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PRESENTATION

Operator

Good day, everyone, and welcome to the Duke Energy second-quarter earnings conference call. Today's program is being recorded. At this time for opening remarks, I would like to turn the conference over to the Group Executive of Investor Relations and Chief Communications Officer, Ms. Julie Dill.

Julie Dill - ***Duke Energy Corporation - Corporate Executive-IR, Chief Communications Officer***

Thank you, Kelly, and good morning, everyone, and thank you for joining us today. With me are Jim Rogers, President and Chief Executive Officer, and David Hauser, Group Executive and Chief Financial Officer. Also with me today are Fred Fowler, Group Executive and President, Duke Energy Gas; Marc Manley, Group Executive and Chief Legal Officer; Steve Young, our Controller; and Lynn Good, our Treasurer, who will be available to take your questions.

This morning, Jim will provide a general overview of the Company's performance, with David providing more detail on the specific financial results for the quarter. Jim will wrap up with a discussion of our commitment to investors. Following these prepared remarks, we will open the lines for your questions.

Before we begin, let me take a moment to read the Safe Harbor statement. Some of the things we will discuss today concerning future company performance will be forward-looking statements within the meanings of the securities laws. Actual results may materially differ from those discussed in these forward-looking statements and you should refer to the additional information contained in Duke Energy's and Cinergy's 2005 Form 10-Ks, filed with the SEC, and other SEC filings concerning factors that could cause those results to be different than contemplated in today's discussion.

In addition, today's discussion includes certain non-GAAP financial matters as defined under SEC Regulation G. A reconciliation of those measures to the most directly comparable GAAP measures is available on our Investor Relations Web site at www.duke-energy.com. With that, I'll turn the call over to Jim.

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

Thank you, Julie, and good morning, everyone. It is hard to believe, but we are fast approaching 100 business days since we closed the merger of Duke Energy and Cinergy. When I look back over these past four months, I am really struck with all the things this team has been able to accomplish. We will only be able to touch on a few during this call, but suffice it to say that I am extremely pleased with the way our employees have delivered on both the operational and strategic fronts.

I will start with the financial results for the second quarter. This morning, we reported ongoing earnings per diluted share of $0.43, compared to $0.32 per diluted share for the same period last year. These results are $0.05 more than the latest First Call consensus of $0.38.

We did take some charges for items we have classified as “special” for the quarter. These items, along with our discontinued operations, have been excluded from our ongoing earnings. So on a reported basis, our earnings per diluted share were down about $0.04 year-over-year. As you would expect, almost 50% of these special charges are associated with the merger and our intention to spin the gas business. David will discuss these items in more detail in a moment.

As we look at the year to date, some businesses are ahead of their plans and others are not. The company's results as a whole, however, are on plan with respect to where we thought we would be at this point in the year. Franchised Electric is behind its plan, primarily due to milder than normal weather and lower bulk power marketing sales. But other businesses are ahead, and we expect them to stay ahead. As a consequence, they will be able to make up the shortfall we expect to see in our franchised business. There are a lot of moving pieces, but for the full year 2006, we are on track to achieve our employee incentive target.

I'm really pleased with our financial performance this quarter, and I'm equally pleased with how the company has continued to move forward on executing its strategic objectives.

In addition to closing the merger earlier than expected, we also announced the sale of our Commercial Marketing and Trading business. And of course, we announced our intention to spin the gas business as well. There are other accomplishments for the quarter that I will discuss with you later, but let me stop here and turn the call over to David to go over the specifics of our financial results.

David Hauser - ***Duke Energy Corporation - CFO***

Thank you, Jim. Before we get started, I'd like to remind you that this is the first quarter we are reporting the combined results of Duke Energy and Cinergy. So the 2006 numbers are combined, but the 2005 numbers represent “old” Duke Energy only.

With that, let's turn to U.S. Franchised Electric & Gas. This new segment now consists of the results of operations for the former Duke Power in the Carolinas and the former Cinergy utilities in the Midwest – CG&E's transmission and distribution utility, PSI Energy and Union Light, Heat & Power.

Segment EBIT for Franchised Electric & Gas was $351 million for the quarter, $77 million higher than the second quarter of 2005. As you would expect, the addition of Cinergy's regulated Midwest operations had the greatest impact on that increase. They added approximately $90 million in the quarter, net of $10 million in rate reductions associated with the merger approvals in Indiana, Kentucky, and Ohio.

Also in the “plus” column, improved weather in our Carolinas service territory benefited the quarter by approximately $29 million. While the weather was an improvement over the spring of 2005, it remained milder than normal. And we continued to see customer growth across our service areas. Our average number of customers increased by more than 65,000, about 1.5% over the same period last year.

However, bulk power marketing sales were lower in the second quarter, compared to 2005, for two reasons. First, BPM was down by $17 million, primarily due to lower sales volumes. This was largely due to unplanned outages at a couple of our baseload plants.

Second, we took an $18 million charge in the quarter based on a North Carolina regulatory order, which changed the calculation for bulk power profit sharing, retroactive to January 2005. About $11 million of the $18 million charge was related to 2005. We have requested a reconsideration of this order with the North Carolina Utility Commission, and a hearing is scheduled for August 29.

In addition, Duke Energy Carolinas recognized a charge of approximately $15 million for community donations and rate reductions associated with the merger approvals in North and South Carolina.

Now let's take a look Natural Gas Transmission. This segment reported $361 million in second quarter EBIT, compared to $304 million in the same period in 2005. A $46 million increase in natural gas processing margins, primarily due to the addition of the Empress System, accounted for a large portion of the EBIT growth this quarter. The Empress system, located in western Canada, was acquired from ConocoPhillips in August of 2005. These strong processing results were driven by robust frac spreads during the quarter. On an annual basis, a $1.00 change in the frac spread affects Empress' EBIT by about $25 million.

Other positive drivers included the favorable resolution of ad valorem tax items for $15 million, a stronger Canadian dollar for $11 million, and additional earnings from U.S. expansion projects which came on line over the last year. The formation of the Duke Energy Income Fund, lower equity earnings at Gulfstream related to interest expense, as well as higher operating and depreciation costs, partially offset those increases.

Next up is Field Services. Before I review the actual results for the quarter, let me first provide some information to help you compare Field Services' earnings on an apples-to-apples basis for the second quarter. This chart shows what the results would have been in the second quarter of 2005 if Duke Energy had owned only 50% of the business at that time. The pro-forma equity earnings would have been $116 million for the second quarter of 2005. This compares with reported equity earnings of $148 million for this quarter, a 28% increase.

Now let's take a look at the actual results. Second-quarter ongoing equity earnings were $6 million better than the ongoing segment EBIT reported for the same period last year. Higher results from strong commodity prices and improved NGL and gas marketing more than offset the negative impact from the change in ownership of Duke Energy Field Services from 70% to 50% in the third quarter of 2005. Lower gathering and processing volumes also had a negative effect on the quarter.

Reflecting its strong earnings and cash flow, Duke Energy Field Services paid dividends of $83 million and another $57 million in tax distributions to Duke Energy during the quarter.

As for Field Services' sensitivity to crude prices, our previous estimates have not changed. On an unhedged basis, we estimate our exposure at $15 million for each $1-per-barrel movement in crude oil prices on an annual basis. For the calendar year 2006, that will be offset by approximately $5 million in Other EBIT related to the dedesignated hedges carried there. There is no such offset for future years.

You may recall that we used an average price of $61 per barrel in our 2006 estimates, and as you know, we are well above that price today. The forward curve indicates we will be well above that for the rest of 2006 as well. So we expect better earnings as a result of those higher prices, assuming that normal correlations between NGLs and crude oil hold for the balance of the year. But we do not expect the tax credits associated with our synfuel facilities in Commercial Power will be available, so this will partially offset the upside at Field Services.

Now let me turn to Commercial Power. The Commercial Power segment is made up of the former Duke Energy North America Midwest plants, the former CG&E non-regulated generation, and Duke Energy Generation Services, formerly Cinergy Solutions. This segment provided EBIT of $20 million, compared to a $16 million loss in the second quarter of 2005.

Improved results were due primarily to the addition of CG&E's operations, which contributed $97 million for the quarter. That's before the effect of $48 million in net purchase accounting charges and a $16 million loss associated with the synfuel facilities.

Purchase accounting was a significant variance for the quarter, and it will be for the year, so let me give you some more details on that. Purchase accounting adjustments are the result of the requirement to mark the Cinergy assets to fair value at the point of closing. For regulated assets, fair value and book value are the same, due to the regulatory compact of cost-based regulation.

For non-regulated assets, the mark to fair value results in an impact on future earnings, largely through depreciation and amortization. When we developed the $1.90 incentive target, we had anticipated that the purchase accounting adjustments would impact 2006 earnings positively by

$0.03. This was based on estimates as of September 30, 2005. Based on the actual purchase accounting adjustments booked at the closing date, we expect the impact to earnings for 2006 will be a reduction of $0.08. Of the $0.08 for the year, $0.03 was in the second quarter.

The most significant change in purchase accounting from the September estimate is related to the value of the rate stabilization plan, or RSP, in Ohio. Market conditions have changed. For example, the market price for this large block of power has declined since the previous estimate. This decline means that while the RSP is still at below-market prices, it is closer to market than was the case last fall.

For 2007, we would expect the purchase accounting charge to be approximately $0.04. We told you back in February when we provided the components of the $1.90, that any impact of the purchase accounting adjustment that is either above or below the $0.03 would not affect the incentive target for employees. However, as you are looking at our ongoing diluted earnings per share for the full year, you should expect approximately $1.79 instead of $1.90, based purely on the swing in purchase accounting.

Now let's turn to our International business. Ongoing earnings for International were $81 million for the quarter, down by $5 million compared to the same quarter last year. This decrease was due to higher purchased-power costs resulting from an unplanned outage in Peru. Lower hydrology in Peru and Brazil, along with higher transmission and regulatory fees in Brazil, also contributed to lower ongoing results. Favorable foreign exchange partially offset those decreases by about $4 million.

Ongoing results exclude a $55 million impairment associated with our equity investment in the Campeche facility in Mexico. You should note that there was no income tax impact on the Campeche impairment charge. This is because Campeche came to Duke Energy in connection with the Westcoast acquisition and is legally owned by entities in Canada. For Canadian tax purposes, the impairment in value would be a capital loss, as Westcoast Energy does not currently expect to have any capital gains to offset this capital loss. As a result, a deferred tax benefit was not recorded for the impairment charge. The remaining book value of our investment at Campeche is approximately $14 million.

I'm sure you know that Bolivia's government has announced plans to nationalize its energy infrastructure. To date, the government has not issued any laws or regulations on how they will accomplish the proposed nationalization. We believe it will take some time to sort this out, as the government's initial focus will be on the hydrocarbon industry, with the power and other industries to follow. Current capital employed in Bolivia amounts to approximately $70 million, and the annual EBIT contribution is not material.

Now let's turn to Crescent. Crescent Resources surpassed our expectations for the quarter, with $174 million in reported EBIT, far exceeding last year's second quarter EBIT from continuing operations of $38 million. This increase was due to a $52 million gain on sale of land at Lake Keowee in South Carolina, and another $81 million gain on sale of property at Potomac Yard, a commercial project in the Washington, D.C. area.

The Potomac Yard project is a great example of Crescent's business model. The project began in 2001 for an initial investment of about $128 million. Since then, Crescent has generated nearly $600 million in sales, almost $200 million in segment EBIT and a very impressive return. The project was a success, not only financially, but environmentally as well. The building was certified “gold” by the U.S. Green Building Council, and is the first new construction project in the Washington, D.C., metro area and the state of Virginia to achieve the “gold” designation.

The book value of Crescent's real estate portfolio at the end of the quarter was approximately $1.4 billion, up from $1.3 billion at year-end 2005. Clearly, since Crescent is already at $216 million midway through the year, they are well on their way to once again exceeding their annual segment EBIT expectation. Of course, if we finalize a joint venture, that would impact our share of Crescent's prospective results.

The Other category reported an EBIT loss of $174 million compared to a loss of $102 million in the prior-year quarter. On an ongoing basis, the loss for the quarter was $92 million. This excludes $74 million in costs to achieve the Cinergy merger, primarily severance costs, and another $8 million in costs to achieve the gas spinoff. The second-quarter 2005 ongoing loss was $109 million, which excludes a $7 million gain related to the DEFS dedesignated hedges last year.

Lower ongoing losses were largely due to a decrease in insurance reserve charges at our captive insurance company. Although not a quarterly variance driver, embedded in this quarter's results was a $20 million charge related to the DEFS dedesignated hedges for 2006, essentially the same as the ongoing amount recognized during the second quarter of 2005. The forward curve for crude prices used to mark these hedges as of June 30, 2006, averaged about $75.50.

Now that we've announced the intent to spin off our gas businesses, there is a lot of work to be done over the coming months. The costs to achieve the gas spinoff will be included in Other, and will also be considered a special item for 2006. As of June 30, we have spent $8 million in cost to achieve.

Before I turn the call over to Jim, let me wrap up by discussing a few items that may be of interest. Cash, cash equivalents, and short-term investments on hand as of June 30 were approximately $1 billion. As you probably know, when we acquired Cinergy they had a good deal of commercial paper. As a result, we had about $1.2 billion of total commercial paper outstanding as of June 30.

Interest expense was $339 million for the quarter, compared to $295 million for the second quarter of 2005. A little more than $80 million of this increase was the result of bringing Cinergy's debt onto our balance sheet at the time of the merger. This was partially offset by a reduction of slightly more than $40 million, due to the deconsolidation of Duke Energy Field Services in July 2005.

A reminder on the share buyback program. As of June 23, we had repurchased approximately 17.5 million shares at an average price of $28.57, for a total repurchase of about $500 million. We suspended that program with the decision to separate the company. When we announced the intent to spin off our gas businesses in June, we told you that the newly formed gas company will essentially hold what is currently included in Duke Capital, excluding International and Crescent.

We expect the consolidated debt of the new gas company to be approximately $9 billion, based on balances at December 31, 2006, and this includes approximately $3 billion of debt at the Duke Capital parent level. We realize there are some rumors out there about the future credit quality of the Duke Capital debt. Let me reassure you that Duke Capital debt will be investment-grade at the time of the spin. And from discussions with Fred Fowler and Greg Ebel, I know the entire gas company management team is committed to keeping their debt investment grade.

As Jim said in his opening remarks, we are extremely pleased with our second-quarter results and believe we are on track to meet our 2006 employee incentive earnings target.

Now I'll turn it back over to Jim.

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

Thank you, David. 2006 is proving to be a year of great transformation for our company. We believe the strategic moves we made this year will create significant value for you overtime. I would like to discuss those in the context of what we consider our commitment to our investors. I believe this will give you a good understanding of how we are advancing our businesses for the future.

Our first commitment is growing earnings and dividends over time. In that regard, we closed the merger with Cinergy in 11 months, and this was the first quarter we had earnings from those operations. As planned, we have begun to harvest the merger savings. I will discuss this in greater detail later.

Even with the merger integration actions and the significant amount of work required to spin the gas business by year-end, we remain focused on achieving our financial goals for this year. With the strong results reported this morning, we are well on our way to achieving our earnings goals.

As for growing dividends, you saw in June that the board of directors approved an annual dividend increase of $0.04 per share effective with the September 2006 distribution. Over the last year, the two increases in the dividend represent a total increase of 16.4%. We've gone from $1.10 to $1.28 per share. In my judgment, these achievements represent a “tick in the box” for this commitment to you.

Our next commitment is achieving the full value of our portfolio, and we accomplished a lot last quarter. The exit of the DENA business outside the Midwest, announced last September, was completed two months ahead of schedule. We completed the sale of the generating assets to LS Power for approximately $1.6 billion. And in July, we finalized the sale of the last remaining contract associated with that business.

Second, we announced the sale of our Commercial Marketing and Trading business to Fortis. We expect this transaction to be completed in the third quarter, with pretax cash proceeds of at least $350 million and at least another $200 million return of collateral. Both the DENA and CMT transactions have lowered the risk profile for the company. Third, we announced that we are in discussions to take on a partner for Crescent Resources. More to come on that.

Finally, we announced the decision to spin the gas business. And yesterday, we filed for an extension of the Ohio Rate Stabilization Plan, which currently runs through 2008. This extension is for two years, through 2010, and provides for continued electric system stability. It also provides our customers with clear price signals, while helping maintain a stable revenue stream for the company.

The components and calculations for the “price to compare” are the same in the extension filing as they are in the original order. However, the amortization of the residential regulatory transition charge will end in '08. At this time, the potential exists for some of the former DENA plants to be used to meet growing capacity needs. We will be working with the staff of the Public Utilities Commission of Ohio and various consumer groups over the coming months to reach an agreement on our proposed plan.

For the balance of the year, we have three primary objectives. First, deliver on our financial goals. Second, deliver on the promise of the merger. Third, execute on the spin of the gas business by year-end.

When we announced the spin, we touched on the gas company's intention to form a master limited partnership. As we said then, the gas company is committed to structuring another MLP for certain gas transmission assets. This MLP will be independent of and not in competition with the Field Services MLP. DCP Midstream Partners is focused on midstream assets, while the new MLP will be focused primarily on interstate pipeline assets. We are not ready to talk today about specific assets that we would put into this MLP, but we anticipate having the structure determined early in '07.

The next commitment is reinvesting in the business. On average over the next several years, Duke Energy sees a CapEx spend of between $2.5 billion and $3.5 billion per year.

During the second quarter:

- We signed an agreement to acquire an 825-MW power plant in Rockingham County, N.C., for approximately $195 million. Last month, we received approval for the acquisition from the North Carolina Utilities Commission. Additionally, early termination of antitrust review under the Hart-Scott-Rodino Act was received. We have a request for FERC approval pending. We are on track to complete this transaction by year's end.

- We also received approval from the Indiana Utility Regulatory Commission for cost recovery, including financing, O&M, and depreciation expense, on approximately $1.1 billion of pollution control equipment required to comply with new federal environmental rules. The approval also included cost recovery for mercury emission allowances through our existing emission allowance tracker. Timely cost recovery mechanisms such as this one in Indiana allow is to deliver service at the lowest cost to our customers, as well as reduce the risk of regulatory lag for our investors. It is these types of mechanisms that we hope to implement in other states, where we're making significant capital investments in infrastructure.

- With that in mind, we filed testimony with the North Carolina Commission in support of the Cliffside coal plant expansion. The project includes two state-of-the-art and highly efficient 800-MW baseload coal plants. This is approximately a $2 billion investment, and the first of these new units is expected to come online by mid-2011.

- Our Marshall plant in North Carolina is also having the first of three scrubbers installed to remove SOx at a cost of approximately $450 million. We are continuing to install scrubbers on our largest coal units to comply with more stringent limits on SOx, NOx and mercury. Our environmental compliance plan will see 25 of our coal-fired units scrubbed by the end of 2010.

- As you know, we are developing a state-of-the-art 600-MW integrated gasification combined cycle, or IGCC, plant in Indiana. This is a total investment of approximately $1.2 billion. Last week, the Indiana Commission issued an order that allows us to defer and capitalize 100% of the front-end engineering and design study costs if the plant is built.

With the completion of our environmental program, we will be on track to achieve our aspiration of having one of the cleanest coal fleets in the U.S. by the end of the decade.

Let me turn to the gas side. On the gas side, on average, over the next five years, DEGT sees a CapEx spend of about $1.5 billion each year, with over $1 billion of that being expansion capital. This map illustrates the more than two dozen projects we have in the business. Some of these are under construction, and others are in various stages of the open season process.

In the second quarter, we announced nine major pipeline and storage projects. Fred Fowler and his team did a terrific job developing these opportunities. These projects include:

- An incremental capacity expansion of the Texas Eastern system from Lebanon, Ohio, to New Jersey. And late last month, we announced the Lebanon Connector project.

- Second, an expansion on the Maritimes & Northeast Pipeline to connect with the planned Canaport LNG terminal in Saint John, New Brunswick.
- Third, we also announced the expansion of the Algonquin Gas Transmission system.
- Additionally, Gulfstream pipeline, our 50-50 joint venture with Williams, announced the first major expansion of its Florida pipeline to serve Progress Energy's Bartow power plant.
- And Union Gas received approval from the Ontario Energy Board for a $100 million expansion of its Dawn to Trafalgar gas pipeline system.

We also announced:

- An open season for three salt cavern storage facilities
- An open season by Texas Eastern to determine interest in moving natural gas from emerging Western North American supply basins to premium markets in the Northeast and mid-Atlantic regions
- And an open season ended Monday for the Mid-Continent Crossing pipeline, a collaboration of DEGT and CenterPoint Energy Gas Transmission. Preliminary results indicate strong interest in the project.

Taken together, the significant investment in these existing and new projects supports our future growth expectations for this business. And there are many more opportunities currently being reviewed for new projects in the post-2008 period.

DEGT has done a terrific job of finding and creating opportunities to expand and grow its business. They do understand that over time, the markets, customers and competitive landscape will change. We recognize that not every one of the projects currently proposed is likely to come in exactly as anticipated. We will continue to pursue all opportunities that make sense in the long term for the company, both strategically and financially.

The next commitment is developing a strong leadership team with a deep bench. As we look at spinning the gas company, clearly we've put a strong leadership team in place, with Paul Anderson as Chairman and Fred Fowler as President and CEO, as well as Fred's direct reports. We are working together to fill out the rest of the organization.

For Duke Energy, as a power pure-play following the separation, we are rethinking the organization, especially the corporate center and shared services areas. Our goal is to take the momentum we have built from the merger integration and push it further for the power company. We expect to have the organization determined by the end of the third quarter.

Lastly, we are committed to delivering clear and transparent communications. As you all know, we intend to share our merger scorecard with you when we release earnings in the third quarter. However, I want to give you a sense of how we're doing so far. To date, we look to be in pretty good shape. We're on target for the majority of the items we are tracking, most significantly the headcount reductions we have targeted for this year, and also for our merger costs to achieve.

We do have work to do, however, in other areas. For example, we're slightly behind where we'd like to be in system reliability. But in general, I'm very pleased with our results to date and will look forward to sharing the full results with you in November.

We are on track to achieve the approximately $140 million of merger synergies we forecast for this year. But don't forget that virtually all those savings will be offset by rate reductions we agreed to with the states. We agreed to give our customers their share of five years' worth of savings in the first 12 months. That translates into approximately $140 million this year and about $110 million next year. This means the benefits of the merger will be accruing to investors in the second half of 2007.

For the gas spin, we filed our request for a Private Letter Ruling with the IRS last week. We expect to file our Form 10 with the SEC in the third quarter. It will provide you with the pro-forma financial information for the gas company. At the same time, we will provide you with the pro-forma financial information for the remaining Duke Energy. We will use the time following the Form 10 filing to develop a road show for both companies that we will present later this year.

Finally, we are beginning to work on the specific budgets for '07 in light of the decision to spin the gas business. We will be providing targets for both the power company and the gas company once we begin the road shows in early December.

I would like to leave you this morning with three key points that represent our value proposition for the future. First, we are committed to growing earnings. We expect future annual ongoing earnings growth for Duke Energy of 4% to 6%. For the gas company, we expect 5% to 7% growth over the next five years.

Second, we are committed to increasing the dividend. We will grow dividends in the future consistent with our assumptions for a 70% to 75% payout target for Duke Energy and 60% for the gas company. Third, we are committed to continuing to improve the overall risk profile of our portfolio, which will further improve our credit metrics.

As I said earlier, we’re extremely pleased with how our businesses performed on a combined basis this last quarter. We are realizing the promise of our merger. We are committed to delivering on our financial goals for the year. And we are energized about the future, especially the opportunity to maximize shareholder value through the spin of the gas business.

With that, let's open up the lines for your questions.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS) Paul Fremont, Jefferies.

Paul Fremont - ***Jefferies & Company - Analyst***

Really two questions. The first has to do with the Crescent outperformance. That seems to roughly offset the change in purchase accounting. Should we view those two for the year roughly as offsetting items?

The second is on the Ohio plan. Do you believe, given, I guess, Tony Alexander's comments on the First Energy conference call, that existing Ohio law basically provides for the state to go to market at the end of the transition plans? Do you believe that a change in state law is going to be required in order for your extended plan to be adopted by the Commission?

David Hauser - ***Duke Energy Corporation - CFO***

This is David. Let me deal with the Crescent one, and Jim will deal with the Ohio one. With regard to Crescent, they clearly outperformed our expectations. But there is an important dynamic there. First of all, they pretty consistently have outperformed, if you look over the last few years.

And secondly, of the outperformance, a substantial piece of it, about $65 million, was in the plan, but was in the plan for the third quarter, so it was reflected in the $1.90 per share. You should assume that Crescent will outperform for the year, compared to what we were planning and what we laid out as their EBIT goals. But $65 million of that is a shift from the third quarter into the second quarter.

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

Paul, from the RSP perspective, we are pursuing two tracks in Ohio. One is the extension of the RSP as we've discussed today. The second is a legislative route. I think arguments can be made that, in the same way they extended the RSP before, they have the same authority to extend it another two years in this transition period. But there is kind of a difference of view on that.

So we think the more prudent thing for us to do is to file, as we have, for this extension, and at the same time pursue legislative alternatives.

Paul Fremont - ***Jefferies & Company - Analyst***

Thank you.

Operator

Lance Ettus, Calyon Securities.

Craig Shere - ***Calyon Securities - Analyst***

Actually, it is Craig Shere. Good quarter. Two quick questions, and I apologize if I missed something; I was off the line temporarily. David, maybe could you clarify the comps in terms of equity income versus the EBIT for DEFS, because we have different ownership percentages – one's after interest expense and things like that. And if it is too complicated, maybe you could just explain what DEFS did as a 100% independent operation year-over-year.

The second question: Jim, do you envision Crescent being a minority interest position after finding a partner?

David Hauser - ***Duke Energy Corporation - CFO***

Let me go back on DEFS for a minute. We laid out a chart, Craig, that it would be worthwhile for you to go to look at, that I think explains that. But basically if you looked at the chart, at DEFS' net income this year, ongoing equity earnings was $148 (million). If you took 50% of last year, it was $116 (million), so a 28% increase on an apples-to-apples basis on DEFS. So I think that probably answers that question. What was the second one?

Craig Shere - ***Calyon Securities - Analyst***

The second was on Crescent, in terms of looking for a minority interest.

David Hauser - ***Duke Energy Corporation - CFO***

Oh. I think if we end up with a Crescent deal, it would be something along the lines of a 50-50 type partnership, where if you decided to do projects at Crescent where you levered it up, that that would be off the balance sheet of Duke Energy.

Craig Shere - ***Calyon Securities - Analyst***

Okay. And do you see that kind of partnership being a net growth in the business, such that you contribute what you have and then the whole business is bigger going forward? Or would that kind of be more like a cashing out type thing?

David Hauser - ***Duke Energy Corporation - CFO***

I would say it is more towards the latter, where cash comes in the door as a result of this deal.

Craig Shere - ***Calyon Securities - Analyst***

Okay, thank you.

Operator

Ashar Khan, SAC Capital.

Ashar Khan - ***SAC Capital - Analyst***

Jim, could you just mention to us on this Ohio plan, what the impact on the investors of the net income line is, going from '08 to '09?

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

I think we are really at this point not prepared to talk about that.

Ashar Khan - ***SAC Capital - Analyst***

Okay. Could you just elaborate a little bit more, I guess, what riders are you seeing extensions of? I'm just trying to get a little bit more color as to what the plan is doing.

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

Sure. I can do that. What we think we are trying to achieve with this, the extension request provides price clarity for our customers in '09 and '10 as well as a simplified rate structure. As you remember, the way we structure this, in '09 residential customers will receive a decrease of approximately 4% to their total bill, and nonresidential bills will increase by 2%. Both classes will receive an additional 1% increase in 2010.

And the thing that drives this, as you would remember, is the regulatory transition charge (RTC) for residential customers ends 12/31/08, and that is coincident with the end of the transition amortization. But the RTC continues for the nonresidential customers.

So all the mechanisms, the AAC, the RSC, the SRT, the IMF, all of those mechanisms will still be in place, including the ability to track our purchase power through the FPP, as well as our transmission cost recovery through the TCR.

So for all those that don't know that alphabet of provisions, but it is identical -- but it reflects the full amortization of the RTC. And that is one of the important drivers. How all of that rolls off and the rate reductions associated with it is the way to go, after figuring out exactly what the EBIT will be post-'08.

Ashar Khan - ***SAC Capital - Analyst***

Okay. So in essence, can I assume it is like trying to maintain the same EBIT line going forward from '08 to '09? Of course, you have customer growth and all that, but the issue is trying to maintain the same margins going forward?

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

I think the way to say it is that -- and this is a general statement -- and that is, the plan allows us to maintain EBIT and maybe slightly grow it over time.

Ashar Khan - ***SAC Capital - Analyst***

Okay, thank you.

Operator

Paul Patterson, Glenrock Associates.

Paul Patterson - ***Glenrock Associates - Analyst***

I wanted to ask a question. First of all, it sounded like you might be changing guidance when I heard the comments on the purchase accounting to $1.79. Is that correct?

David Hauser - ***Duke Energy Corporation - CFO***

I think I'd phrase it this way. What we said before was that $1.90 was the employee incentive target, and that included a positive $0.03 for the purchase accounting. The purchase accounting has come in at a negative $0.08, so all of that gets excluded for the employee incentive goal. But everything else being equal, if you look at earnings for the year, it would be $1.79 instead of $1.90.

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

Again, that is not in the context of guidance. That is in the context of our employee target.

Paul Patterson - ***Glenrock Associates - Analyst***

Okay, but I guess what I'm wondering is that in terms of guidance, are you excluding this purchase accounting activity because it is so -- it could change, I guess, depending on what prices are and what have you. Does it make sense to have it in there at all?

David Hauser - ***Duke Energy Corporation - CFO***

We don't really give guidance, so that is why we are laying out as clearly as we can what happens from the purchase accounting. And that is why we have given you the swing from positive $0.03 to negative $0.08.

Now, you said it would change in the future. It is certainly true over the first 12 months there could be true-ups in purchase accounting, but I would be surprised if there's anything very large in that.

Paul Patterson - ***Glenrock Associates - Analyst***

Okay. So we're not going to see a big -- I see what you're saying. Let me ask you this. The commercial power, it sounded like you had a $36 million change, but there was a $97 million benefit from the addition of Cinergy's assets. And I'm just wondering what happened to the other $61 million? Because it appears to be before the purchase accounting activity, if I read that correctly.

David Hauser - ***Duke Energy Corporation - CFO***

I'm not sure I've got that -- the math you just did -- straight in my head. But we clearly added the CG&E assets, and that was a positive. And then we came along and we deducted the purchase accounting, and that was $48 (million). And then we deducted a loss on synfuel, and that was -- I think -- $16 (million).

Paul Patterson - ***Glenrock Associates - Analyst***

Okay, so in other words, the $36 million change has the impact of the synfuel and the purchase accounting? Maybe I just read it wrong.

David Hauser - ***Duke Energy Corporation - CFO***

Yes, it does.

Paul Patterson - ***Glenrock Associates - Analyst***

Okay. I think I just read that wrong. Then the income tax benefit of $40 million and the 29% effective tax rate, how should we look at that going forward? Is that a normal number? It seems like there might be some unusual items there. I wasn't completely clear on that.

David Hauser - ***Duke Energy Corporation - CFO***

That is because Ohio, Indiana, and Kentucky are not unitary tax states; so when you put those into the total mix, you have less income allocated to the unitary tax states. So it was a reversal of deferred income taxes associated with that lower tax, due to the unitary tax.

Paul Patterson - ***Glenrock Associates - Analyst***

Okay. So should that happen going forward?

David Hauser - ***Duke Energy Corporation - CFO***

No, it shouldn't be -- the big piece of that was just this quarter.

Paul Patterson - ***Glenrock Associates - Analyst***

Was just this quarter, okay. And we probably won't see that in 2007, or that is just a very unusual item.

David Hauser - ***Duke Energy Corporation - CFO***

Yes, that's right.

Paul Patterson - ***Glenrock Associates - Analyst***

Okay. Then finally, on the BPM, just to understand this, what is the ongoing impact if -- just what is the ongoing impact of this new thing that the North Carolina Commission came up with? I know you guys are asking for reconsideration and it sounds like you have a pretty good case. But what is the variance that we might see on an ongoing basis? Because a lot of this seems like it's a catch-up, if I understand it correctly, from 1/1/2005.

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

I think you'd look at that as about $10 million a year.

Operator

Karen Taylor, BMO Capital Markets.

Karen Taylor - ***BMO Capital Markets - Analyst***

I just want to come back to Paul's first question and make sure I completely understand it. The $1.90 of incentive target included $0.03. So for the incentive target for 2006, effectively now we are down to $1.79. Is that correct?

David Hauser - ***Duke Energy Corporation - CFO***

I think that is the way to look at the math. I think that would give you the same answer that we talked about.

Karen Taylor - ***BMO Capital Markets - Analyst***

So not notwithstanding the fact that we've got outperformance at Crescent and Field Services, we will not be able to offset the delta of $0.11 from the change in purchase accounting, yes?

David Hauser - ***Duke Energy Corporation - CFO***

No, when I talked about the $1.90 down to the $1.79, I was giving you purely the impact of purchase accounting. We clearly will have some business units that outperform for the year, and I don't know where we will end up for the year. We don't give that kind of guidance.

Karen Taylor - ***BMO Capital Markets - Analyst***

Well, let me ask the question a different way then. Given the performance we've seen in Field Services, is that incremental to the assumptions in the $1.90?

David Hauser - ***Duke Energy Corporation - CFO***

We would expect Field Services to do better than what we had in the $1.90 over the balance of the year, if the forward curve stays where it is.

Karen Taylor - ***BMO Capital Markets - Analyst***

Okay, and just one very minor question on the weather. It was in fact better than Q2 '05, but still less than normal. How much was the effect on the Carolinas business in particular from warmer than normal weather?

David Hauser - ***Duke Energy Corporation - CFO***

I believe the weather impact was $29 million. (Note: This is the variance over the prior year's quarter, but weather was below normal for both quarters.)

Karen Taylor - ***BMO Capital Markets - Analyst***

Perhaps I just missed this, but on DEFS, we've traditionally seen a sheet with volumes, different revenue types by contract. Will we be discontinuing that information with this quarter?

David Hauser - ***Duke Energy Corporation - CFO***

That will be posted on the Web site. Isn't that how we normally do that, put it on the Web site?

Julie Dill - ***Duke Energy Corporation - Corporate Executive-IR, Chief Communications Officer***

Yes, Karen, it will be out on the Web site once DCP Midstream posts their earnings, and that will come out about August 10.

Karen Taylor - ***BMO Capital Markets - Analyst***

Okay. Just lastly, the Empress facility, I'm assuming there is no ethane in the frac margin on that facility. Is that right?

David Hauser - ***Duke Energy Corporation - CFO***

Fred?

Fred Fowler - ***Duke Energy Corporation - Group Executive & President-Duke Energy Gas***

No, there is.

Karen Taylor - ***BMO Capital Markets - Analyst***

There is? Okay. Thanks. That was all my questions.

Operator

Nathan Judge, Atlantic Equities.

Nathan Judge - ***Atlantic Equities - Analyst***

I just wanted to follow up on a couple of things. Clearly, there's a lot of moving parts here, but just on Field Services and Gas Transmission. Now that Empress is in the Gas Transmission business, you gave us the sensitivity of $1 or $25 million per $1 in frac spread, if I recall correctly. Is that going to be coming from the current strip price as of the second quarter, or will that be from the $61 benchmark price that you were using?

David Hauser - ***Duke Energy Corporation - CFO***

I would say it this way. We had -- when we forecast this -- if you look at the history of Empress, it has averaged about $30 million a year over the last three years, with a lot of volatility. Of course, we didn't own it all that time, but that is about what it has averaged.

When we were forecasting this year, frac spreads were very narrow and we looked at it as a number that looked like $10 million. I would say now, with frac spreads where they are, assuming a continuation, you'll be looking at a much larger number, maybe a $90 million kind of number would be the order of magnitude.

Nathan Judge - ***Atlantic Equities - Analyst***

But it is safe to assume that the impact from $1 change in frac spread is $25 million for the Empress EBIT, and that should be considered from what the frac spread was in the second quarter, not from your $61 oil assumption that you had at the beginning of the year?

David Hauser - ***Duke Energy Corporation - CFO***

I think that's fair.

Fred Fowler - ***Duke Energy Corporation - Group Executive & President-Duke Energy Gas***

The oil assumption is only part of the equation. It's the oil and gas assumption.

Nathan Judge - ***Atlantic Equities - Analyst***

Sure. I absolutely understand. I'm just trying to get to where we are on a relative basis from the second quarter. Just could we talk about the Crescent joint venture? I know in the past you had been reluctant to look at perhaps the opportunity to divest that business, as some of the offers given were not really what you thought was a fair value for the company.

Is the offer changed now that you are considering doing a joint venture, or is there something in the mechanics of this joint venture that is appealing to you?

David Hauser - ***Duke Energy Corporation - CFO***

I would say it is the fact that if we sell a piece of Crescent, it will be because we believe we got fair value for it.

Nathan Judge - ***Atlantic Equities - Analyst***

Would that joint venture also consolidate the debt associated with Crescent off the books?

David Hauser - ***Duke Energy Corporation - CFO***

The answer is yes, but the debt associated with Crescent is very, very small today. Now, it could give you the opportunity to leverage Crescent going forward, and that debt would not be on the books.

Nathan Judge - ***Atlantic Equities - Analyst***

Okay. Why wouldn't you -- if you believed you got fair value for half, why wouldn't you just monetize the entire investment?

David Hauser - ***Duke Energy Corporation - CFO***

I think that is an option you would have down the road. We think the Crescent name is important in our service territory, and we want to make sure it is well protected. But that is an option we could have down the road if we wanted to.

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

It is also, Nathan, tied to the -- as you monetize these positions, you have to have places to reinvest the money. And so it is a little more about getting the timing right with respect to future reinvestment opportunities.

Nathan Judge - ***Atlantic Equities - Analyst***

Okay, fair enough. Just actually, which leads me to my next question on International. I know that there is quite a bit of change going on at the company currently, but could you just update us on what you perceive as the future strategy for International, and where that fits in your portfolio?

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

We have had an opportunity to review that business, and I think several conclusions that I have reached in the review. One is these are very good assets, terrific assets, primarily in Brazil and Peru. They are low-risk assets. They are contracted for. And when I compare it to the stability of the cash from that, it is very good stability.

So the bottom line is, we think this fits well into our existing portfolio of businesses. And I think one of the things -- one of the challenges that we have -- is do we continue to improve the operations of the existing assets, or do we add to assets? And I think we are in the process of thinking our way through that.

But our current thinking is that these are great assets. They are low-risk and are consistent with the types of investments we have here in our Franchised Electric & Gas, and that this is a business that over time we want to find a way to grow the business.

Operator

Matthew Akman, CIBC World Markets.

Matthew Akman - ***CIBC World Markets - Analyst***

I guess my question is for Fred, and it comes back to Empress and the strategy of the gas company going forward, we can start to look at that. The $10 million versus $90 million swing on expectations for Empress is significant for Duke, and it will be, I guess, even more significant for a smaller company split off.

I'm wondering whether you have thought about your strategy on hedging -- most of the Empress owners do a lot of hedging on that asset -- and whether that is more appropriate for a pipeline company like you'll have going forward, and if you've made any progress on that, if that is your direction.

Fred Fowler - ***Duke Energy Corporation - Group Executive & President-Duke Energy Gas***

That is definitely a part of our thought process, but we have not made a decision as to what we will do. But clearly your point is very valid. It is something we do have to think about, because that is a pretty big swing for the size of company that the gas company will be.

Matthew Akman - ***CIBC World Markets - Analyst***

Are you working on that now, or have you made any progress on that?

Fred Fowler - ***Duke Energy Corporation - Group Executive & President-Duke Energy Gas***

No, we don't see a real urgency to do it at the moment.

Matthew Akman - ***CIBC World Markets - Analyst***

Okay, thanks. Then I guess another follow-up on the pipeline company going forward. There is a lot of activity in oil pipelining and liquid pipelining and announcements regularly out of that. Is that part of the potential strategy -- if I can get a peek at maybe what the strategic plan of this entity is going to look like -- or are we going to stick to just gas? Is there any plan to look at the liquids side of the business as well?

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

I think if it was the right opportunity and made sense to us. What we have found -- we have been in that business in the past and that business is quite consolidated at this point, and that was one of the reasons that we found ourselves, when we had TEPPCO, which was basically started as a liquids pipeline, that just for growth we had to venture over into both crude oil and into gas gathering and gas transportation, really, for growth opportunities.

So while it isn't -- if the right deal came along and the right opportunity, we would definitely take a look at it. But as I said, we found very few opportunities springing up in that part of the business.

Matthew Akman - ***CIBC World Markets - Analyst***

Okay, thanks very much.

Operator

It appears that is all the time we have left for questions. I'll turn it back to you all for closing remarks.

Julie Dill - ***Duke Energy Corporation - Corporate Executive-IR, Chief Communications Officer***

Thank you, Kelly. Thank you all for joining us today. I know we left a few of you in the queue, and so we will be contacting each of you here in a little bit to make sure that we get your questions answered.

As always, though, anyone else that does have a question, don't hesitate to give myself or the rest of the IR team a ring, and we will be back in touch. Thank you all very much.

Operator

That concludes today's conference. You may now disconnect, and have a pleasant day.