Alan Schriber - Public Utilities Commission of Ohio - Chairman

Right. So I think Duke stands out among the companies that I'm aware of in terms of their pursuit of demand response as a vehicle to substitute for generation. And we take that seriously. And going forward, SmartGrid, everything else is going to be very, very important to us in Ohio and we're going to spend a lot of time on it as part, by the way, of these ESPs. So that's what I have to say, thank you.

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

Chairman Hardy?

David Hardy - Indiana Utility Regulatory Commission - Chairman

The obvious consciousness for all of us is the financial markets and if we are going to look at a variety of construction programs or even DSM programs, neither of which are free. Certainly construction is the more enormous.

And one of the things that we have been able to do in Indiana as the commission is to apply the judgment given to us by the Legislature, to look not precisely at financing as a stand-alone entity, but to be able to offer construction work-in-progress, assuming that the various portions of the statute have been met. This is something that I think will contribute greatly to the stability of the project and to the company's ability to plan on how to meet that particular issue.

That has also engendered something that we had not had as a previous responsibility and that is, because we are looking at -- we have granted the ability to use construction work-in-progress, that will put the commission closer in touch to the construction process itself and require us, on a fairly regular and recurring basis, to look at those costs and look at that progress. This is in contrast, of course, to the previous ambush scheme of take seven years, build your plant, come and see us and we'll tell you what it costs.

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I think it will serve us both to be more current in knowing those costs and knowing that progress. What we have had to do as a commission is to go forward and employ our own engineering company who will act as the company's engineers or the owner's engineer, if you all are more familiar with that concept.

We certainly bring no expertise as a commission to the process, but I think what we do bring with that process is a greater comfort level to the legislators and the administration that things are being reviewed more currently, perhaps, than in other times. I think this will contribute greatly to the ability to bring something in that is not a surprise, at least as far as cost and schedule goes.

And I think ultimately it will be much to our benefit in the sense that we need to do this because we, while we typically look out a longer portion of our planning cycle, we'll look five to ten years out, but we also have people who need electricity in their homes tomorrow morning. And reconciling those concepts is something that we have been given the tools to do. And to a great extent I think that will enhance the ability not only of the commission but of the company to plan with a greater degree of certainty and stability.

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

Any follow-on questions?

Ed Finley - North Carolina Utility Commission - Chairman

Jim, just to stress one of the points that Alan made earlier, with this economy and with people losing their jobs and losing their 401k monies and looking to the future and seeing all the uncertainty, we do have a lot more consumer push back, we've seen that a lot lately.

The commission issued an order for Progress I think it was last Friday, where we allowed Progress to increase its rates possibly 10% to pass along the increased cost of fuel and these renewable things. We issued those orders on Friday afternoon to decrease the impact of those but, nevertheless, people heard what we said when we increased Progress's rates by 10% anyway.

And the reaction to that has not been very favorable. One of the things about the communications system that we have now, it's hard for the utilities commission to hide from the public. With email and Blackberries and voicemail and all that type of thing the consumer can find you when they want to. And they've been seeking me out this week and saying, what were you thinking and what type of bribe are you taking under the table to be increasing rates by 10%.

So we sense their frustration, they will express that frustration to the power companies, to the legislators, to us, to the governor's office. And so I believe that all of these things that we're talking about, over the long term will have a tendency to increase prices. And that's going to get the public's attention and we will be hearing from them and we'll have to take that into consideration.

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

Great. Thank you very much. Before we open it up for questions, let me just caution that they are open for any question that you might have about anything but any case that we might have pending before these commissions. That's out of bounds. So I would ask that you not ask any questions with respect to any proceeding or proposal that we might have pending before these commissions.

But other than that, they're prepared to talk about anything and I know Chairman Finley would be delighted to talk about how North Carolina just beat the heck out of Kentucky just recently. Yes?

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QUESTION AND ANSWER

Unidentified Audience Member

Thank you. All three of you I think added to the body of knowledge that we in the financial community have and I appreciate your being here and doing that. I was somewhat disturbed by Chairman Schriber's references to economic conditions, which presumably could affect the rate situation.

And I was under the impression that, in acting as a judge, that you considered evidence from both sides, I think you always have. I would hope that economic conditions' effect on the companies that you regulate are of as much concern as the effect on individual consumers and people who object to those rates, and particular in consideration of the fact that rates in Ohio have been stable at unrealistically low levels for quite some number of years. I wonder if you could comment on that.

Alan Schriber - *Public Utilities Commission of Ohio - Chairman*

Yes, sure, Carl. First of all, let me tell you that, unequivocally, I understand that the interest of rate payers and the interest of the utilities are interdependent, they are not independent of one another, which leads to the things that you've heard many times about the old balancing act.

And of course we are aware and concerned about the health of our utilities. We have had significant examples in the last couple of years with respect to the need to prop up the reliability of some of the companies. And we have a lot of experience with that and we understand that that takes dollars. Reliability is very, very important, I understand that as much as I understand the nature of rates being important. And we do understand that.

So there is a balancing act and all I'm saying is that the scales today are such that there are folks out there who are really hurting in Ohio. And you can take a headline every day, jobless claims there's an all-time high, unemployment is pushing in Ohio all-time since the Depression. And these are things we've taken into account.

Now I'm not saying that this will have an over-arching impact on the decisions we're going to make. I'm saying that they are out there, they're considerations and it's simply inescapable and something we have to live with. And it's not to say that things in the long run will not be better, things in the long run will be better. But I think in the short run we have to be cognizant of a lot of things.

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

Other questions? Sean, right up here first please, she was the quickest at getting her hand up. There will be --

Mary Sheridan - *Capital Research - Analyst*

Thank you. Mary Sheridan with Capital Research and my question is first with a statement. The utility industry faced projections of 30% to 50% rate increases in 1974 and 1984. And that is ancient history, but the rate payers, the bond holders and the shareholders all suffered, it was ubiquitous.

So now that we've got challenges and they're all by another name. But things like, just for one example, the shadow calendar for capital markets is huge. We have \$8 billion offerings with IBM, with Pepsico, with AT&T and they're coming at rates of 8% and 9%. So, I mean, those are big names.

So the question is, as we look at the industry in the next five years, is there a chance, and this isn't a trick question, but is there a chance that the industry is going to be as healthy five years from now as it is today for all those constituents?

Ed Finley - North Carolina Utility Commission - Chairman

I think there are challenges that we are confronting in the near-term future that we haven't confronted since the '70s and the '80s potentially. You know, we had wholesale markets making power available from one part of the country where it was in excess to another part of the country where it was needed.

And we've had capacity that's been -- the nuclear plants were running at 95% or 90% capacity, making good use of efficient plants. We've been doing that for a number of years.

In our part of the country and in other parts of the country we're going to need new generation. That's what was happening in the '70s and '80s, where we're going through that cycle again. That's going to put upward pressure on capital costs and rates.

Hopefully we learned a lot of lessons in the '70s and '80s that we won't, with all the uncertainty with those nuclear construction costs, with uncertain NRC procedures. You have Three Mile Island and Chernobyl in the middle of all of that and the prices just were increasing exponentially as those projects went along. You had the Shoreham plant that never was put online because of an evacuation -- they couldn't get an evacuation plan on Long Island.

There are still people around who remember those days and hopefully we have learned the lessons from that that will lessen the impact and allow us to avoid some of the problems that we confronted then. But we're going through another construction cycle and it's going to put upward pressure on rates and costs and we need to be careful. And there more is uncertainty or the potential for more uncertainty that we're going to have to confront.

David Hardy - Indiana Utility Regulatory Commission - Chairman

I think too what we will begin to see is more of an examination of are we returning to normal after an abnormal period where money was essentially free. And maybe 8% is really a return to the norm and that is the environment in which we will go forward.

When we moved to Louisville, I think in 1985, our mortgage -- and it was a sweetheart deal from the bank because it was bank-owned property, and it was 14%. If you had to do 14% housing today I think people would probably jump off cliffs. But yet, that was not uncommon then and we simply did it.

I think too, as Ed mentioned, we were under an all new capacity construction scheme in the '70s, now we are doing two things. One, we are adding, but as much as anything we're also replacing existing capacity. And you are looking at a fleet that is, in Indiana's case, I think roughly 20% of our generation fleet is nearly 50 years old.

So you have more than one thing to do. One, you have to meet additional load and secondly, you have to shore up what you're using to meet that load at the moment that may not be economic either to rehabilitate or put additional controls on. And then you've always got the word, I think most of us have spent nearly an hour of waiting, and that will be whatever national policies change all of the cost structures that are in place, notwithstanding the logic and the quality of those existing facilities.

Alan Schriber - Public Utilities Commission of Ohio - Chairman

I think five years from now we're going to be better off relative -- I mean, we may not -- or I should say the utility industry may not be flourishing as it is or was a number of years ago. But relative to everything else, I think what we're seeing now is really a revolution in terms of the intelligence out there, with respect to rate design, with respect to such things as straight fixed-variable, which may ultimately give comfort to utilities with respect to recovering fixed costs. That may find its way into that realm.

Technology is burgeoning, entrepreneurship is picking up like crazy. The ability, as I've already said, to manage demand is going to be coming about. So I think the industry is going to be, five years from now, in pretty good shape.

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

There's a question right over here. Yes?

Unidentified Audience Member

Have any of you done or seen studies as to the amount of residential usage, which is devoted to lighting, and the impact of the screw-in fluorescent on this aspect of residential demand? And specifically also, with regard to what impact it would likely have on daily peaks and seasonal peaks.

Alan Schriber - Public Utilities Commission of Ohio - Chairman

I have not seen the data, I would imagine that Duke has. And they promote the usage of the fluorescent bulbs, in fact they subsidize the purchase of those bulbs, at least where I live. So I would assume they have that information, I don't. Maybe my colleagues do.

David Hardy - Indiana Utility Regulatory Commission - Chairman

We have had sort of a series of reports that, without doing a great deal of quantification, has simply said there is just no question this is the correct thing to do. Taking that as an answer, it becomes more awkward when you begin to look at distribution.

If you wanted to take, and this is something that the Administration asked us to look at recently, was let's say we gave every household in Indiana 10 CFLs. You can roughly calculate the reduction, although lighting is not such a portion of a residential customer's bill.

But then you say, there are 3 million households in Indiana, and I don't do math, but that's times ten that many CFLs, times delivering them trying to get them there. So it's notwithstanding the quality of the conclusion, no one yet has come up with a great way to do that efficiently and quickly.

But I suppose one way is to raise rates and incent, if that be the right word, a residential person to go to his local hardware store and buy a whole bunch of CFLs. That's not what they do typically. And why that disconnect is there no one has ever explained to us.

But we have seen, at least on the gas side, a tremendous response to rebate programs to change behavior. And that probably, along with some structural things such as the change in building codes, holds long-term promise. But short term I'd say indifference is what we see, as much as anything, from consumers.

Ed Finley - North Carolina Utility Commission - Chairman

Yes, I am tangentially familiar with some studies, again I won't quote you the details, but my reaction from the studies was that the reductions for changing out the light bulbs and going to the CFLs is less than I thought it was going to be.

In other words, the lighting cost, as David said, is in the great scheme of things is not the most expensive part. And certainly at peak demand you've got air-conditioning units in our part of the state and the heating in the winter time -- electric heating in the winter time. So at the peak those lighting costs are relatively small factors.

It's the low-hanging fruit as far as energy efficiency is concerned and so that's why it's stressed. It's an economical thing to do and it's a wise thing to do. And multiply that over all the consumers out there and it's an important thing to do. But as far as peak demand, my impression is that it's maybe less than you would expect.

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

A question over here?

Unidentified Audience Member

Mr. Chairman, we saw obviously on Election Day a pretty seismic change in the U.S. But we may have seen it again [reprobate] yesterday with the change at the U.S. House Energy on Commerce Committee chairmanship.

I would love your views on how you and the other commissioners prepare and plan for what could be a Lieberman-Warner-like climate change bill coming down the path over the next few years and what that means for the long term in terms of the economics of generation existing in your particular jurisdictions.

Alan Schriber - Public Utilities Commission of Ohio - Chairman

That's a tough question. I can tell you that Monday, recognizing that there's going to be a significant change in administrative philosophy from Washington, we are assembling in the cabinet room with the governor to discuss that very subject, climate change, and how we would expect to react. So I assume we're going to hear a lot of voices, there's going to be a lot of anticipation. Beyond that I'm in the dark.

David Hardy - Indiana Utility Regulatory Commission - Chairman

Well obviously the sun sets in Indiana after it sets in Ohio, but we're also still a little confused. We have had, actually, Indiana's senators contact us. In Indiana we have something called the State Utility Forecasting Group, which is something that conducts its studies under the auspices of the commission.

And we have tried to cost those bills, it's a very cumbersome process for us given our limited resources. But when you look at the numbers, because we are a heavy coal-using state, it has to have a significant impact on the way your economics of construction and -- your industry will be badly, badly affected, really more than simply other factors that contribute to that.

Now whether that throws you into an enormous dislocation or simply a moderate dislocation is more difficult for us to say. And that's where we've been looking hardest to say is this something we can live with a little bit with dislocations, or is this going to be such a fundamental change that you have to shut the state down for five years. It gets almost that scary, depending on the assumptions that you make and where those assumptions lead you to conclude.

Ed Finley - North Carolina Utility Commission - Chairman

We as commissioners, when Lieberman-Warner was being addressed, wrote to our representatives and pointed out our concerns with the legislation, particularly the auction part of the cap-and-trade legislation and the concern that it's a state that depended so heavily on coal, that could really drive up the rates of North Carolinians, and asked them to pay particular attention to that.

And our two commissioners, Kerr and Ervin, of course are active in NARUC and NARUC was following that. And I think some of our representatives appeared before Congress to make their views felt. I think Congressman Boucher was an ally of Dingle and was, we thought, receptive to the regional needs of North Carolinians.

We're a little bit concerned with Waxman taking the chairmanship that he will take a harder line on some of these things than perhaps Dingle and Boucher did. So we're concerned about that. And we'll obviously do what we can to make the needs and the concerns that we have known and work through whatever channels we can to affect that legislation to the extent we think it's harmful to North Carolina.

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

Other questions? Yes?

Unidentified Audience Member

Dovetailing on that, as you think about energy efficiency demand side response as that's a partial solution, perhaps, to the carbon problem, or the cheapest, as Jim has often said, sort of the cheapest kilowatt that you could find, how do you think about decoupling? It's one thing I guess to make utilities, generically, to make utilities whole on the money they spend on energy efficiency programs, but how do you think about revenue decoupling as electricity consumption may perhaps decline?

Ed Finley - North Carolina Utility Commission - Chairman

We were required by the North Carolina General Assembly to look at decoupling and other rate-making devices and report back to the General Assembly as to what our findings were. We asked for comments from the stakeholders, the interest holders, and we got a lot of disparate, as you might expect, reaction on decoupling.

We have implemented decoupling procedures for both of our major local distribution gas companies, Piedmont Natural Gas and North Carolina Natural Gas. And where we came out of the woods on that issue was that we thought we should first see what Senate Bill 3 did as far as spurring energy efficiency and demand-side management.

That legislation allows us to award incentives to the power companies for implementing those types of programs and allows them to recover those costs quickly. Decoupling on the electric spear for companies that have increase in sales are not necessarily the same affect on gas companies that have decreasing sales per consumer.

And so where we came out of the woods and what we reported to the North Carolina legislature was that we wanted to wait and see what Senate Bill 3 procedures produced before we jump into decoupling for electric power companies.

Alan Schriber - Public Utilities Commission of Ohio - Chairman

We in Ohio have moved vigorously, by the way, and there are two types of decoupling. There's one in which you can talk about it in a global sense, decoupling can be one where you have a true-up every year or periodically. And there's the straight fixed-variable.

We actually moved to straight fixed-variable for our gas companies to the point where we made a lot of people unhappy and we're going to be in the courts. But we believe that that's the appropriate way to go. Ultimately, that could transition to electricity.

We think it's important because it sends the most appropriate price signals. And if you're recovering everything on a biometric basis, you could actually, in my mind, I hate to put it out there like this, but you could actually over conserve to the point where you drive companies into more rate cases.

So if you hold a straight fixed-variable, there's an optimum level that you will conserve to. And you'll be getting the appropriate price signals because it'll come from the generation side. And some day I would expect we're going to move into the electricity arena with that type of a rate structure. We're doing it right now in the gas.

David Hardy - Indiana Utility Regulatory Commission - Chairman

We have done it on the gas side in Indiana. And I think with really two things in mind, one, can this work, the companies were proponents. We were able to look at other schemes elsewhere in the United States where it had been successful.

And I think there's a relatively high degree of satisfaction that it's probably an appropriate way to do it on the gas side. But what we've also learned enough on the gas side is that the business model on the electric side is much more complicated and complex.

And while one, certainly in the absolute sense, was not easy, it appears to us that, until we know more on the electric side, that it's probably more like stepping off a cliff rather than stepping off a curb. And so it may be appropriate at this stage, and I'm not confident that we know enough to try to implement it. And the corollary is, at least the Indiana electrics have not asked for it either.

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

Other questions?

Unidentified Audience Member

Thank you. The two of you from Indiana and Ohio, which seem to be the most significantly impacted or potentially by our current economic problems, could talk for a minute about how you see those affecting what you may do.

And what I was really trying to ask is, in the event that the economies in the heavily industrialized parts of your state do weaken significantly from here, do you have some thoughts at this point about how the state might be able to help with that and how it might directly affect your responsibilities?

Alan Schriber - Public Utilities Commission of Ohio - Chairman

I think clearly yes, the answer to that is yes we do have to consider it very carefully, particularly because economic development is a very, very important compelling issue and we have to have something to develop. So I think rate structure is important, I think we need to recognize in the structure of rates that high load factor consumers should be more favorably treated than those of low load factors.

I think there needs to be a distinction between residential, commercial and industrial. Commercial, the big box companies, it's not a huge issue with them because they're competing one on one. But with respect to our manufacturers it's really important. And economic development requires, in many cases, that special contracts are engaged in between the companies and the manufacturers.

You have a delta revenue issue at that point and that can become pretty contentious at times because you have that delta revenue. I mean the companies will do anything as long as they can recover, right? So if there is a significant delta revenue because you want to retain employees in a particular manufacturing facility, or you want to increase employment, then that's what you have to do. And you do that from time to time.

Do you discriminate? Yes you discriminate and you have to make those calls as to who's going to get the benefit and who is not in terms of the consumer. But overall, in today's economy, it's really difficult to make the call because everybody seems to be stretched, everybody seems to be hurting, whether they're consumers or manufacturers or commercials at this point.

So notwithstanding the fact that a lot of improvements can be made by fine tuning rate structures, notwithstanding all of that, overall it's a problem talked because you don't -- you can't even get that far today because of the state of the economy.

David Hardy - Indiana Utility Regulatory Commission - Chairman

And really I'll echo what Alan said, although I think it also points out to us what we are seeing is more of a coming together of a variety of interests where we do have cooperation of a greater extent, because these sensitivities are felt by the administration. They're also felt by the companies and they're felt by the commission.

And we do have a greater possibility of working together towards that common issue than we have had in the past. And I think we'll be looking at any potential answers, and there may be six or eight things to investigate, and we'll certainly try.

Unidentified Audience Member

A question, in the current climate do you find shoppers not going to Saks or Bloomingdale's or going to Wal-Mart and Target, does that make sense in your business, in the electric business? Is there a better value for money?

You heard Jim talking about deferring maintenance spending, if the consumers are complaining about rates, should they be allowed to let frequency interruptions go up, durations go up as you keep maintenance spending down, sort of a value for money in the product that you guys regulate?

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Alan Schriber - Public Utilities Commission of Ohio - Chairman

You know I think there's a big trade off there between all of the other things we've been talking about such as invoking all these alternative forms of energy. We might be able to stand down on that a little bit and promote, for example, infrastructure improvements at the expense today of putting in place a lot of alternative forms that may be expensive. Those can be postponed.

Waivers can be granted with respect to renewable portfolio standard benchmarks. And they can say, okay, Jim, you haven't hit your 3%, your 1.5% or 2% or whatever percent. But you know, we understand that, we would prefer that you allocate those dollars elsewhere because most consumers today, residential consumers, they're concerned about the rates, they're not even cognizant of how the electricity is coming to them and by what vehicle it's produced.

So it seems to me that it's really a matter of allocating resources in an optimal fashion. And I don't think, personally, today that 1/1/09 or the next six months or next year, spending a lot of money and passing that on to the consumers in the form of alternative forms of energy is effective or as prudent as it would be to spend it on maintenance.

David Hardy - Indiana Utility Regulatory Commission - Chairman

And you really highlight another role where I think this is much more inside baseball than perhaps how you relate to a consumer directly. And that is, if you're blessed with an RTO, within the RTO there are fundamental financial decisions that are made that affect the consumer's cost.

If you're going to have an internal RTO administration that raises the reserve margins, for example, that you must maintain, that has an enormous financial impact which is invisible to the customer, other than in his bill. But it is appropriate for the commissions and the companies, obviously, to look at those sorts of things.

And if that requires going to the FERC, who is perhaps unfortunately focused on the last national outage, and say, yes it would be great to have 90%, but on an economic basis, certainly in the short run, maybe we could live with this amount which is considerably less and also considerably less expensive.

And ultimately perhaps you do end up, we call them CAIDI and SAIDI, which I tell the legislature are two sisters from southern Indiana, but if you look at your duration of your outage and the frequency of your outage, perhaps you can live with a little bit more if you have a good sense that you can save considerable expense and tolerate that level. And that's really I think where the work is invisible to the consumer, other than in his bill, but I think that's an appropriate area where the companies and the commissions can be active and useful.

Unidentified Audience Member

Did you say blessed with an RTO?

Ed Finley - North Carolina Utility Commission - Chairman

Now for the past couple of decades consumers have not been real interested in taking full advantage of demand-side management and real-time pricing and interruptible rates, primarily in our part of the state, because the prices have not been so high as to give them that economic signal.

Two things can give them that signal, an increase in the price and a decrease in the ability to pay for the power. And so it may be that if people have insufficient funds to meet their budgets, then they will take advantage of time-of-use rates, real-time pricing rates and interruptible rate schedules.

The equipment that is available to the power companies now, the SmartGrid equipment and other types of sophisticated devices, certainly is better than it ever has been for allowing consumers to take advantage of those types of rates, to reduce their bill with less pain than ever existed in the past. And it pretty well could be that if the ability to pay the power bill is painful, then that will spur use of those rate-making devices.

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

A question over here?

Unidentified Audience Member

There are several things that we've talked about that one could say the world hasn't changed as far as utilities. There's still the current pressure of consumer needs, whether right now we know because of the economy, there is the tension between investors who are looking to short-term returns in an industry that requires long-term planning. So that's a given.

And I think what everyone agrees is that we are in a transition. And what we don't know is exactly just how quick this is going to be and how historic this is going to be. Warren Buffett says that he does not have a strategy in his business, he chooses to be more opportunistic. And I think given everything that's involved, how can one imagine what five years is going to really look like?

But my question is, and I'm sure you've done this is much of your planning, but if you were to imagine a white paper on the industry in transition, rather than focus on what you think the industry is going to look in the future, what would you put in that paper as the key factor that you would want people in the industry and your commissions and other to focus on, so that we could get through this transition with the least amount of pain.

Alan Schriber - Public Utilities Commission of Ohio - Chairman

I think the demand-side of the equation is going to be paramount. I think we don't, as I've said earlier, have the ability -- it was just like the light bulb, I have no idea if buying CFLs, whether they do me any good or not because we may have used more air conditioning or less air conditioning and it's all in one big mix. I have no idea.

That demonstration house I spoke actually gives us a pie chart and tells you which of your fixtures and your appliances are consuming what. That's really useful. But that's down the road. But it's a vehicle to get us to where we need to be with respect to the ability to respond, just like we do to everything else.

And clearly we're moving up into that elastic range of the demand curve and it's going to get -- so we'd have to be able to react to that too. So I'm convinced that the demand side, the technology that takes us there, is going to be where the action is.

Ed Finley - North Carolina Utility Commission - Chairman

Well I think what Alan says is important, that we need to be innovative and we need to pay attention to the technology. And to the extent that we can reduce the demand at every possible avenue we ought to take advantage of it, that we ought learn the lessons of the past.

And let's not neglect the supply-side piece of the equation too. To the extent we need power in the future, reliable power, low-cost power that's economical on a dollar per kilowatt hour basis, let's make the investment today to make sure that that reliable power for the whole country is available.

Make sure the transmission piece is in place, that we can get power from one part of the country to another. You talk about short-term fixes, short-term solutions, let's not let the transmission grid fall into disrepair and let's not have congestion and outages and brown outs and that type of thing.

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

Other questions?

Unidentified Audience Member

Yes my question is for Chairman Schriber. I guess in the past you've emphasized the importance of price stability. Given the recent precipitous decline in commodity prices, does that emphasis in your mind change at all with respect to your approach to generation prices in Ohio?

Alan Schriber - Public Utilities Commission of Ohio - Chairman

Well trying to keep away from where we may ultimately end up, but if indeed we're in a deflationary period, which is pretty scary, in fact we're in a deflationary period, I think that may argue a little bit more strenuously for rate stability than anything else. And I think that on a going-forward basis stability is what at least I've always gathered is very important to you all, earnings quality I've always inferred from you all was very, very important, probably the most important thing, rather than rate volatility.

Rate volatility leads to uncertain earnings. Earnings stability comes about because you have stable rates and a predictable revenue stream, at least in my mind and, again, what I've inferred from you all. So taking that all into consideration and taking into consideration where we are today, with potential deflation, I think there's a strong argument that rate stability is almost unavoidable if not desirable.

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

We have time for one more question. Yes?

Unidentified Audience Member

Thank you. Chairman Finley, you alluded to the consumer push back for a 10% rate increase for Progress. And on page 8 of the handout indicates that in the Carolinas, Duke will need all-in rate increases of 6.4% per year for the five years 2009 to 2013. 4.8 points of this comes from other than fuel. How does this work out politically? Is it realistic? What gives?

Ed Finley - North Carolina Utility Commission - Chairman

To the last part of your question, how does it work out for what?

Unidentified Audience Member

How does it work out politically? Or what gives?

Ed Finley - North Carolina Utility Commission - Chairman

You know I think that's a reasonable expectation. I think that the more the economic climate is uncertain, again the more people lose jobs, they lose their 401ks, there's economic uncertainty, the greater the push back, regulators are human beings. They react to the legislators, they react to their constituency. It will have some impact.

So in the past period when times were good, when the economy was good, I think that would have been an expected not unforeseen and not much of a push back on that type of potential increase. As times get bad there will be greater concern about it and we'll just have to confront that. But politics plays an important role in everything that we do.

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

My short answer to that question would be I'm delighted it's not 10%. Let me, if I may, thank you all very much for taking time out of your schedule to come here and to share your thoughts and insights with respect to the regulations and your insights in terms of regulatory policy to the people here.

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Because it's very important that there is transparency and clarity, not only in terms of the regulatory environments that we operate and the pressures that you all are under, but it's important for both the investors, whether it's equity or debt, to have a clear understanding of the regulatory environment.

So this to me, we're delighted that we could do this today because it really gives greater transparency to everybody in terms of where we are and we're headed and what the challenges are. And we clearly all have challenges in terms of moving forward.

So what we're going to do is take about a five- or ten minute break and then we'll start into our presentations. Please join me in thanking our chairmen for being here today. You guys were terrific.

Sean Trauschke - Duke Energy Corporation - SVP - IR and Financial Planning

Let's take a 15-minute break, there are refreshments down the hall here and then we'll see you back here in about 15 minutes.

(BREAK)

PRESENTATION

Sean Trauschke - Duke Energy Corporation - SVP - IR and Financial Planning

Okay let's go ahead and try to get started here. I hope you found that session enjoyable with the commissioners. Let me get through some of the Safe Harbor statements here, this not only covers what we're about to cover but Jim's opening remarks.

So let me remind you that today's discussion includes forward-looking information and you should refer to the additional information contained in our 2007 Form 10-K and other SEC filings concerning factors that could cause the forward-looking information to be different than contemplated in today's discussion.

So let me take a few minutes to discuss some logistics. We have a full morning, I hope you'll find the presentations and discussions informative. Everyone should have an agenda in their presentation package. I'd also ask you to look at your presentation package under the regulatory strategy and the U.S. FE&G strategy, make sure those are not the same presentation. We had one box that apparently was bound incorrectly. So if you have one with the same presentation, just raise your hand and we have a replacement for you.

At the end of each presenter's remarks there'll be time for you to ask them questions. Again, a reminder this is webcast so please raise your hand and we'll get a microphone to you. I'll do my best to keep us on schedule. We set aside time at the end for you to ask questions of Jim and David as well.

The last thing I'd make a point of is, given the current liquidity crisis, we have focused our discussion today primarily on 2009, while at the same time providing you in-aggregate information for 2010 to 2013. As you'd anticipate, the timing of our capital investments and financing decisions are sensitive to those future market conditions, so therefore we've provided years 2010 to 2013 in aggregate. So with that I'll turn it over to Keith to get us started.

Keith Trent - Duke Energy Corporation - Chief Strategy, Policy & Regulatory Officer

Sean, thank you very much and, if we didn't already know it from that last panel, it's pretty clear that we're living in very interesting times. We have a new President-Elect who is promising change and a lot of it. We're in the middle of a recession and, as Jim said, we're not sure if it's a V or a U or some letter that we haven't experienced in the past.

We are in the middle of adding major infrastructure to our system and that's happening across our industry. And we expect passage of climate-change legislation probably in this Congress. And I would say that with the news of the change out in the Energy and Commerce Committee in the House and recent statements by President-Elect Obama, I think the likelihood of that is increasing.

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So all of this means that on the regulatory and legislative front we're going to have to be smarter and faster and more nimble than we've ever been before. One, I think it was Chairman Schriber, used the word innovative.

Well I think we're going to have to be innovators. And I think if you historically look at our regulated industry as it's been described, you typically don't see the word innovator associated with our industry. But that's how we view ourselves. We've got to be innovative in our strategic thinking, we've got to be innovative in the types of products and services that we offer our customers and we've got to be innovators in the legislative and regulatory arenas that we operate in.

We view our over-arching strategy as a bridge, a bridge that takes us from where we are today to a carbon-efficient future. And that bridge is going to be supported by three very solid growth piers, fleet modernization, grid modernization and commercial growth.

The fleet modernization pier is built on a diverse portfolio of clean coal, natural gas, nuclear and renewables. I'll talk about the regulatory and legislative foundation that we've already been laying for this fleet modernization strategy. And Jim Turner will give you an update a bit later on the progress we're making and actually putting modern iron in the ground.

The second pier, and the commissioners got into this pier a little bit in their discussion, is one that we think can really be a game changer for us. Today we have a very strong business that is based on primarily selling more electricity.

And with our fleet modernization strategy, that business is going to continue to be strong as we add infrastructure to replace aging infrastructure, as well as to meet growth demand and also to meet the needs of reduced carbon emissions. So that fleet modernization structure is going to provide both near-term and long-term growth for us, even in an environment where we might see our load flattening somewhat.

But grid modernization is going to do something else for us, we believe. We believe that it's going to generate new revenue streams for us, new business models that are not dependent on selling more and more kilowatt hours. SmartGrid we believe will enable us to go beyond the boundaries that we're currently limited by and we're going to be able to go beyond a meter. We're going to be able to partner with our customers in helping them to optimize their energy networks and their energy usage.

With SmartGrid we'll use and leverage potentially disruptive technologies. We look at plug-in hybrid electric vehicles as one of those technologies. We look at distributed generation, that's another one of those disruptive technologies. And with SmartGrid we think that we can leverage those technologies.

Now save-a-watt is a stand-alone concept. I think that most of you all are familiar with it, we've been talking about it for a while. That is a concept that's going to allow us to earn a return based on the avoided cost of building new plants.

We expect to begin delivering energy efficiency products and services under that model next year. And with SmartGrid, which will be out a few more years, we believe that the amount of energy efficiency that we can deliver to our customers will grow exponentially.

The third pier is commercial growth. I won't spend a lot of time on that but the foundation for that pier is wind expansions, international growth and other clean energy alternatives. Lynn Good will focus on this third pier in her presentation to you.

Our regulatory and legislative strategy should look pretty familiar to you. I showed you a slide similar to this last year at our meeting and I mentioned then and today already some of the drivers that we see. We do see rising cost, although the commodity prices have been coming down a bit lately. We are facing major infrastructure investments and we're facing carbon legislation.

We've identified four goals to address those drivers that we see pushing on us. Our first goal is to address regulatory lag. What we want to do there is obviously shrink the time between when we make the investments and when we earn on and recover those investments.

We've got several potential levers that we've identified including new trackers, using a forward test year in a rate case rather than always using a backward-looking test year, potentially using a streamlined version for adding major infrastructure where we can add that CapEx to our earning base in a streamlined process, as well as some other features such as decoupling.

The second goal that we've identified is to enhance the cost effectiveness of new nuclear and I'll talk a bit more about that later. But we believe that new nuclear is going to require new legislation and it's likely going to require new ways of approaching how we build new nuclear facilities, including potentially partnering with other companies who are also pursuing new nuclear.

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The third goal is executing on SmartGrid and on save-a-watt. And I'll give you an update on the progress that we've made so far on those fronts. And then the fourth goal is executing on our fleet modernization strategy and we're making very good progress on that front.

I think you're aware that we've obtained both Certificates of Need as well as our air permits in the Cliffside, Edwardsport and also for our Buck gas plant. We've also obtained a Certificate of Need for the Dan River gas plant and we expect to receive an air permit for that facility in the coming weeks.

We mentioned in the earnings call and we've recently filed our Integrated Resource Plan in North Carolina that calls for pushing the Buck plant out about a year. It also calls for eliminating the combustion turbine phase of the Dan River Plant such that the combined-cycle phases of both Buck and Dan River will come on in 2012.

Jim Turner is going to talk more about those plants and the moving of those plants out a bit, but let me just say that from a regulatory standpoint these extensions will not affect our permits for those plants.

Jim is also going to provide updates for you on construction, but I do want to mention that for the Edwardsport facility we will be updating next week with the Indiana commission the amount that we recover CWIP on for the Edwardsport facility. And that new amount will be \$291 million. And as you know, from this point forward we will be updating that amount every six months with the commission.

We've also been very active on the renewables front. And as you know, two of our states, North Carolina and Ohio, have renewable portfolio standards. And I won't touch on all of the activity that we're involved there but I'll touch on a couple of highlights.

In North Carolina we're seeking approval to invest \$50 million over 2009 and '10 in a solar distributed generation program. We completed hearings on that proposal earlier this month and we believe those hearings went very well. We've also previously announced a 16-megawatt solar photovoltaic farm in North Carolina.

At the time of the announcement that was the largest solar photovoltaic farm in the United States. And while Indiana does not have a renewable portfolio standard, the state of Indiana is interested in renewable energy. And in April of this year we began receiving power from a 100-megawatt wind farm that's located in Benton County, Indiana.

We're also making good progress on Lee Nuclear. In December of 2007 we filed a combined construction and operating license application with the NRC. And the review process for that application is going well and in fact recently the atomic Safety and Licensing Board issued a ruling that dismissed all of the initial contentions that were raised with respect to that application.

In June of this year our commissions in North Carolina and South Carolina issued project development orders that allow for cost recovery through 2009. And you heard Chairman Finley mention that order earlier.

In September of this year we filed a loan application under the Federal Loan Guarantee program. And in November we executed a spent fuel agreement with the Department of Energy. So from a regulatory standpoint, a permitting standpoint, we're making very good progress. We are on track, we believe, to get our COL application approved by 2012.

But we all recognize that cost is a challenge and a very big challenge. Chairman Finley mentioned that we are projecting and we recently announced a cost estimate in overnight dollars for the two 1,100-megawatt nuclear units for Lee of \$11 billion. And no matter how you look at it, that's a lot of money.

So we're going to have to be innovative in the way that we approach nuclear. And that innovation I think is going to require innovation in financing, innovation that's going to likely require new legislation in our states, especially in North Carolina. And we're going to have to be creative in the way that we partner with companies.

Those needs are what prompted our recently announced creation of Office of Nuclear Development which Jim Rogers this morning mentioned that Ellen Ruff will be heading for us. So we're making a lot of progress on the fleet modernization strategy and we're clearly adding a significant amount of new supply.

So when you couple what we anticipate is our anticipated growth along with planned retirements, we believe that we clearly need all of this capacity. And let me just take you through this slide and use Carolinas as an example to highlight what information we're providing here.

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In the Carolinas, if you take the expected load growth and you assume that we don't add any new supply, we don't add Cliffside or Buck or Dan River, and we don't retire any existing plants, then we would be about 1,800 megawatts short by 2013.

Now we're clearly not going to allow that short to occur, we're not going to jeopardize our reliability. But it is very clear that we do need the supply that we're adding here and we're confident that we will meet the supply needs and that we will provide reliable service to our customers.

At last year's meeting we announced several other key regulatory initiatives. So let me give you a progress report on those. Last year there was a fair bit of discussion about Ohio and the uncertainty that existed with respect to the expiration of our rate stabilization plan in 2008. And there was a lot of discussion about uncertainty and what's going to happen after that time.

Well we believe that we have cleared up most of that uncertainty. As you know and as Chairman Schriber said, new legislation was passed in the summer in Ohio, we filed our electric security plan there and we have reached a settlement with virtually all of the parties that intervened.

And we're a part of that proceeding and that does include the Office of Consumer Counsel who represents the consumers' interest, especially the retail customer interest in Ohio. And I think that's a very important point because, as Chairman Schriber said, we have to take into account the impact of the economy and the consumer reaction to rate increases.

And we were very pleased that we were able to get, like I said, virtually all parties including the Office of Consumer Counsel on board with that settlement. Lynn's going to give you more detail on that settlement and how it impacts the Midwest Generation portfolio.

In Ohio we also were successful in obtaining a gas rate settlement, which included a 3% base rate increase. And if you'll notice on this slide, that is the only black check mark that I have on the slide.

The reason for that is that's the only one that I can say, in terms of the regulatory initiatives, that don't involve fleet modernization that we have completely across the finish line. We do have gray check marks in several of these other boxes and I'll describe those. We're very close to getting those across the line but we can't yet declare victory.

Now I would be less than forthright if I told you I was not a bit disappointed in the pace at which we are getting our save-a-watt program across the finish line, but I can tell you that we're close and probably the closest in Ohio. In Ohio, the save-a-watt model is part of the ESP settlement. And so we're confident that we can get that across the line with that settlement and begin really delivering energy efficiency products and services under that model that will really be good for us and for our customers.

We've also made good progress on save-a-watt in South Carolina and in Indiana. And we will be filing a save-a-watt petition in Kentucky in the next few weeks. You'll notice the one place that we don't have a settlement anywhere is in North Carolina.

We have presented our case in North Carolina to the commission and it's pending before the commission. And hopefully we'll hear from them by the end of the year on that petition. So we're making progress on save-a-watt and I can tell you that our team is ready to go to the next phase, which is really starting to deliver energy efficiency in a big way.

We're also making progress on SmartGrid. That was a topic of some discussion on the panel this morning and I think it's a timely topic because we, as I said, think this can be a game changer for us.

You'll notice also that we're trying different innovative approaches in different states. I mentioned the solar distributed generation concept, we're pursuing that in North Carolina. We're not pursuing that in other jurisdictions, including the Midwest right now.

But in the Midwest, that's where we're starting to focus on SmartGrid. And the SmartGrid is also part of the ESP settlement in Ohio, so that's likely the first place that we'll begin deploying SmartGrid. We've also got a petition pending in Indiana that will be heard in the first quarter of next year and we're looking forward to pushing forward there.

Jim Turner is going to talk more about our SmartGrid plan and how we plan to deploy SmartGrid over the five-year period. But I want to give another plug for the Envision Center. Chairman Schriber mentioned that, it's located in Northern Kentucky.

And what that is is a SmartGrid lab that really lays out that you can touch and feel what SmartGrid really is. And we've got that so that we can take regulators through. In fact, the regulators in Ohio have been through that lab, customers, media have also been through that. And we would welcome any of you who would like to see that lab, we would welcome the opportunity to take you through that.

We're obviously investing a very significant amount of capital in our system over the next five years and that's obviously going to cause prices to go up. There was some discussion about that this morning. We are projecting a compound annual growth rate in the Carolinas over this five-year period of 6.4% per kilowatt hour.

That does include fuel and, as you heard Chairman Finley say, that's a number that's not out of the realm of reasonableness. Obviously all of these increases are subject to approval by our commissions and so we can't get real specific or definitive with you in terms of the amount of those increases. But we do believe that that is manageable and makes sense for both us and our customers, not without challenge, but we believe that we can manage it.

The projected all-in compound annual growth rate is 8.3% in Indiana. And in Indiana you can see that 3.1% of that increase is due to fuel. That's higher than you saw in terms of fuel component than the Carolinas. The reason for that is primarily that we have a significant amount of nuclear in the Carolinas, which holds that price down.

I would also state that with respect to fuel price increases, these increases don't reflect some of the recent downturn that we've seen in the commodity price. And so it's our hope that perhaps these fuel costs will be even lower than we're currently projecting here.

And in Ohio we're projecting all-in increases over this time period, compound annual growth rate of 5.8%. Again, a fairly high percentage of that is due to fuel. And this does take into account the ESP settlement and it's consistent with that settlement. And in Kentucky we're projecting a compound annual growth rate over this period about 6% and 3.7% of that is fuel.

Even with these increases, except for Ohio, we are projecting that we will remain well below national average. In Ohio, we will remain about at national average, which is where we are today. And as I said, all of these increases are subject to commission approval but what we wanted to do here was to try to give you a high level view of what we see happening in our jurisdictions over the next five years.

We recognize that the state of the economy is a factor here and that this will be challenging but, again, I believe it's manageable. And as Chairman Finley said earlier, Progress Energy this week announced a rate increase for customers of 10% that will come into effect in December. And that's fuel only.

And they also, as part of that announcement, anticipated another 6% increase the following year, again fuel only. So taken in its context and the fact that we are adding a significant amount of infrastructure, I think our commissions are very well aware of what needs to happen in the state of our industry at this point in time.

Let me close with a summary page that reflects the expected year for our revenue changes in each of our states. You'll notice that this slide is similar to last year's slide and it does reflect a very high frequency of rate cases. Again, that's a product of the infrastructure build out.

You'll also note that the frequency of cases in the Carolinas is higher than other places. That is due in large part to the fact that in the Carolinas we have very few trackers, whereas in Indiana you see that we're only projecting one rate case effective in 2013. That's because, as Chairman Hardy mentioned, we have a very good CWIP recovery process in Indiana that allows us to recover on the Edwardsport facility as we're building it.

The frequency's high, we think we can manage that frequency. But to do that we're going to have to be good at what we do and we're going to have to ramp up the education process. We have met with most of our commissions recently to do a state of Duke presentation for them.

And as part of those presentations one message that we heard loud and clear from them is that they understand where we're coming from but customers are going to need to understand that as well. And so we will be highly focused immediately and during the next five years on making sure that we are educating our stakeholders and that we're very transparent about what we're doing. So with that let me stop and happy to answer any questions that you might have.

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QUESTION AND ANSWER

Unidentified Audience Member

I have two questions to ask. One is this note underneath the summary of base rate actions, when you talk about taking measures to minimize rate shock. I'm wondering about extending those rates or dribbling them in over years or what measures these are.

And the second question pertains to this carbon sequestration. I know it's not right, but we heard a lot of that kind of thing from the Obama crowd. And I'm wondering whether you expect some, in this period, whether you're expecting some action in that connection and how you're going to deal with that.

Keith Trent - Duke Energy Corporation - Chief Strategy, Policy & Regulatory Officer

Sure, thank you. Well with respect to rate shock, a couple of things we think are helpful in trying to avoid that. First of all, just managing cost and doing the very best that we can to make sure that we are very prudent in operating our company so that we can avoid, as much as possible, shock.

The other thing that you see here, especially in those states that have trackers, the tracker systems themselves allow us to smooth out the rate impacts for our customers. And so that's very positive. Likewise in Ohio, the Electric Security Plan is designed to minimize volatility.

In terms of base rate increases, that plan provides for increases of 2% in '09 and '10 and then 1.2% in '11. So that stabilization plan, that security plan, provides, I think, a smoothing effect for our customers.

So that's what we're trying to do to smooth out the rate shock and avoid rate shock. In the Carolinas, you have the frequency of rate cases as the primary tool there, although we will be looking to add some additional tools through the legislative process to try to improve the regulatory system there if possible.

With respect to carbon capture and sequestration, we are very committed to clean coal and we believe that in order to achieve the targets and timetables that are being discussed, you're going to need everything you can. You're going to need renewables. You're going to need nuclear, and you're going to need carbon capture and sequestration, and we are focused on carbon capture and sequestration, especially in Indiana with the Edwardsport facility.

We're conducting a feasibility study now to test our ability to be able to capture and sequester carbon there and in fact we are evaluating the geology near that facility. We believe that the geology is favorable for sequestration near that facility, and we'll be doing tests to confirm that. But, we need carbon capture and sequestration in order to move forward, and we need to find a way to use coal and coal more cleanly. And so, that's going to be a critical part of what we do.

I would say from a federal standpoint, we need to get on board with this and begin funding the research and development and deployment of several large-scale carbon-capture and sequestration projects. And I think Chairman Boucher's bill went a step in that direction.

My hope is that we can push carbon -- good carbon legislation through soon, but at a minimum we need to get funding started so that we can make that a reality, because it's not ready now and my hope is it can be ready in the 2020 kind of timeframe, but I don't think it's likely that we can get it on commercial -- on a commercial scale before that time period. Other questions? Yes?

Unidentified Audience Member

Your plan to push through these 6.4% annual increases in the Carolinas, which I guess would accumulate to about an increase in retail rates of maybe a third over the timeframe, what response are you anticipating in terms of a slowing in the rate of growth in consumer demand for electricity.

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Keith Trent - Duke Energy Corporation - Chief Strategy, Policy & Regulatory Officer

Well as Chairman Finley said, we are still projecting growth in the Carolinas. We're still adding customers in the Carolinas, and I think that it's better positioned than perhaps some other jurisdictions in terms of growth. I would tell you that in 2009, we would expect that growth to be fairly flat, but after 2009 we would anticipate a more normal sort of growth pattern, although it's lower than what we've seen historically.

Chairman Finley talked about historically seeing something like a 3% growth rate. We're not going to see that. I would expect something in the 1% to 1.3% kind of -- a 1.3% range in the Carolinas in the future.

Unidentified Audience Member

Okay.

Sean Trauschke - Duke Energy Corporation - SVP - IR and Financial Planning

Michael, can we hold that question until the end? We've got 30 minutes with Jim at the end, and Keith will be available to answer those questions, I think, at that time. We're -- want to stay on schedule because --

Unidentified Audience Member

All right.

Keith Trent - Duke Energy Corporation - Chief Strategy, Policy & Regulatory Officer

So, we're done?

Sean Trauschke - Duke Energy Corporation - SVP - IR and Financial Planning

You're off the hook.

Keith Trent - Duke Energy Corporation - Chief Strategy, Policy & Regulatory Officer

Okay, thank you.

PRESENTATION

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

Thanks, Keith. Good morning, everyone. I was feeling good when I came in here this morning, and then Jim had to remind you that it's been a decade since Chairman Schriber was chairman of the commission, and I couldn't believe it's been ten years that I -- since I worked on deregulation in Ohio. And suddenly, I feel very old standing up here in front of you.

Winston Churchill once remarked that however beautiful the strategy, you occasionally have to step back and look at the results, so what I want to do with you this morning is talk a little bit about how we are working to drive results in the Franchised Electric & Gas segment, results for the strategy that Keith just outlined for you.

As you know, we use the term Franchised Electric & Gas to describe our regulated operations in five states, which represent 28,000 megawatts of regulated generation serving over 4 million customers. In addition to coal, gas and hydro, our fleet includes over 5,000 megawatts of nuclear generation under the watchful eye of Dhiaa Jamil, our Chief Nuclear Officer, whom Jim introduced to you this morning.

Dhiaa and I are very fortunate, because we are supported in the mission that we do by thousands of men and women at Duke Energy who understand very clearly the critical importance of what we do for a living, and they work hard every day, dedicating themselves to delivering reliable electric service to our customers.

This morning what I want to do is give you a sense of how we're continuing to keep our eye on the ball of our day-to-day operations even as we continue to make progress on the strategic initiatives to modernize our business, and I actually think Chairman Hardy in his comments this morning framed that very point that we have a job to do planning for the future, but we also have to keep the electricity and the gas flowing every single day.

What I'll do is focus my comments on how we're addressing near-term volume issues and positioning ourselves for long-term growth, managing the capital associated with modernizing our generation fleet and our power and gas delivery system and we're doing all of this while remaining focused on keeping our customers and our regulators satisfied.

Let me turn first to our efforts to grow the business. I don't need to say any more about the recessionary economy. We're all aware of what's going on in the world today. Although energy utilities, generally speaking, tend to be more recession-proof than other businesses, we have not been immune to the impacts of lower consumer spending.

Through September, retail sales of electricity, weather-adjusted, were down about \$6 million compared to the same period last year. Although sales to our commercial customers have grown year-over-year, they have not been enough to offset the declines in residential and industrial sales that we really began seeing significantly in June.

Now if you picked up The Journal this morning, you may have seen Rebecca Smith's piece talking about electricity sales, and I will just say that the numbers that were used regarding Duke are not weather-adjusted numbers, so you have to remember that weather in the third quarter last year was record-setting in both the Carolinas and the Midwest and record this year -- weather this year has been much milder. So, don't take those numbers as the weather-adjusted numbers.

Now even though weather-adjusted volumes are off this year, we remain optimistic about the long-term health of our service areas, and you heard Chairman Finley talk about that a little bit.

In the 12 months ending in September, we added 46,000 new retail customers in five states. This is down from the 64,000 customers we added through the same period last year, but it suggests that our service areas continue to be places where people are coming to live and to work. More importantly, even as we have witnessed a recent downturn in sales, we are continuing to see our longer-term efforts to support growth in our service area bear some good fruit.

We began an aggressive focus on economic development several years ago and believe we have a model that is second to none. In addition to supporting traditional state, regional and local economic development efforts, we actively work targeted industries such as aerospace, data centers, plastics and life sciences and try to attract them to sites within our footprint.

Through September, these efforts have helped land customers, representing over 800 gigawatt hours of future growth to our service areas, customers such as American Titanium Works, a Chicago-based company that announced nine days ago its intention to invest \$422 million to build a titanium mini-mill in Laurens County, South Carolina.

Notably, in their press release, they thanked the governor of South Carolina and Duke Energy for their efforts to get them to the state. We anticipate that the ATW facility when completed will be a load of about 40 megawatts in our service territory. Other customers such as BMW in the upstate of South Carolina, Cummins Engine in Indiana, have recently announced business expansion plans as well.

Now, we're mindful that the current economic conditions and capital market conditions may cause our existing customers and potential new customers to approach their site relocation and their business expansion efforts a little more cautiously than they previously had planned, but we continue to work the potential opportunities and share the message with these customers that when they're ready to move, we're ready for them.

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We also continue to pursue opportunities to optimize and enhance our retail load by growing our wholesale business. We are cultivating strategic relationships with municipalities and rural cooperatives in the states in which we operate leading to the origination of new wholesale arrangements such as the ten-year, 190-megawatt deal we recently signed with the city of Orangeburg, South Carolina. This is their first new electric supplier in 90 years.

This agreement, assuming appropriate regulatory approval, would save the customers of the city of Orangeburg about \$10 million over the life of the agreement compared to their existing deal and at the same time provide us with good load growth.

Now in addition to pursuing these activities, growth will also come from the prudent investments in infrastructure that we are making today and that Keith outlined for you. Franchised Electric & Gas expects to spend over \$18 billion in the next five years to maintain and modernize our system. Given the size of this spend, I thought it was important to spend a few moments detailing our capital plans for you.

This slide breaks down the projected 2009 capital investment with some specificity in the colorful bar chart on the left and then aggregates the total spend in the table on the right-hand side. As you can see, \$8.6 billion of our CapEx spend over the next five years is for maintenance capital.

Last year when we were together, I spent a fair amount of detail about what the components of maintenance capital were and how we prioritize our spending decisions. Without rehashing that discussion, remember that Franchised Electric & Gas maintains a generation fleet consisting of 238 fossil hydro units, 7 nuclear units, 21,000 miles of electric transmission line, 149,000 miles of electric distribution line and 7,100 miles of gas distribution pipes and facilities. It's a significant system to maintain.

Moving on from maintenance capital, about \$1.9 billion of our projected CapEx will be committed to adding new customers to our system. Obviously, these customer additions are not only required when you are a regulated utility, but they're an investment in our growth strategy.

When you add the \$1.4 billion of nuclear fuel to the maintenance and the customer addition capital, it means that roughly 65% of our Franchised Electric & Gas capital spend is what I would consider to be routine and non-discretionary. But ultimately, given our obligation to serve our existing customers and a plan to meet our future customers' needs, even the remaining categories on this slide become essentially non-discretionary over time, as you heard Jim Rogers mention earlier this morning.

So, let me spend the next few minutes focusing on several of the items in this table. As you know, the fleet modernization effort that Keith mentioned is well under way. We're investing \$1.8 billion in capital, not including AFUDC of about \$600 million to build an 825-megawatt advanced coal unit at Cliffside in North Carolina.

To date, we have committed nearly \$1 billion for this project. We are investing approximately \$2.25 billion in capital, again not including about \$125 million in AFUDC to build a 630-megawatt integrated gasification and combined-cycle unit in Indiana. To date, we've committed over \$830 million for this project and, as you heard Keith talk about, we're preparing to build two 620-megawatt combined-cycle plants at our Buck and Dan River sites in North Carolina. As Keith mentioned, we already have our CPCNs for both of these plants from the North Carolina Utilities Commission.

Now I'm going to talk more in a moment about Cliffside and Edwardsport, but let me say one more word about Buck and Dan River. In the integrated resource plan in North Carolina, we recently adjusted the construction schedule for Buck and Dan River so that both projects come on line as combined-cycle plants in 2012. We made these schedule adjustments in order to accommodate the realities of today's capital markets and the slowing load growth that I talked about earlier. I'm confident that even with these revised in-service dates, we will be able to effectively meet our customers' reliability needs between now and 2012.

Before leaving this slide, I should also highlight that our \$5 billion environmental retrofit program will be substantially complete in 2009 with the exception of our Cliffside Unit 5, which we're building in conjunction with our new Unit 6 and, in fact, we just tied in a scrubber at our Cayuga Station, Cayuga Unit 1, in Indiana about a week ahead of schedule. So, that was good news.

So, let me turn to the two largest capital expansion projects, Cliffside and Edwardsport. When we were together in September of '07, Cliffside 6 was still sort of a gleam in our eyes, or at least a gleam in our engineers' eyes. As you can see from this slide, we've made great progress since January of this year.

In the middle of this photo, you'll see a stack for the combined Unit 5 and Unit 6 air-quality control system rising over 550 feet into the air. The Unit 6 -- new Unit 6 boiler foundation is complete, and we have started erecting boiler steel at the site. We are on schedule and on budget for this major project, and we have a management structure and controls in place to keep it that way.

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In addition to creating a new senior level executive position for construction management, reporting directly to me, we have reorganized to have officer-level leadership dedicated to these projects on site at both Cliffside and Edwardsport. We recognize that building two plants of this size and complexity is not exactly business as usual for us, and we have organized our team with that proposition in mind. We anticipate having the Cliffside plant on line for the summer peak in 2012.

Now, you may have heard that environmental groups continue to challenge the construction of Cliffside Unit 6. You heard Chairman Finley talk about the fact that the environmental groups in North Carolina are quite well organized and effective at getting their message out, and I had Paul Fremont pull me aside at the break and ask me about how some of the appeals were going.

I would say we are being challenged. There's a case in federal court challenging the air permit as well as challenges to the permit through the normal administrative process in the state, but we remain confident that we are going to ultimately prevail against any and all of these challenges, and we recently had a lawsuit thrown out challenging the tax incentives that we had received in connection with this project. So we feel pretty good about where we are in our progress, both from a construction standpoint as well as from a legal challenge standpoint.

And I think it's important to remember as we talk about the environmental challenges that Cliffside enables -- when we talked about fleet modernization, Cliffside enables a very important thing to happen.

We're not only committed to retiring 200 megawatts of our existing Units 1 through 4 at the site, but in connection with the air permit that we negotiated in North Carolina, we also committed to retiring an additional 800 megawatts of old coal units in the state between the time we bring Cliffside 6 on line and 2018. So, building Cliffside Unit 6 is a very critical piece of actually improving the environmental quality of the air in the state.

Let me turn to Edwardsport, which is a similar story. We continue to make progress on this major project as well. In addition to the significant site preparation work being done there, there's a substantial amount of work being done underground to prepare the site for construction and for the possibility of wastewater disposal and to explore the potential, as Keith mentioned, for CO2 sequestration at the site. In addition to the -- in addition, the fabrication of major equipment is well under way at factories around the globe.

Now if there's any good news in the challenging economy that we're seeing, it's that we seem to be out of the hyperinflationary EPC market that we saw emerge over the last couple of years, and we believe as a result of that softening in the EPC market that we're going to have the opportunity to capture some cost efficiencies in labor and materials for both Cliffside and Edwardsport in a much softer market, which will in my mind substantially reduce project risk.

Now, we're still waiting for the Indiana Utility Regulatory Commission to approve our updated cost estimate of \$2.35 billion, and I think that was a procedural question that somebody could have asked Chairman Hardy, but I didn't think that I should, is when is that order coming out? We do anticipate the order coming out by the end of this year. We've asked for about a \$350 million increase in the cost estimate on the project.

We've also asked, as Keith mentioned, to initiate our rate rider for the CWIP on the project, and we've also asked and I'll just slightly clarify Keith's earlier comments, we've asked for the study of capture of CO2 at the site. And what we've proposed to the commission is that we want them to authorize a front-end engineering and design study to go forward, study our opportunity to both capture 15% to 18% of the CO2 and sequester it there on-site at Edwardsport.

And I make that point because we're asking the regulators to participate with us every step of the way as we evaluate the opportunity to capture and sequester CO2. It's no secret that Edwardsport is not a -- an inexpensive facility. It is -- at \$2.35 billion, it's already going to impose some cost increases on our customers that are quite significant, so before we make the next step of adding a capture and sequestration technology, we want to know that the regulators are with us and driving the decision with us, understanding that there will be additional cost recovery from our customers over time.

Let me turn now to our delivery system modernization efforts, and you've already heard a lot about this from Chairman Schriber this morning as well as from Keith. And I know we're not unique in talking about modernizing the electric grid, but I do believe that our SmartGrid effort is practical and evolutionary, but it has the opportunity and the potential to revolutionize our relationship with customers.

Over the five-year period, we will be investing about \$1 billion in SmartGrid technologies that will make our system more reliable and efficient, and we will give tools to our customers to use energy more efficiently, ultimately resulting in improved customer satisfaction.

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We believe that the winners in building SmartGrid will exhibit three characteristics. Number one, they'll have the ability to secure constructive regulatory treatment for what they're trying to do. Number two, they'll have the ability to scale and three, they'll be able to demonstrate real value and real benefits to their customers.

Here's how we plan to win. If the recent ESP settlement in Ohio is approved, we will have constructive regulatory treatment for our initial deployment of SmartGrid over a five-year period in Ohio, and it's -- there are a couple of reasons why we start with Ohio.

One is, we still have a lot of inside meters with our residential and business customers in Ohio, a very inefficient proposition. Also, you hear the enthusiasm from Chairman Schriber for the SmartGrid deployment. This five-year plan will include installation of over 700,000 smart meters, substantial distribution automation, the communication foundation to connect these digital devices together and the information technology to change how we do business.

The investment of over \$425 million will be recovered through an annual tracker, as Keith described. By early next year, we will have deployed smart meters and related infrastructure to over 70,000 Duke Energy customers in four initial deployments in three states. We're learning from these initial deployments what is required for a scaled deployment.

Additionally, we're in a unique position because of our merger 2.5 years ago. Merger integration has given us an opportunity to refresh many of our core IT systems. We've designed these systems with an eye toward what it will take to manage the huge volumes that we will have in a SmartGrid world. We believe that we are in a unique position to begin in late 2009 a scaled deployment to a level that will sustain installation of over 400,000 endpoints annually once we've scaled it.

What will we have with SmartGrid that we don't have today? You've heard some of that this morning. Quite frankly, we'll have what our customers are demanding in the digital world. We'll know when their power is out and where it is out, most fundamentally. We will be able to connect and disconnect service remotely. We'll be able allow -- read all of our meters remotely. All of these things will lower our operating costs and improve our efficiency.

We'll begin to remove the mystery from our customers' bills. I think it was Matthew who asked the question this morning about CFLs and what that does to consumption, and the fact of the matter is we don't know today, because all we know from our customers is what they consumed last month in electricity.

We get 12 data points from our customers every year when we read their meter, and that's all we know. But now with SmartGrid, we'll begin to remove that mystery from their bills and provide them with information and options on their energy usage.

The SmartGrid also provides us with the opportunity to provide energy efficiency, energy management and related products and services beyond the meter, consistent with our save-a-watt vision. By the way, the photo that you see on here is the Envision Center that you heard both Chairman Schriber and Keith talk about earlier.

I don't want to leave the subject of infrastructure modernization without at least mentioning our Accelerated Main Replacement Program in Ohio and our transmission joint venture with AEP.

AMRP, you might recall is a 16-year program that we began in 2000 in Ohio with the goal of replacing over 1,200 miles of high-maintenance cast iron and bare steel mains with low-maintenance polyethylene pipe. This is a great example of making a capital investment with constructive regulatory treatment that results in lower operating and maintenance expense over time.

Finally, you probably read about our 50/50 joint venture with AEP to build a 240-mile, 765 kV line in Indiana. It's a project that we call Pioneer in our joint venture with them. This major transmission facility, which is scheduled to be in service in 2015 will enhance transmission reliability in the state of Indiana, particularly as we see increasing numbers of wind turbines built in the state in the coming years.

Let me just spend a moment on our operations scorecard. After all this talk of modernization, I want you to know that even as we fix our gaze on the future and the opportunities we have to modernize our business, we continue to focus very carefully on our day-to-day operations, safety for our employees and contractors, operating our plants efficiently, maintaining and improving our reliability and keeping our customers satisfied.

I'm pleased to say that we are on target on essentially all of our initiatives and key metrics, and I want to respond to the question I heard in the front this morning about reliability.

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My sense is that customers do not tolerate dips in reliability as a way to preserve their electric rates. In fact, all of the pressure today is to increase reliability, a lot of pressure coming from the federal level with FERC and NERC enforcing reliability standards now at a much greater level, and we're really starting to see the rollout of what happened in 2003 with the blackouts in First Energy, lots of rules, lots of enforcement happening now on reliability across the country.

Now, I began my comments with a quote from Winston Churchill. Let me end my comments with a quote from business guru Michael LeBoeuf who said, a satisfied customer is the best strategy of all. The quotation that you see in your books and on the screen comes from a letter from one of our Cincinnati-area customers. She took the time to write this letter following our response to Hurricane Ike, which was the most significant storm in the history of our Midwest operations that we dealt with in September.

We measure success in a lot of ways in our company, but I think Joyce's affirmation is probably one of the more important ones. I appreciate your time, and I'll be happy to take your questions. Yes, Paul?

QUESTION AND ANSWER

Unidentified Audience Member

Yes. I have a few questions. One is, you mentioned the EPC market. I was wondering if you could just give us a little bit of a flavor as to what you're seeing in terms of the softening of that and given the way the projects are set up, what potential impact it actually might have on those projects?

The second one is just back to save-a-watt, how much have you -- how much has that actually changed your projections? I believe it was 1.3% system-wide that you guys are expecting in terms of demand growth, 1.6% for the peak. What does save -- what would it be without save-a-watt? What does save-a-watt actually contribute? I didn't see any CapEx numbers itemized here. Are there any? Or, is it just expense? Or, just -- just a little bit of a flavor for what the save-a-watt impact now you've got a settlement almost everywhere but North Carolina is going to be?

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

Paul, let me hit the first question, and then I may punt to Keith for the second question. But on the inflation side, a lot of the major equipment for both Cliffside and Edwardsport has already been ordered, so the inflation that we saw in those projects, it's already baked into the numbers and we're dealing with that, although we are starting -- we are working with some of our suppliers to try to renegotiate pricing. But, I don't anticipate a lot of relief on the major equipment and components that we've already ordered.

Where I think we are going to see relief is on labor and materials that go into the building the project from this point forward. That's where I think we have an opportunity to really manage some risk associated with the project, because as we continue to see hyperinflation and as we looked at the possibility of inflation -- significant inflation on labor costs, that obviously introduces great risk in our ability to hit our project schedule and cost.

But I think given the softening in the markets today, it's -- I have much greater confidence in our ability now to hit the targets that we have going forward, not on the major equipment that's already been ordered.

Unidentified Audience Member

(inaudible - microphone inaccessible)

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

I'm sorry, Paul.

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Unidentified Audience Member

Just quantitatively, just a little bit of a flavor as to what you've had -- what you're seeing out there, just how much things have changed when you're talking to contractors, whatever?

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

Yes. I think what we're seeing is a more normal now labor cost market that we would have expected to see maybe three or four years ago. That's what we're -- we're expect -- I don't want to make it sound like we're going to drive these costs of these projects way down given what we're seeing. What I think we're going to see is the opportunity now with a little more cushion to bring these projects in at the cost level that we said we were going to bring them in.

Think of Cliffside, our labor costs are about 16% of that project, so it gives you a flavor for what risk we had. Had we seen the same kind of inflation there that we were seeing in our bulk materials and the major components, it would have challenged our ability to bring this thing on time and on budget. But, we feel very good now about where we are. Keith, do you want to do save-a-watt?

Keith Trent - Duke Energy Corporation - Chief Strategy, Policy & Regulatory Officer

Yes, I can take save-a-watt real quick. First of all, a clarification on the 1.3%, that is before increasing any energy efficiency from save-a-watt. So if we're successful as we expect we will be, then it would pull that growth down, but from an earnings standpoint we would be earning on save-a-watt.

To give you an idea of how much we are projecting for save-a-watt, by 2013 we would project that we would project that we would have about 700 megawatts of additional capacity that we've saved as a result of the save-a-watt program over and above any energy efficiency that's already in the system.

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

Paul, let me give you one more quick data point on the inflation. We have in our Edwardsport project a 6% escalation rate that we've assumed to construct, and I would say before the last six months, I -- that number is certainly not -- was not conservative. I would have viewed that number as either right exactly where it needs to be or maybe even a little aggressive given what we were seeing in the market. Today, I would say that feels like about the right escalation rate.

Sean Trauschke - Duke Energy Corporation - SVP - IR and Financial Planning

Jim, we've got one more, one more quick one.

Unidentified Audience Member

Yes. Jim -- there was a recent court decision -- or excuse me, EPA decision on siting of a coal plant, I guess, in Utah that dealt with whether CO2 should be addressed or not --

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

Yes.

Unidentified Audience Member

Or explained better why it's not addressed, could you just discuss that and see -- does it have any impact on your permits that I know are approved but probably still under appeals?

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

It -- they -- it will not have any specific impact on those permits, Steve. The permits that we were issued were issued by the state of North Carolina. They are valid. They're lawful. They authorize the construction, and construction's moving forward. It may call into question what EPA ultimately does in terms of regulating CO2, but I checked with our lawyers as late as yesterday and I asked the most hand-wringing lawyer in our company, should I be worried about the Desiree decision, and she said, no, it won't impact Cliffside and Edwardsport, certainly not as we're building it now.

What it ultimately drives in terms of long-term action out of EPA or Congress remains to be seen. But, it should not have any specific impact on either Cliffside or Edwardsport. All right, I'll turn it over to Lynn.

PRESENTATION

Lynn Good - Duke Energy Corporation - Group Executive, President - Commercial Businesses

Welcome, and good morning, everyone. I'm going to begin my portion of the discussion today by just giving you a quick snapshot of the commercial businesses. And for this discussion I'll frame the commercial businesses, which we report in two segments as you know, Commercial Power and Duke Energy International as a single business, a diversified generation asset business operating in both North and South America.

As the slide depicts, we have coal-fired generation and gas-fired generation in the Midwest. We have operating wind assets in Wyoming and Texas, and we have a diverse portfolio of generation in Latin America. Together, our commercial businesses are expected to contribute 25% of Duke Energy's forecasted 2008 adjusted total segment EBIT.

We believe the commercial businesses align well with Duke's strategic objectives and objective beliefs. As you know, we operate 12,000 megawatts of generation, and about 60% of that generation is from lower-carbon sources.

We operate a low-risk, asset-based business with the majority of our ongoing EBIT derived from term contracts and market capacity payments. And we also believe the commercial businesses are well positioned over the next three years -- or the next five years and years to come, to deliver increased earnings, not only from organic growth but also from platform expansion.

I'm going to spend the balance of my time today talking about growth initiatives in the commercial businesses, but before I do that I'd like to draw your attention to the little tag line at the top of the slide, which indicates that our overall focus is on commercial availability, safety, cost control and return on invested capital.

And much like Jim spoke about, what we do every day is operate generating assets. And we get up every day to do that in a safe, reliable and profitable way, and although those objectives don't receive a lot of airtime in a meeting like this one, those objectives are certainly front and center for us as a leadership team in the commercial businesses.

So I'd like to move to the growth initiatives, and in the next few minutes I'll touch on the ones that are listed here. First, I'll give you a brief update on the proposed Electric Security Plan as well as our outlook for the Midwest gas assets, secondly our development efforts in Latin America where we're targeting development of projects underpinned by long-term contracts and using our offshore cash and borrowing capability, and finally I'll review our objectives with our renewables portfolio.

We do expect renewable generation to be built in the U.S. for a variety of reasons, including public policy support, and we believe we're well positioned with our wind business and with our recently announced joint venture with Areva to participate in that growth.

Of course growth in this business, just like Franchised Electric, is primarily driven by the deployment of capital, and as you would expect we will continue to look for the lowest-cost sources of capital, which may mean joint venture or partnership relationships in order to pursue these growth plans.

With that background, let me turn to Midwest generation and give you a brief update on Ohio. As you can see on the map, our Midwest fleet is a diverse fleet of coal and gas assets, and about 4,000 megawatts of this generation is dedicated to our load in Ohio, and we receive full recovery of fuel costs, purchased power costs and also our environmental expenditures.

In the near term, our focus for our Midwest coal-fired generation is the resolution of the ESP, and as you know, in November we reached a settlement agreement for a three-year ESP beginning January 1st of '09 through December 31st of 2011. If approved by the commission, the rates will go into effect at the first of the year at the time our current rate stabilization plan is scheduled to expire.

As Alan Schriber mentioned several times, one of the key objectives in this negotiation and settlement was to ensure that our rate increases are modest for customers and also to minimize volatility to customers, and the average annual rate increase implied in our settlement is 2% in 2009 and '10 and 1.2% in '11.

These increases are net of the impact of expiring regulatory transition charges for residential customers at the end of 2008 and non-residential customers at the end of 2010. As you know, the settlement also includes a 15% excessive earnings test threshold, which we believe is manageable over the three-year period and unlikely to result in customer refunds.

Our Midwest coal plants currently dedicated to serving load will continue to serve load in Ohio over the ESP terms, however the settlement allows us to pursue strategic options for our Midwest gas-fired plants. Our evidentiary hearings were held earlier this month, and we're hopeful that we'll receive a commission order by the end of the year.

Let me now turn to our Midwest gas assets and, as you know, we own and operate 3,600 megawatts of gas-fired generation, about two-thirds of which is combined-cycle capacity and one-third peaking capacity. The margins on these assets have been steadily improving and, as you can see by the chart on this slide, the price per megawatt day as well as the capacity that we've bid into the PJM auction has grown significantly since the 2007/2008 planning year. We have approximately 3,000 megawatts available to bid into the upcoming 2012/2013 auction, which will occur in May of next year.

We expect our Midwest gas fleet to be cash positive by \$65 million in 2008, and we're projecting these assets will be EBIT positive in 2009 on an adjusted basis. Going forward, we will continue to pursue ways to accelerate the contribution from these assets, including continuing to look at opportunities to dedicate these assets to our load and also, assuming that markets return to some normalcy, potentially pursuing monetization of select assets.

Now, let's take a closer look at our Latin American business, and I'd like to talk just briefly about our existing business profile and how we're thinking about growth in that business. As you know, our Latin American business results are included in our Duke Energy International business segment.

This slide outlines a number of attributes, and let me begin by saying that we believe our Latin American business is a low-risk business for a variety of reasons. First of all, we have a very narrow focus, and that focus is power generation. Secondly, we have a relatively low merchant risk profile with a high percentage of our generating capacity contracted and/or receiving system capacity payments.

The tenure of our contracts varies across the countries in which we operate, and for illustrative purposes I've included on this slide a profile of our contracting capacity and our contracting profile in Brazil. And as you'll notice, in the early years we have a higher percentage of our capacity contracted and declining over time.

As we move forward in time however, the contracting capacity in the outer years will increase as we secure new contracts and extend existing ones. And in fact, we've begun recontracting our capacity in a stronger Brazilian market, and over time we see an increase in the weighted average price of our contract portfolio as well as an extended average tenure compared with the portfolio today.

In addition, our portfolio's predominantly hydro base load and efficient thermal plants, reducing our dispatch risk. And as you know, our practice has been to match debt financing with the cash that services the debt to reduce our currency exposure. And finally, we have been and continue to be focused on improving returns on our existing assets. We earn double-digit returns from our operations, and we continue to generate significant annual cash flow in the range of \$200 million to \$300 million per year.

So, let me turn for a moment to our strategic growth plans, and this business that I've just described represents an outstanding foundation on which to build a growth strategy centered on building generation in Latin America.

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As you can see on the map, we are investing in a variety of greenfield projects. We presently have a 33-megawatt hydro project under construction in Brazil, a 200-megawatt single-cycle, gas-fired project under construction in Peru and a coal-conversion project under construction in Guatemala. And these projects will follow the same business model I just described to you and will be underpinned by long-term contracts.

We're actively pursuing new opportunities in strong Latin American markets, and our plan includes up to \$1.8 billion of growth capital through 2013, subject of course to finding the right projects that fit our business model and our return expectations. And all of the growth capital will be sourced exclusively from offshore cash, the cash flow I just mentioned a moment ago, as well as from project financing.

Before I move on to our renewable business, let me just comment for a moment on foreign currency and sensitivity to currency volatility. As David discussed in the third quarter earnings call, as a rule of thumb, the impact of a 10% devaluation in the Brazilian currency exchange rate over the course of a full year would be about a penny to our annual earnings.

As you can see from this chart and as I'm sure you're aware, the Brazilian real reached its strongest level relative to the U.S. dollar in August of 2008. And at that time, the spreads between spot and forward FX rates for 2009 was quite small. Given the recent market turmoil and resulting volatility in the exchange rate, the FX spread between spot and the forward curve has widened significantly in the near term, and the spread increases further out the curve.

For Brazil, the spread between spot and forward in 2009 is 0.51 and is equivalent to a translation difference of about \$50 million in EBIT and \$25 million in net income in 2009. For our planning purposes, we forecast results using the forward FX curve.

And as you know and we know, there's no forecasting method that can accurately predict exchange rates, but we prefer market forwards because of course they reflect market prices and we believe they're conservative during the periods of emerging market weakness and volatility.

With that, I'll move on to the third component of our commercial businesses and growth strategy, our wind business and specifically share with you our accomplishments during our first full year in the wind business.

The team of knowledgeable wind professionals we gained with the May 2007 acquisition of Tierra has transitioned very effectively into the Duke Energy organization. We've built on their outstanding development expertise and supplemented their skills with construction, operation and maintenance expertise, really bringing to our wind business the rich history of engineering and operational excellence that Duke is known for.

We've completed construction of a 29-megawatt wind farm in Wyoming, a 59-megawatt wind farm in Texas, and we acquired 283 megawatts of the Sweetwater farm. These projects as well as those presently under construction include a broad portfolio of turbine technologies and agreements with important suppliers to the wind energy business. These relationships are extremely important in a competitive business environment and provide us with the resources we need to continue to grow this business.

By the end of this year and including our Catamount acquisition, our combined wind platform will have approximately 500 megawatts of operating assets and a development pipeline of 5,000 megawatts in 14 states.

As we think about our wind strategy going forward, we believe we are well positioned to bring 250 megawatts of wind energy on line annually. As we have announced, we are presently developing a 100-megawatt wind farm at our Campbell Hill site in Wyoming, underpinned by a 20-year contract with Pacific Corp.

In addition, we announced yesterday a four-year contract with Wal-Mart to provide power to about 360 stores and their distribution centers in Texas for about 15% of their electricity usage. The power will be supplied from our 90-megawatt Notrees project in Texas, which we are expecting to bring on line in the next two months.

This is a very unique contract in the wind business and represents the first substantial direct purchase of wind energy by Wal-Mart, and we believe it's a great demonstration of our creativity and capability in this market. Going forward, our bias will be develop projects backed by contracts with varying durations.

As I said a moment ago, this business is also a capital-intensive business, and our plan includes spending up to \$2.7 billion of investments to expand this platform over the five-year period ending 2013. We heard a lot this morning about recession and what impact that might have on alternative energy. We also have as a backdrop potential national policies that might a renewable portfolio standard.

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In all events, we don't know exactly what the future holds, but our expansion plans will only occur if we see opportunities come available that meet our return expectations, and of course those expectations will reflect higher cost of capital in this present time.

With all of that said though, we do believe we're well positioned to participate in this turbulent market and will look for opportunities to continue to grow this business. We will also pursue joint venture and partnership structures to accelerate growth and balance capital requirements as we go forward.

So let me close with this slide because our plan is, in many ways, very simple. We will operate our existing commercial assets in a safe and reliable manner while using our operational expertise to drive earnings and improve returns on our assets. And at the same time, we will pursue prudent growth for these businesses by investing in generation in strong Latin American markets and renewable generation in the U.S.

As we do this, we will use a contract-based strategy to ensure that we continue our risk profile within Duke Energy. Under our present plan, we believe we can achieve an 8% to 10% compound annual growth rate in the commercial businesses from 2009 through 2013, complementing the growth in the Franchised Electric business. So, thank you. I'd be happy to answer any questions that you have.

QUESTION AND ANSWER

Unidentified Audience Member

Thank you. What kind of energy support is there for the wind in Brazil? Do you have natural gas projects to provide stability? Or, what do you use there?

Lynn Good - Duke Energy Corporation - Group Executive, President - Commercial Businesses

I'm sorry, could you repeat the --?

Unidentified Audience Member

Yes. For wind projects, you need a backup because it doesn't always blow. So the question is, what do you use in Brazil? Do they have an adequate natural gas supply for you?

Lynn Good - Duke Energy Corporation - Group Executive, President - Commercial Businesses

We are not developing wind in Brazil.

Unidentified Audience Member

Okay.

Lynn Good - Duke Energy Corporation - Group Executive, President - Commercial Businesses

Yes?

Unidentified Audience Member

I wanted to touch base on the international. You're talking about quite a bit of potential there, and I'm wondering what kind of hurdle rate should we be thinking about with what you're seeing there currently and just the risk profile there. What should we be thinking of as the hurdle rate for returns for these kind of investments?

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Lynn Good - Duke Energy Corporation - Group Executive, President - Commercial Businesses

Higher than it was six months ago, should we say?

Unidentified Audience Member

How much higher though? Any -- can you just give us a rule of thumb, sort of a range or something? Because, it seems like a lot that you guys are possible thinking of investing there?

Lynn Good - Duke Energy Corporation - Group Executive, President - Commercial Businesses

Yes. I'm not going to disclose specific hurdle rates. What I will say is that we are presently earning double-digit returns, and as we look at deploying capital we are always very mindful of our underlying cost of capital and we'll establish rates that clear that. And I think, based on what we see in the credit markets our cost of capital is going up just like everyone's.

Unidentified Audience Member

Okay. So when you say double-digit returns, are we talking about an IRR, or a internal rate or return, or are we talking about a ROE?

Lynn Good - Duke Energy Corporation - Group Executive, President - Commercial Businesses

Return --

Unidentified Audience Member

ROE, would you --?

Lynn Good - Duke Energy Corporation - Group Executive, President - Commercial Businesses

ROE.

Unidentified Audience Member

An ROE?

Lynn Good - Duke Energy Corporation - Group Executive, President - Commercial Businesses

Yes.

Unidentified Audience Member

Okay.

Lynn Good - Duke Energy Corporation - Group Executive, President - Commercial Businesses

In that context.

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Unidentified Audience Member

And when we think about the \$1.8 billion, is that what it is potentially? How much of that -- what should we think about it being equity?

Lynn Good - Duke Energy Corporation - Group Executive, President - Commercial Businesses

The leverage assumption, which we'll go into in more detail in January when we give you a greater snapshot, you can think about the equity as being comparable to what we shared with you at this time last year, which is roughly \$1 billion.

Unidentified Audience Member

Thank you.

Unidentified Audience Member

Can I ask you to break down a little bit the 8% to 10% growth target? Where should we -- which side to the business should we see predominantly driving that? I know one of the caveats around the overall growth is a rebound in the exchange rate. How dependent is that growth forecast on that happening?

Lynn Good - Duke Energy Corporation - Group Executive, President - Commercial Businesses

You can think about the 8% to 10% growth rate as being about 3% to 4% of organic growth and the remainder resulting from deployment of capital. There is no assumption of a rebound in currency in that 8% to 10%. As I mentioned, we forecast using the forward curve. Now, David will talk in a moment about what that represents in terms of potential levers for future growth, but we are forecasting conservatively in our numbers. Okay. Thank you, very much.

PRESENTATION

David Hauser - Duke Energy Corporation - Group Executive, CFO

You folks aren't doing very well. We're up here working really hard, and our stock's down \$0.14. Now this was not the goal, so let's get on the stick out there. All right.

So from the previous presenters, you've heard details on our CapEx program. I'm going to summarize the program and share some details on our five-year compound annual growth rate. Further, as a result of the recent focus on liquidity and the ability of companies to finance, I would like to share details on some of our financing assumptions.

It's important to note that our key underlying financial assumptions and the growth strategy of our core regulated business have not significantly changed. However as a result of the current recessionary environment, we have shifted the timing of some of our capital investments.

With that, let me touch on a few of our key focal points as we look over the five-year planning period. As we emphasized in our third-quarter call, our focus has been on maintaining strong liquidity positions as we go through this credit crunch. As a result, we've taken steps to preserve sufficient liquidity in the near term while at the same time staying focused on maintaining liquidity in the longer term should the current period of financial market uncertainty become extended.

As we do this, we have not lost our focus on achieving our long-term, adjusted earnings and dividend growth expectations. Our growth rate assumptions through 2013 are based on continued success of our efforts to execute on our regulatory initiatives that close the gap between our allowed ROE and earned ROEs in each of our regulatory jurisdictions, Keith Trent discussed that earlier, reinvest capital in our regulated operations, grow our commercial businesses, and maintain diligent cost control.

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I want to remind you that we do not expect to change our original assumption of \$600 million in equity issuance through 2013 under our DRIP and internal plans. However, we do plan to accelerate the timing of these equity issuances. As a result, we expect to generate approximately \$450 million through the end of 2009.

We expect our dividend to continue its steady growth. Our current plan, which is consistent with what we've told you in the past, reflects a \$0.01 increase of the quarterly dividend in the third quarter of each year. Of course, these dividend increases are ultimately a decision of the Board.

So, I'd like to talk first about our expected compound earnings growth rate assumptions. Let me remind you that in September of 2007, we told you that we expected a compound annual growth rate of 5% to 7% through 2012 from a base of \$1.15 employee incentive target of 2007.

Additionally, based upon our adjusted earnings per share of 2007, we still anticipated a 5% to 7% CAGR, but we would be at the low end of the range. As we are nearing completion of another year, we thought it would be useful to give you a feel for where we are with our growth rate assumptions.

One can use various starting points to calculate our long-term compound annual growth rate. Using either the 2007 employee incentive target, the 2007 adjusted earnings per share or the minimum payout level for the employee incentive purpose for 2008, we anticipate having a 5% to 7% compound annual growth rate over the next five years.

Now in order to achieve that 5% to 7% growth rate, some combination of the following must occur. One, long-term interest rates return to levels we saw in the first part of 2008, or two, foreign currency exchange rates are better than the current forward curve, and Lynn described for you how that worked, or three, improving general economic conditions result in an increase in the earnings contribution from Crescent and a rebound in sales growth in our regulated operations and finally, we are successful in closing the gap between our earned and allowed return, as Keith Trent described.

Next, I'll share with you the assumptions we used in forming our current five-year business plan. Of course, depending upon future conditions, some of these assumptions might change. Our five-year plan takes into consideration the following operational assumptions.

We continue to have a placeholder for nominal dollars to preserve the option to build the Lee Nuclear Station. It's important to note, we haven't made any financial commitments and have not entered into any firm contracts. As Keith mentioned, we continue to pursue the receipt of the construction and operating license.

This year, we have not assumed the joint venture transactions for our wind operations. Last year, we had assumed a wind joint venture in 2009. This change in assumptions has resulted in an increase in our assumed CapEx for wind. We will continue to evaluate all strategic options for wind, as Lynn stated, but we have made the conservative assumption that we will own and finance a 250-megawatt per year build-out over the five-year period.

And as Lynn mentioned also, we continue to evaluate strategic options for our Midwest gas-fired assets, including the potential monetization of select assets. In addition to these operational assumptions, we have assumed 2009 contributions to our pension plan of approximately \$500 million. That's as a result of the recent significant decline in our pension plan assets. Of course, our contribution amount will be based upon the year-end valuation and the year-end discount rate.

During the third quarter earnings call, we told you that our assumed debt financing requirements through the end of 2009 were anticipated to be approximately \$2 billion. Also, our scheduled debt maturities are approximately \$700 million in 2009 and \$1 billion in 2010. We believe our utility operating subsidiaries will continue to be able to issue debt.

In fact, earlier last week, we executed \$900 million in first mortgage bond financing at Duke Energy Carolinas. This financing was accomplished in two tranches, a five-year financing of \$400 million with a coupon rate of 5.75% and a ten-year financing of \$500 million with a coupon rate of 7%.

We are pleased that the coupon rates that we were able to secure in this financing. The proceeds from the financing will be used to reduce \$250 million of amounts borrowed under our master credit facility, repay the \$200 million of notes due in January 2009 and to replenish the cash we use to repay \$300 million of notes which matured in October of 2008.

As a result of this transaction our remaining financing needs through the end of 2009 are approximately \$1.35 billion. We currently anticipate that \$500 million of these financing needs will occur at Duke Energy Carolinas. Although we can meet our needs by financing at the operating company, if the markets become attractive for HoldCo and project financings we will certainly consider these opportunities as well.

Our total financing requirements from the fourth quarter of 2008 to the end of 2009 are approximately \$2.45 billion. Of this about \$450 million would come from anticipated equity issuances under the dividend reinvestment plan and our internal plans.

So next let me walk you through 2009 cash flows. We expect total sources of cash to be \$3.4 billion. Total uses of cash are estimated to be about \$5.3 billion. The primary uses of cash are approximately \$4.7 billion of capital expenditures and investments along with dividend payments of approximately \$1.2 billion.

This results in a cash deficit of about \$2 billion. Including the scheduled \$700 million of 2009 debt maturities, so our total funding requirements are \$2.65 billion. That's the two plus the \$700 million. We expect to meet our funding requirements with debt issuances of \$1.35 billion, cash generated from the DRIP and the utilization of cash on hand of approximately \$900 million.

Our 2009 cash flow projection assumed that the adjusted diluted earnings per share will be \$1.20. This is based upon current indications that 2009 will be fairly flat as compared to what we earned for 2008, on an adjusted diluted earnings per share basis. Our view is EPS will be fairly flat reflects an assumption of continuing economic strain.

I want to highlight that the \$1.20 of adjusted diluted earnings per share assumption for 2009 is simply a placeholder for planning purposes. And as Jim said, it is not our 2009 employee incentive target. We have not set our target for next year and we will provide specific target and segment adjusted EBIT target early in 2009.

The cash flow projection also assumes a \$0.01 increase in the quarterly dividend in the third quarter of 2009. Changes in these or other assumptions, including the level of CapEx spending will impact the anticipated funding requirements.

Our strong investment grade balance sheet continues to provide us with significant flexibility in achieving our CapEx plans. For 2009 we do not need to issue any public equity to fund our CapEx programs other than the equity issuance through the DRIP and internal plans that we have previously discussed.

Now let me summarize our overall projected CapEx spending from 2009 to 2013. We plan to spend an average of just less than \$5 billion per year through 2013. In 2009 we expect to invest approximately \$4.75 billion. And total spending for the five-year period through 2013 is projected to be around \$25 billion.

As with the prior plan most of these dollars are being spent on our regulated business as Jim Turner showed you. In fact, over the next five years nearly 75% of our total CapEx will be spent in our regulated operations.

Most of our regulated CapEx is for system growth as a result of our need for additional generation in the Carolinas and Indiana. Additionally, we expect to spend on average about \$1.7 billion annually on maintenance and other costs in our regulated business. In our Commercial Power segment we anticipate spending about \$3.8 billion over the next five years with \$600 million of that being spent in 2009.

This includes our plans to spend approximately \$2.7 billion expanding our wind operations over the five-year period ending in 2013. These expansion plans assume that opportunities will become available that meet our higher return expectations. In International we expect to spend around \$1.8 billion over the five-year period as Lynn showed you.

Our planned investment in International is in line with the free cash flow from the segment of around \$200 million to \$300 million annually as well as assumptions around the ability to finance locally. We will continue to use a measured approach when we assess International investment opportunities. And as we've said before, any International investments will be made with offshore cash.

Corporate and other spending is approximately \$1 billion over the next five years. These dollars include, among other things, investments in information technology as we upgrade our current IT infrastructure.

Jim covered with you the CapEx from system growth at U.S. Franchised Electric. Over the next five years regulated system growth spending will account for around 30% of our total CapEx. One other point I would like to emphasize. As Keith Trent discussed, we continue to move forward

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with our efforts to obtain regulatory approval on the SmartGrid program but we will not spend the dollars on these programs until we have the appropriate regulatory mechanisms in place.

As you look at the total capital investments highlighted on this slide it reinforces the fact that timely recovery of capital investments is critical to our success in achieving our growth aspirations. And as such they will be a key focus of our regulatory strategy.

You've seen this slide before. We have updated it to show our revised numbers and assumptions through 2013. Let me point out that the purpose of this slide is to provide a very simplistic illustration of our potential earnings base growth over the next five years. I am distinguishing earnings base from rate base since we currently have construction work in progress of approximately \$3 billion earning AFUDC that will subsequently roll into rate base.

Our regulated CapEx spending over the next five years will result in about a 45% increase in our rate base. You all know how this works. The key message here is that reinvestment in our regulated businesses ultimately translates into long-term earnings growth.

So finally, I will talk a little bit about our strong balance sheet and the significant amount of financial flexibility it provides. Our goal is to have a capital structure that will support the existing dividend and all our growth objectives while preserving the investment grade credit rating we currently enjoy.

As I've said before, the most important credit measures are coverage ratios. As we've been establishing our business plan for 2009 and forward our focus has been on liquidity and protecting our balance sheet while also preserving opportunities for growth. Our strong balance sheet provides us with significant flexibility in achieving these growth plans. And with that I'll open it up for questions.

QUESTION AND ANSWER

Unidentified Audience Member

David, going back to the regulatory presentation there was a plan to file rate cases for three consecutive years in both North Carolina and South Carolina. And I wondered as you look at this capital spending plan for U.S. Franchised Electric & Gas why do you need to file a rate case every year? Are some for generation and some for distribution and some for meters? Are they sort of single issue rate cases or are they just go in once a year and do previously reviewed kind of things?

David Hauser - Duke Energy Corporation - Group Executive, CFO

Well I will make one comment and then Keith can add anything. They certainly are the ongoing investment in the business. But the other thing that they represent is the ability to put CWIP in the rate base on the flip side. So in North Carolina the law says that you can put CWIP in rate base but it must be within the context of a full rate case. So that's a driver of the frequent rate cases. But certainly the underlying investments and distribution are another driver of the rate case. Keith is that?

Keith Trent - Duke Energy Corporation - Chief Strategy, Policy & Regulatory Officer

Yes, that's accurate. The only thing I would add is we were showing on an annual basis some of those effective rates are going to be more than 12 months apart so it's not exactly every year. But it is a matter of the frequency of -- I mean the infrastructure build that we're adding as well as just the overall costs that we're adding.

Unidentified Audience Member

(inaudible question - microphone inaccessible)

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Keith Trent - Duke Energy Corporation - Chief Strategy, Policy & Regulatory Officer

Well typically the way the rate cases work is they look backwards rather than allowing you to reach too far forward. Typically the rate base would be established as of the hearing date. Now that's one of the innovations that we're going to try to get and that will require some legislation in the Carolinas to be able to allow us to look forward. But I don't expect that they'll allow us to look forward more than a year at most.

David Hauser - Duke Energy Corporation - Group Executive, CFO

Paul?

Unidentified Audience Member

Thanks. Can you give us a sense of earned ROEs in North Carolina and Indiana in 2008 and how that is projected to change in 2009?

David Hauser - Duke Energy Corporation - Group Executive, CFO

I guess the simplest way to do that is filed ROEs in June in North and South Carolina. North Carolina was right at 11%. South Carolina was right at 10% -- 9.9% something. I don't -- we don't file in Indiana in that same way so I don't have that number. But in every case as we've run this five years our assumptions are conservative and our earned returns are slightly below our allowed returns. But we haven't put a context of how big that gap is.

Unidentified Audience Member

David, a question, one of the contingencies on the reduced regulatory lag and earned at or around the allowed return combining that with the charts presented earlier about revenue increases in each of the states what do those revenue increases, how should I think of those relative to this contingency? Does that assume that you do reduce regulatory lag and you do earn your allowed return? Or do you need to do better than what was presented in those earlier charts?

David Hauser - Duke Energy Corporation - Group Executive, CFO

If we delivered exactly what is in those earlier charts we would be in a good place. We'd like to end up earning a little better return than at the end of the day.

Unidentified Audience Member

And then the other question just thinking about the compound growth rates if we're talking about flattish earnings next year the 9 through 13 then would be closer to an 8% growth rate, if I do my math right, roughly? And generally in the plan the growth rate accelerates throughout the five years, is that right? Your year-on-year increases are higher in the back end of the plan than the front end of the plan?

David Hauser - Duke Energy Corporation - Group Executive, CFO

That's certainly the math. If earnings are flat in '09 then the growth rate is going to be higher in the back end. And that's because we're earning returns on the capital that we're investing at that point.

Unidentified Audience Member

Hey, David, a couple of questions on your sources and uses could you elaborate a little bit on what the other sources of \$625 million is? And then secondly on the debt financing you said \$1.4 billion, \$0.5 billion of which is from Carolina and you'll probably will issue out of the OpCos.

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Should we assume it's going to be out of the two other OpCos the balance or if the capital markets open there's a whole co-debt issuance built into that \$1.4 billion or you do something incremental?

David Hauser - Duke Energy Corporation - Group Executive, CFO

Let me answer the second question first. We can do all our financing, all of the \$1.35 in the Op Cos. Now if the HoldCo market opens up and we like it you should assume we'll tap it. But we do not need to. Or the first question was the \$625 million was is, it's three things. It is cash coming in from an assumed either sale of assets or joint venture. It is cash coming in from some tax money that we're going to be owed next year that's a few hundred million. And it's netted against a \$500 million contribution to the pension plan.

Unidentified Audience Member

And one last question on your wind development project. I think Lynn had mentioned earlier 250 megawatts per year. How much of that \$2.7 billion CapEx is already tied to turbine commitments?

David Hauser - Duke Energy Corporation - Group Executive, CFO

I would say very small. I don't have a specific number.

Lynn Good - Duke Energy Corporation - Group Executive, President - Commercial Businesses

I guess the turbine commitment we have is for 150 megawatts and some of that has been paid in '08 and then the remainder will occur in '09, John.

Unidentified Audience Member

Just to go back to the ROE question when you say that I think it was 11% and 9.9% in the Carolinas, North Carolina and South Carolina, what is the ROE that you're aiming at? In other words what's the sort of ROE that you guys actually achieving to actually make your growth goals?

David Hauser - Duke Energy Corporation - Group Executive, CFO

Well if we end up -- the 11% was the earned ROE in North Carolina at June 30th, the 9.9% was the earned ROE in South Carolina at June 30th. And I don't think we put specific numbers out there of what we need to earn. But the allowed ROEs of 11% in North Carolina are pretty reasonable.

Unidentified Audience Member

Okay so that's the number we should be thinking about. Then we look at the combination of different things that have to happen. It would seem to me that if you were able to take care of that regulatory lag the issue of sales growth at U.S. Franchised Electric & Gas, I mean, whatever that would be if you were able to earn close to that ROE then we shouldn't necessarily think of that as being -- I mean that seems somewhat redundant or am I wrong here?

David Hauser - Duke Energy Corporation - Group Executive, CFO

I think you're right. This is the subject that Keith talked about. The sales growth is less important if you're earning your allowed ROE or if you have a true-up mechanism like decoupling or you're looking at forward test years. So it depends on which environment we end up in five years from now and what our success is in the legislative initiatives that we're talking about.

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Unidentified Audience Member

Okay but if interest rates don't move toward pre-crisis levels and currency exchange rates don't get back to -- aren't better than the current forward it sounds like even if we get back to that regulated ROE goal we'd probably have some difficulty in making the goal number? Am I reading this correctly?

David Hauser - Duke Energy Corporation - Group Executive, CFO

We listed several things but they're not all of the same value. And earning our allowed ROE would be more important than anything else.

Unidentified Audience Member

Okay, thanks.

Unidentified Audience Member

I had a question about the DRIP plan.

David Hauser - Duke Energy Corporation - Group Executive, CFO

Okay.

Unidentified Audience Member

Am I reading this right that's there's \$400 million of new equity from the next year and then \$200 million from 2010 through 2013?

David Hauser - Duke Energy Corporation - Group Executive, CFO

Basically it generates \$400 million a year and we've assumed that we turn it off in the middle of '10. So once we get to \$600 million we've got enough and the assumption in here is that we go back to open market purchases. Obviously that's a lever that we have at that time but the assumption we've made is that we only need \$600 million of equity from the dividend investment plans.

Unidentified Audience Member

And then on a different topic what's the cost per megawatt of the save-a-watt programs?

David Hauser - Duke Energy Corporation - Group Executive, CFO

I'm not sure -- have we put any -- I don't think we've got a number on that.

Keith Trent - Duke Energy Corporation - Chief Strategy, Policy & Regulatory Officer

It's 90%.

David Hauser - Duke Energy Corporation - Group Executive, CFO

Yes the concept is 90% of the avoided cost of building new generation, that's the fundamental concept.

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OVERALL Q&A SESSION AND WRAP-UP

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

So we just sit over here and answer?

David Hauser - Duke Energy Corporation - Group Executive, CFO

Great.

Unidentified Audience Member

Well David I just wanted to just get back to what you said about that other sources and uses of cash. I think I heard you say that it's either an asset sale or some kind of joint venture in there. And then didn't you say earlier we're not doing a wind joint venture in these numbers. So what kind of joint venture are you alluding to?

David Hauser - Duke Energy Corporation - Group Executive, CFO

Well I think it's one of two things. Either we decide to do a wind joint venture and let me be clear of what we said about the wind joint venture. Last year when we showed you all the CapEx we assumed we'd done a wind joint venture, 1/1/09 so it reduced all the CapEx going forward. This year if you look at the CapEx we did not assume that we've done a wind joint venture.

That doesn't change our interest in doing a wind joint venture. We're just presenting the CapEx a bit more conservatively. So what the number of \$625 million assumes that either we do a wind joint venture and bring in some cash or we monetize a gas plant or two or we find some other assets. And the fourth option is we make a smaller contribution to the pension fund. So I think there's a variety of options you could make that up.

Unidentified Audience Member

And if I could just follow up on the question of returns. You said you're currently earning in the 7% to 8% range on the earnings base. I looked back at the slides from last year you were talking about being at around 8% to 9%. In the last year it's moved the wrong way. Can you talk a little bit about what's caused that and how we close the gap in the context of having slipped?

David Hauser - Duke Energy Corporation - Group Executive, CFO

So let's just make sure we're all together. The ROEs that I discussed earlier were returns on equity and the numbers you're talking about, Jonathan, are returns on investment. And I think in reality you ought to be thinking of them as an 8% kind of number is the way to look at it. I really don't think they've changed a lot. I think our presentation has changed a lot. But 8% is a reasonable way to think about it, all-in cost.

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

Let me underscore one that David said and Keith has said that's very important is that as we -- this idea of closing the gap between allowed return and earned returns is a very important concept. In the Midwest we have the ability to do that particularly if you looked at the ESP settlement with a lot of riders. That helps.

And actually the concept of de-coupling which is being -- we don't have in any of the states today we see that, our concept of de-coupling going along this line. Not only does it true up with respect to sales and revenues but also it's the notion of trueing up our capital with respect to customer connects.

I can clearly see that added and that would close that gap also. And that's a \$300 million a year number across the system. If you think of de-coupling also is to adding to that the notion of maintenance for distribution is part of the true up again you're closing the gap.

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So whether it's a future test year or whether it is a de-coupling mechanism that includes truing up your CapEx at the same time you're truing up your revenues either way it allows you to start to close the gap on ROE. Now bluntly said people could argue that, well you have less risk now because of that and I think the answer to that is given our capital program we still have to attract capital. We still have to have higher returns and we think interest rates over time will go up. And so we think we're going to be in a better environment going forward.

And to the earlier question about having three rate cases in a row, in the Carolinas, to the extent we can, as Keith was saying, are successful we're going to keep charging the barbed wire fence until we are, if we can be successful getting these mechanisms in place then that allows us to change our assumption about rate case going in every year.

And I think it's instructive to look at Indiana as a point of comparison, really no rate cases during this period of time until '12 and that's really tied to how the net operating income cap works and how the trackers and riders work in that state, and directionally that's where we want to move in the Carolinas.

Unidentified Audience Member

Just on that topic, Jim, if we look at the legislative session in the Carolinas coming up for '09 what -- are you going to throw a lot of different proposals of these and see which one may be hits or is it going to be kind of a focus on de-coupling, focus on forward test year, focus on getting CWIP? Just what is the main focus that's going to be?

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

Good question. In North Carolina it's a short session this time so we're going to be very targeted in our approach and we're in the process as we work through this and again the de-coupling study is really kind of an important thing to have there. But also the concept of a regional planning or a regional build with respect to nuclear is an issue that's -- and again with that notion also introducing some aspects of the Florida law on nuclear that weren't included in North Carolina last time or South Carolina.

So I think because it's a short session our aspirations are going to be limited and focused in North Carolina. In South Carolina we're going to approach it certainly the regional nuclear plant concept is going to be pursued fairly aggressively and there's strong support there for that notion. But we're going to try it -- again we're going to have a rate case plan for early '10 in North Carolina so we're really saying to ourselves most of the innovation will probably come depending probably in the '10 session not in the '09 session because it's a short session.

Unidentified Audience Member

And then one other question for David on -- given the wind build that you're anticipating in your plan what roughly would the tax rate likely be of the company over this period? Will it be in this kind of 33 area?

David Hauser - Duke Energy Corporation - Group Executive, CFO

You should assume 33. It will ramp down very gradually over the five years but it's a very slow process because 250 megawatts a year on a company of our size doesn't affect the tax rate very fast.

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

Yes, please?

Unidentified Audience Member

Given the trend away from defined benefit pension plans have you given any thought to terminating yours?

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David Hauser - Duke Energy Corporation - Group Executive, CFO

Well our plan is already a cash plan so it's not based on the five-year average income of the employee or anything like that. It's based on the contributions of the company over the life of the employee so it ends up a more fixed liability without that risk that a defined benefit plan has.

So our issue that we have and the reason we need to put money in it is simply the markets have done so poorly. It's not the liability end. So we've capped that effectively.

Unidentified Audience Member

Yes but if you use -- if you converted a 401k plan that kind of market depreciation would not be the company's problem. I don't want to put it too bluntly.

David Hauser - Duke Energy Corporation - Group Executive, CFO

I understand that and I would say we've made the shift we're going to make and to my knowledge we've had zero discussions of making any other shifts, is that fair?

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

Carl?

Unidentified Audience Member

Well certainly depending on or the question on state legislatures could do something for you in terms of changing the requirements of the commission in rate cases another methodology could certainly be employed, which is to ask for higher ROEs than what you've been granted recently based on the increased risk entering this CapEx program, a cost of debt currently et cetera, et cetera. Are you considering that at all?

David Hauser - Duke Energy Corporation - Group Executive, CFO

I think the answer is absolutely yes. I mean when we're ready to file we'll be filing with the capital asset pricing model and I'll be amazed if it doesn't show a higher cost of equity. And as Lynn mentioned in looking at returns we clearly see a higher cost of equity that applies to our regulated and our unregulated businesses. And so we haven't run the numbers but I'm confident of the direction.

Unidentified Audience Member

In terms of your CapEx funding plans I just wanted to get a little more color around the placeholder investments in maybe nuclear and maybe the two most extreme kind of examples you could think of where that could either increase or decrease over the next five years?

David Hauser - Duke Energy Corporation - Group Executive, CFO

But there's \$175 million in there of CapEx for nuclear. That gets us to the commercial operating license. If we decide -- if the economy changes we end up with a partnership, all of these ifs that we've laid out and we really start construction, I think it's possible you'd see some dollars in '12 and '13. But that's a decision we have not made yet.

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

I think what's really critical is getting regional legislation. We have delayed the filing of our CPCNs that delayed it in a way that's consistent with staying on track to get the construction and operation license by '12. And by delaying the time to negotiate with the EPC we believe that is to our advantage in terms of making commitments.

Because one of the important aspects of the Florida law that's not embedded in the laws today in North and South Carolina is their ability when they make commitments to start to get returns on the cash that they have had to commit to start to factor in a recovery of that there. And we would like to see similar language with respect to any kind of regional plan that goes forward.

Unidentified Audience Member

(inaudible question - microphone inaccessible)

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

I think South Carolina allows a tracking. North Carolina you only get CWIP if you follow the general rate case. We need to improve that so it's automatic once it's approved. But both states really need in our judgment the provision that is provided in the Florida law that's with respect to the commitments you make before you begin construction. And I think that is really an important critical element and we're going to tie that feature to this regional nuclear plant concept that we'll be pursuing.

Unidentified Audience Member

Jim, could I ask a -- this is a strategy question and partly keying off you were quoted in the trade press last week talking about the future of the independent generators and I think it was an allusion to Duke potentially being interested in buying, acquiring things.

I don't think there was necessarily a link between those two intended, but whatever the journalist thought. But what's your sense in terms of consolidation trends within the industry? And then what kind of assets maybe -- would Duke be interested in and how should we think about that? And how committed are you to a very predominately regulated model?

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

That's a very good question and the question that was asked by the journalist was, what did I see happening in the merchant space? And my answer was within 18 to 24 months if we continue to have the economy in a recession and we continue to have tight credit markets, and they don't fall, as they appear to be, that it was very likely that there would be significant consolidation or acquisition of many of the companies in that space during that period of time and I think that is very likely.

From our standpoint, our view is, we like the mix that we have today of about 70% regulated, 30% commercial. And there's been a huge change in valuation in our industry and I think that there are a lot more transactions today that are accretive than if you went back six months ago and looked at the potential for transactions in the sector.

Our bias is to really keep the balance of where we are, plus or minus, in the 70/30, 65/35 you know in that range. That seems like the right place to be. As I think about the merchant business again that might make sense some time to some people in the context of off-balance sheet joint ventures. I can easily see that as a scenario in our sector, much different than what Exelon is contemplating as a point of contrast.

I also believe that the case for consolidation now is probably greater than it's ever been. We as an industry, the third largest consumer of capital behind government and the financial institutions in the country and if you look at the capital programs we have we believe that consolidation, strong balance sheets, I think that is probably, if you make the case, better than ever.

In a period of rising prices I think the ability to mitigate price increases with savings from combining companies are greater than they've ever been before. So I think the combination of the financial market turmoil coupled with the need to dampen price increases going forward creates the right environment coupled with the differences in valuation that occur -- that you can see in the industry today compared to if you looked at it as I

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mentioned a moment ago six months or a year ago I think the opportunities are probably much greater for accretive transactions that work on a lot of levels.

Sean Trauschke - Duke Energy Corporation - SVP - IR and Financial Planning

Any other questions?

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

Other questions? Yes, Paul? Do you have a microphone please?

Unidentified Audience Member

You give sort of a very general view of where rate base goes from 2008 to 2012 and 2013. Is it possible at some point to get maybe a more detailed breakout of rate base by year in each of the jurisdictions? Is that something that you might be able to provide?

David Hauser - Duke Energy Corporation - Group Executive, CFO

We'll let me address that. We intentionally focused on '09 and then lumped '10 through '13 together and the reality of that is we don't know how this economy is going to unfold so we didn't want to give you a lot of detailed year by year until we have a better understanding of how the economy is going to unfold and then we could give you more details.

So I would say when we get comfortable that we can really hone our CapEx year by year because we understand our financing ability in the total economy then I'd be comfortable providing you a rate-base estimate.

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

I think we'll take just one more question. Yes?

Unidentified Audience Member

Towards the end of his presentation Keith mentioned the regulators feeling that there was a need for customer education. What can Duke do in terms of educating their customers that electricity doesn't just come out of a wall and that there are prices that corresponds to the needs?

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

We're in the process of putting a very aggressive educational program together in every one of our jurisdictions to really educate the consumers, policymakers with respect to what's going to happen. And I think we're in a very interesting period in history where we have had the last decade and a half with the real price of electricity has actually come down. And we've started within the last couple of years of moving in a period where the real price of electricity is actually going to go up.

And so the need to educate is probably more important now than ever and it's the general consumer but also with respect to policymakers whether state legislators, it's mayors, it's across the board.

So you're going to see us have a very aggressive program because the experience I've had through the years is to be clear about what the growth in rates is going to be, tell the story early, tell it often, and at the end of the day it's a lot easier to handle the politics of rate increases if you tell them early and you tell them over the next five years this is what we expect and this is where we'll be relative to what's happening in the country and be unafraid to address it and to take it on.

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And that's one of the reasons that we've provided the charts today and we're having the conversations with our regulators because we want them to understand and appreciate where we're headed. Because one of the things that I've learned, governors will give you calls and be upset if you have price increases. But if you have reliability problems they really get upset. And if you don't have adequate power for a new plant that wants to be built in that state they're very unhappy.

And so at the end of the day having an adequate supply, having a reliable service is really politically more of a driver than the rates. And that's just been my experience and I think that's what we're going to see in this period going forward. Our goal line is to keep the gap between the growth in rates nationally with our rates in our state to keep that gap in a good spread. But before I conclude let me make a couple of points.

First, I want to thank you all very much for your interest and for being here today. And I want to finish just by reiterating the commitment that we made at the very beginning because I think it's very important and I hope we've answered all your questions and if you haven't call us and talk to us about it.

Because we thought it was critical to have the chairman of our state commissions here so that you'd get a sense of how they're thinking about the future. Because so much of our future is dependent upon the decisions that they make, dependent upon the growth in our states and dependent upon financial markets open and having the capability to access capital.

But our value proposition hadn't changed, is not going to change and I just want to reaffirm it. We are committed to having a strong balance sheet. We have a strong balance sheet today. We're committed to the integrity of that balance sheet because to do our job we have to have access to capital and we have to -- in the lower cost of capital that we can attract the better off we are in the regulatory process.

And that's a very important linkage. I was very happy with the success of our \$900 million effort just last week. I felt those -- was the right coupon rate and that was to me puts us in a good place. And speaks a lot to the strength of our balance sheet.

We're also committed to the dividend and growing the dividend. We think in these tough times anybody that can make a commitment to their dividend and grow it 4% is going to be in a very strong position in this market.

It's also critical to our ability to attract capital long-term and also important that the regulators in the state that we operate in understand that importance.

I also would like to reiterate our commitment to the 5% to 7% growth. There's a reason that David was very clear about the commitment we made on September '07 when we said 5% to 7% off a \$1.15. And then as we over-achieved our target number in terms of actual earnings and we were able to make the commitment there but saying it was in the lower end of the range. We want to be absolutely clear with respect to what our commitment is and off what base it is so that we're all on the same page.

And with respect to -- someone asked me a question they were a little disappointed that we didn't cut our CapEx more. But the fact of the matter is we were very disciplined at what we did with the CapEx for '09 and one of the reasons that the CapEx is where it is, is because we changed our assumption with respect to wind and took a more conservative approach so at the end of the day we continue to look as Lynn and David have said for a partner with respect to that part of our business. In the same way we found a partner with respect to biomass.

Again, a lot of our CapEx we pushed further back in the five-year period because that is the prudent thing to do but recognizing as Jim pointed out in his presentation that we have much of our capital is not discretionary with respect to our regulated businesses going forward.

I say all that to you to say, and I think what's important about today, is that what you've heard from -- is the senior management team. You all have been hearing from me for 20 years. I think it's much more important for you to hear from them and have them answer the questions because I have a very strong management team.

And every person that's here is very strong and I tell you back in Charlotte, in Cincinnati, and Indiana we have a lot of strong players and all those positions also. And as I mentioned at the beginning we've made a number of changes in our organization to strengthen our organization, develop our people. Because what's going to -- what's going to allow us to deliver on these commitments is not just what we do and what we say here but the people there.

So I have a lot of confidence in their capabilities, in the depth and the commitment to getting this done. And our commitment to these -- this value proposition is unyielding. And so, with that, thank you so much for being here and look forward to answering your questions in the future. Thank you very much.