Conference Call Transcript

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PRESENTATION

Operator

Good day, everyone, and welcome to the Duke Energy second quarter earnings conference call. Today's call is being recorded. At this time for opening remarks, I would like to turn the call over to the Vice President of Investor Relations for Duke Energy, Mr. Sean Trauschke. And Mr. Trauschke, you are connected. Please go ahead with your conference.

Sean Trauschke - *Duke Energy Corporation - VP of IR*

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

Before we begin, let me take a moment to remind you that some of the things we will discuss today concern future company performance and include forward-looking statements within 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 2006 Form 10-K filed with the SEC and our other SEC filings concerning factors that could cause those results to be different than contemplated in today's discussions. In addition, today's discussion includes certain non-GAAP financial measures as defined under SEC Regulation G. A reconciliation of those measures to the most directly comparable GAAP measures is available on our Investor Relations website at www.duke-energy.com. With that, I will turn the call over to Jim.

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

Thank you, Sean. Good morning, everyone, and thank you for joining us today. We had an outstanding second quarter. As we said in our news release this morning, we reported ongoing diluted earnings per share of $0.25 for the second quarter of '07 versus $0.24 in the second quarter last year. This reflects an improvement of $0.07, or a 30% EBIT increase in combined ongoing results from our three major business segments: U.S. Franchised Electric and Gas, Commercial Power, and Duke Energy International. These strong results were offset by a lower contribution from Crescent Resources. As you may recall, last year second quarter included Crescent as a wholly owned sub rather than an effective 50/50 joint venture this quarter.

The third quarter is typically the period where our customers demand and our electricity sales are the highest. With normal weather the rest of the year, and maintaining our focus on our operations and costs, we currently expect to exceed our 2007 employee ongoing EPS incentive target of $1.15. We are pleased with our second quarter results, but even more pleased with the significant progress we continue to make in our key growth areas: increasing sales, controlling costs, and advancing our legislative and regulatory initiatives.

David is going to give you a more detail around the quarter's results. After that, I will provide updates on our legislative and regulatory efforts to recover the significant investments in our infrastructure we plan to make over the next three years. I will also give you more information about the analyst conference we are planning for September, where we will update you on the timing and amount of our CapEx spend as well as its impact on our future earnings growth. With that, I will turn it over to David.

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

Thank you, Jim. As Jim noted, Duke Energy reported ongoing diluted earnings per share for the second quarter of 2007 of $0.25 versus $0.24 in the second quarter of 2006. The $0.24 excludes the results of the natural gas businesses which were spun off as Spectra Energy in January 2007, and which are now included in discontinued operations.

Now I will begin reviewing our business segment results. I will start with our largest business segment, U.S. Franchised Electric and Gas. The segment reported second quarter 2007 EBIT from continued operations of $452 million, an increase of $101 million when compared to last year's second quarter. The year-over-year improvement in segment EBIT was driven by favorable weather conditions, increased wholesale volumes and lower purchased power. These drivers were partially offset by higher operation and maintenance costs and required rate reductions due to the Cinergy merger.

In the Carolinas, cooling degree days for the second quarter of 2007 were approximately 10% above normal, compare to 1% below normal during the same period in 2006. For the Midwest, cooling degree days for the second quarter of 2007 were approximately 52% above normal compared to 7% below normal during the same period in 2006. Cooler than normal weather in the early part of the quarter also contributed to the favorable weather variance. In the Carolinas heating degree days were approximately 10% greater than normal, compared to approximately 24% below normal during the same period in 2006. In the Midwest, heating degree days were approximately 19% above normal, while in the second quarter of last year, they were approximately 28% below normal. Overall, weather contributed $39 million of EBIT, or about $0.02 per share versus normal weather. Versus last year, which was below normal, weather contributed about $66 million of EBIT, or $0.03 per share. The increase in wholesale volumes was primarily due to additional long-term contracts in 2007.

These positive drivers were partially offset by higher operation and maintenance costs driven primarily by outages at our nuclear plants, as well as storm costs from an April 2007 windstorm in the Carolinas. Also partially offsetting these increases was an incremental $22 million related to the sharing of merger savings with our customers. As we discussed in last quarter's call, the merger related rate reductions ended in the second quarter of 2007, except for a small amount that we will continue to share with our customers in Kentucky over the next five years.

Second quarter 2006 results included an $18 million charge based on a North Carolina regulatory order, which changed the calculation for bulk power profit sharing. There was also a charge of approximately $12 million for community donations associated with the merger approvals in North Carolina.

Regional growth continued to add to the total customer base in the second quarter 2007. Approximately 47,000 new customers were added in the Carolinas since the second quarter of 2006, a 2% increase. Approximately 17,000 new customers were added in the Midwest in that same time period, a 1% increase.

For the quarter, the EBIT contribution from bulk power marketing was approximately $17 million, net of the impact of sharing of profits from wholesale power sales with industrial customers. Regulatory amortization expenses for North Carolina's Clean Air program were approximately $56 million for the quarter, compared to approximately $62 million during the same quarter in 2006. We expect total expenses to be about $190 million in 2007 in order to meet the minimum required by the clean air legislation.

Next, I will review Commercial Power. For the quarter, Commercial Power reported segment EBIT of $35 million from continuing operations, compared to $20 million of segment EBIT in the second quarter of 2006. The segment's improved EBIT was driven by an increase in retail customer demand thanks to favorable weather and higher pricing in 2007 as compared to 2006. The segment also benefited from improved results for the Midwest gas-fired generation assets due to higher generation volumes and lower operating expenses.

We are particularly pleased with the improved results of our Midwest gas-fired generation assets. We had told you earlier that we expected ongoing EBIT losses of $60 million in 2007 from those assets. But they are performing better than anticipated. Additionally, the PJM auctions have been very successful this year. As a result, we now anticipate losses of about one-half of our original projection and we expect these assets will reach their break-even point by 2009 on an ongoing EBIT basis.

The quarter's positive drivers were partially offset by higher operation and maintenance costs, mainly due to plant outages, and costs associated with increased synfuel production as a result of the acquisition of additional plants in 2007. The expense of running the synfuel facilities is included in Commercial Power, but of course the tax credit, which more than offsets the expense, is in income taxes. The year to date impact of synfuel operations on earnings is about $0.01.

As promised, we will continue to provide the effect of mark to market treatment as a separate earnings driver. For the second quarter, Commercial Power's EBIT included $22 million of mark to market gains on economic hedges. Consistent with Duke's past practices, we consider any mark to market impact as part of ongoing earnings.

Now let's turn to our International business. For the second quarter of 2007, Duke Energy International produced ongoing segment EBIT from continuing operations of approximately $97 million, an increase of $18 million when compared to last year's second quarter. DEI's improved results for the quarter were driven primarily by higher margins in Latin America as well as lower power purchases. You may recall that turbine outages in Peru during the second quarter of 2006 resulted in higher than expected purchased power costs.

Next up is Crescent Resources. Results for this segment were down from $174 million in the second quarter of 2006 to $17 million in second quarter 2007. Two things are important to consider when reviewing Crescent's results. First, last year's second quarter results included an $81 million gain on the sale of properties at Potomac Yard in northern Virginia, and a $52 million gain on a land sale at Lake Keowee in South Carolina. Second, you should remember that the results for the second quarter of 2007 represent Duke Energy's 50% of equity earnings in Crescent, whereas last year Crescent was a wholly owned subsidiary of Duke Energy.

Next, I will review our Other category. While it is not considered a business segment, Other primarily includes costs associated with corporate governance and Duke Energy's captive insurance company, Bison Insurance Company Limited. Other reported a second quarter 2007 ongoing EBIT loss from continuing operations of $42 million compared to a loss of $77 million in the prior year's quarter. The year-over-year improvement of $35 million was primarily due to lower corporate overhead and governance costs. Two special items have been excluded from Other's 2007 ongoing EBIT results. The first item is $12 million in employee severance costs mostly related to a voluntary termination program. The second special item is $12 million of costs to achieve the Cinergy merger.

Now I would like to talk about a few other important financial items. At the end of the second quarter, we had a net cash balance of approximately $900 million -- approximately $1.6 billion of cash, cash equivalents and short-term investments, offset by approximately $700 million of short-term commercial paper outstanding.

Interest expense was $160 million for the second quarter 2007 compared to $185 million for the second quarter of 2006. The $25 million decrease was primarily due to debt reductions and refinancing activities.

Income tax expense from continuing operations for the second quarter of 2007 was $119 million compared to $51 million in the second quarter of 2006. The effective tax rate for the second quarter of 2007 was approximately 28% compared to approximately 21% during the same period in

2006. The lower effective tax rate in 2006 was primarily due to favorable merger related adjustments to state income taxes of approximately $40 million. The second quarter 2007 effective tax rate includes the recognition of approximately $23 million of synfuel credits. We now expect the effective tax rate for 2007 to be approximately 27%, including the **effect** of synfuel tax credits.

Finally, the share buyback plan we entered into after the spin-off of Spectra Energy had a six-month term and has expired. No shares were purchased prior to the plan's expiration.

Our earnings are expected to follow a seasonal pattern. On a normalized basis, we expect our earnings to be greater in the last half of the year than in the first half. Since the third quarter normally has a greater number of cooling degree days, it is projected to be the strongest quarter, contributing roughly one-third of the total ongoing earnings for the year. Our first-half results have set a firm foundation for the remainder of the year, and put us in a strong position to exceed our employee **incentive EPS** target of $1.15 on an ongoing diluted basis. With that, I'll turn it back to Jim.

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

Thank you, David. As we have discussed, our growth strategy has three key drivers. First, steady sales growth of 1.5% in the Carolinas and 1% in the Midwest. Second, cost reductions in our operations that come from our continuous improvement efforts. And third, legislative and regulatory outcomes that provide for the timely recovery of and on the significant capital investments we have planned on behalf of our customers and our operations. I will spend the next several minutes on the third driver, our legislative and regulatory initiatives.

First, North Carolina. **The general assembly** passed and sent to the **governor,** its comprehensive energy package. The legislation does three things. First, it establishes a renewable portfolio and energy efficiency standard for North Carolina. Second, it provides for the more timely recovery of certain operating costs, such as the reagents and chemicals we must purchase to operate the environmental equipment on our fossil plants. And third, the legislation gives us the opportunity to seek more timely recovery of the financing costs associated with the construction of new base load generation.

Let me address each of these in a little more detail. The legislation establishes a renewable portfolio standard of 12.5% for electric utilities by 2021 and it is phased in. At least 3% of retail sales is required by 2012, 6% by **2015** and 10% by 2018. Up to 25% of the RPS can be met by electricity **savings** from energy efficiency through 2020. After that, up to 5% of the 12.5% can be met with energy efficiency, and the bill allows for cost recovery of energy efficiency measures.

You may recall that in April, Duke Energy Carolinas issued its RFP for renewable energy. The RFP required bidders to have renewable capacity available by 2012. We received more than **90** bids from 26 companies for nearly 2,000 megawatts of solar, biodiesel, biomass, biogas, landfill gas, wind, and hydro power. We expect to make decisions as to our renewable resources by year end.

Assuming the **governor** signs the bill, and we believe that he will, North Carolina will become the first state of the Southeast and the 24th state in the U.S. to have an RPS. Included in this part of the legislation is a provision that assures the **costs** associated with meeting the new RPS will be recovered separately and will be limited by cost cap. The bill also expands the annual fuel clause mechanism to include cost recovery of environmental reagents and the energy component of purchased power costs. Previously, recovery of these increasing costs would not have occurred until a full base rate case. With the legislation, these costs will be tracked and adjusted in the same way as our fuel costs. And finally, the bill gives the North Carolina Utilities Commission enhanced authority to grant recovery of financing costs for new base load power plants during construction. Previously, the **commission** could authorize such recovery only if the utility showed that it was in a financially distressed position. This provision of the legislation does require utilities to show that new coal and nuclear plants are more cost effective than renewable generation and energy efficiency. We believe this package provides an important step forward in meeting North Carolina's future energy needs, and it complements our efforts to meet steadily growing customer demand.

On the state regulatory front, we're on track on our rate filings as well as new generation and energy efficiency initiatives. In June, Duke Energy Carolinas filed with the North Carolina Commission to increase its electric rates by 3.6%, or $140 million effective January 1, 2008. The filing complies with the conditions set by the **commission** in approving the Cinergy merger that required Duke Energy Carolinas to come in for a rate review prior to end of 2007. This is the first rate increase Duke Energy has requested for its North Carolina service area in 16 years. Today we are providing electric service in the state at rates that are 28% below the national average. The new rates we have proposed in our filing will still be lower than they were 16 years ago when adjusted for inflation. To ensure that the cost of service of our operations is shared in an equitable way across customer classes, Duke Energy has asked that the Commission address the rate parity issue. We are proposing to increase residential prices by 6.8% and prices for general service and industrial classes by 2% or less. This is a proposal that will also help industries remain competitive and attract and retain new jobs in the region. Continued focus on economic development is vital to North Carolina and all of its citizens.

As part of the rate case, the Commission will consider environmental compliance costs under the North Carolina Clean Air Act and determine how much of that cost we can recover annually. Public staff and intervenor testimony is due September 24th. We have been working and will continue to work with all stakeholders to reach a settlement in the case following the public staff and intervenor filings in September, but we're prepared for a full hearing if necessary. We believe the increase we have requested is reasonable and appropriate and helps ensure that we'll continue to provide safe and reliable service at the lowest prices in the state.

Now let's turn to Ohio. In July, Duke Energy Ohio filed an application with the Ohio Commission for a 5.8% or a $34 million increase in its natural gas base rates. The request also seeks approval to continue a tracker for recovering costs associated with our accelerated gas main replacement program. If approved, the new rates would be effective in the spring of 2008. Also in Ohio, we're working on both regulatory and legislative fronts for a long-term solution that will be effective at the end of our rate stabilization plan post-2008. We are taking a flexible approach as we look at alternatives.

One key consideration, however, is that we need an additional 1,500 megawatts of generation immediately, and another 900 megawatts by 2013. Any future plan, including an extension of the current rate stabilization plan, must address this pressing need. Basically, we have three options at this time. First, work to extend our current RSP for ten years. Under this plan, we would dedicate existing generation the same way we do today. We believe the Commission has the authority to approve such a transaction. New generation is needed to maintain reliable resources and provide adequate reserve margins. Our second option is to go to market and solicit bids for 2009 when the extended market development period expires. Our generation would, of course, participate in such a process. A third option is simply to extend our existing RSP for six months to a year until we can finalize a longer term plan. Given the very short capacity situation in Ohio, we are pursuing legislation this year that gives our regulated transmission and distribution operations the authority to buy and build generation to meet our projected capacity shortfall. Legislation is also needed to push new technology, alternative energy and energy efficiency. We will know more about what this could look like when Governor Strickland releases details on his legislative proposals later this summer. With our low cost competitive generation, we believe we are well positioned to prosper in any of the proposed market structures.

Next, I will update you on our plans to meet our customers' increasing demand for electricity. First, North Carolina. You will recall that the North Carolina Commission allowed us to build one 800 megawatt coal unit in our Cliffside plant. In July, we filed an updated cost estimate of $1.8 billion for the approved Unit 6 excluding financing costs of approximately $600 million. We expect to receive $62.5 million in federal advance clean coal tax credits for the project. We also expect to receive a final air permit reflecting the new unit's state of the art emissions control technology this fall. We would expect to begin construction later this year.

Also this fall, we intend to file a CPCN applications to build two 600 to 800-megawatt combined cycle natural gas power plants in North Carolina. One would be built at our Buck Steam Station, and the other at Dan River Steam Station. Assuming timely approval of the **CPCNs** and the associated air permits, construction of the Buck project would begin by mid-2008, with completion expected by mid-2010. Construction on the Dan River project would start in mid 2009 with completion expected by mid 2011.

Now let's turn to Indiana. We completed hearings this quarter on our CPCN application for the 630-megawatt integrated gasification and combined cycle plant at Edwardsport. We believe the hearing went well. We expect an order from the Indiana Utility Regulatory Commission later this year. You may have seen last week that **Vectren** elected to not exercise its option to purchase a 20% interest **in this plant.** We had always assumed that we might own 100%. Accordingly, we sought IURC approval at the outset to own 100% of the plant. Consequently, **Vectren's** decision does not change our demonstrated need for this plant or our belief that IGCC at Edwardsport is the right technology at the right time in the right place. Nor do we believe that **Vectren's** decision will affect the timing of necessary approvals from the state of Indiana. The plant has broad federal, state, and local support and is backed by two major environmental groups. Over time, we expect the plant to receive approximately $460 million in federal, state, and local tax incentives, including a federal clean coal tax credit of $133.5 million -- the maximum amount available for gasification technology. These amounts would offset the estimated total plant cost of just under $2 billion.

Turning to energy efficiency, we are also committed to increasing the role energy efficiency plays in meeting our customers' future energy needs. In May, Duke Energy Carolinas filed a new energy efficiency proposal with the North Carolina Commission. This performance plan recognizes energy efficiency as the fifth fuel along with coal, nuclear, natural gas, and renewable energy. It is available to all customer groups, and it compensates us for verified reductions in energy use. Our filing asks for return of and on 90% of the cost avoided based on the megawatts saved from energy efficiency. This percentage would produce savings for customers compared to building new generation. Our energy efficiency model would generate enough revenue to cover all program costs, and earnings would be comparable to building new generation. We have been presenting the Save-A-Watt plan to key stakeholders and gotten a positive response. Meanwhile, we were able to expand our current energy efficiency offerings in Kentucky and Ohio this year, thanks to Utility Commission approval of enhanced demand side management programs in those states.

Coal, gas, renewables, and energy efficiency will serve as the bridge to the construction of a new nuclear plant. As we have discussed, we have plans to build a new nuclear station in South Carolina. We're on track to file an application with the Nuclear Regulatory Commission this fall for combined construction and operating license for the Lee Nuclear Station. We're also planning to file a certificate of public convenience and necessity in South Carolina in the fourth quarter. These actions are necessary steps as we continue to pursue the option of building the new plant.

Our other major news of the quarter was our acquisition of more than 1,000 megawatts of wind energy assets currently under development in the west and southwest. According to the Department of Energy, U.S. wind power capacity increased 27% last year, making the U.S. the fastest growing wind power market in the world. With nearly half the states now having renewable energy portfolios, we believe wind energy presents a very attractive opportunity to grow earnings in a carbon constrained environment. With our acquisition of the wind assets of Tierra Energy in May, we are well on our way to developing a stand-alone renewable energy portfolio within Duke Energy generation services. We are committing approximately $400 million in CapEx through 2009 to complete three wind projects. We'd expect to begin seeing earnings from these assets in 2009.

Let's now turn to the climate change issue. At the federal level, climate change legislation is moving. Seven bills are circulating in the U.S. Senate that use cap and trade mechanisms to limit greenhouse gas emissions. The economic impact of a cap and trade approach on consumers and our industry depends to a large extent on how emission allowances are allocated.

We see three key requirements for carbon legislation. It should follow the highly successful cap and trade model for sulfur dioxide emission trading. Second, it must be linked to and provide incentives for the construction of new nuclear plants, and third, the cap target must track the emerging carbon capture technology roadmap.

Recently, I testified on **Capitol Hill,** and also spoke in support of the Bingaman-**Specter** bill. It's not a perfect bill. We don't agree with all aspects of it, but it is economy-wide, with achievable targets and timelines. The bill ensures that consumers are protected from unexpected high rates by including a technology accelerator payment, or safety valve. It also recognizes that getting the allocations right is critical to the success of any climate change legislation. Bingaman-**Specter** bases allocations on the amount of CO2 emissions. This approach protects consumers and communities that depend on coal-generated electricity. It is not likely that a bill would pass until after next year's presidential election. We will continue to participate in the ongoing discussion on the Hill.

In closing, I want to talk briefly about the analyst meeting we are planning for September 14th in New York City. It is becoming increasingly clear that the significant infrastructure investments I have just reviewed will push our CapEx spending higher than the levels we have previously announced. As a result, you should assume our earnings growth rate will increase as well.

At the conference, we will provide updated projections for both and also extend our forecast period from three to five years. You will also hear from other members of our senior management team, who will discuss their operations. We will be providing you with the meeting details in the coming weeks.

As you can see, we're in a strong financial position. We're focused on our operations. We're focused on controlling our costs. We told you we would increase our dividend, and we followed through on that in June. Our current dividend yield is about 5%, and we expect even stronger earnings growth in the future. Putting it all together, we believe this is a great value proposition for our investors. With that, let's open the lines so that David and I can take your questions.

QUESTION AND ANSWER

Operator

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

Dan Eggers - ***Credit Suisse - Analyst***

Good morning. First question, on the Save-A-Watt program, then the energy efficiency elements of the North Carolina legislation. Can you tell me how those two pieces could fit together and can they work side by side, or is there going to have to be an adjustment to the legislation on the environmental side to make the Save-A-Watt program work?

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

No, actually, the legislation proposed specifically that the Commission would have the authority to approve an energy efficiency program in the state. And this actually underpins the filing that we made earlier with respect to the Save-A-Watt program. So we view what the general assembly has done as very supportive of our energy efficiency initiative. We still to have go through a proceeding at the Commission, and it's our judgment if -- once signed by the governor, that we will end up with two proceedings rather than the consolidated proceeding that we have today. Does that answer your question, Dan?

Dan Eggers - ***Credit Suisse - Analyst***

I think. So on the 90% cost recovery design, can you just -- has there been any adjustment to how you guys are going to calculate that cost? That is just the capital cost and not sort of ongoing savings, et cetera?

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

This plan is a real paradigm change in terms of how energy efficiency is actually treated by state regulatory commissions. What we are really proposing is a performance plan that says we only earn if we can produce verified reductions or Save-A-Watts going forward. The key here is to set the price of the Save-A-Watt that we produce, and we believe the price that results in the lowest cost to consumers compared to building new generation is something that is 90% of the avoided cost of generation. So by targeting the Save-A-Watt price at that level, we're guaranteeing the customers get the lower alternative between building new generation and reducing a megawatt.

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

Dan, as you may recall, the avoided cost is routinely filed with the Commission. So it's a levelized number that is always part of the Commission proceedings.

Dan Eggers - ***Credit Suisse - Analyst***

Okay. Can you just walk through some of the drivers that you guys see that's gotten you to confidence above the $1.15 earnings guidance aspirational goal? What are the pluses that you're seeing that got you ahead of plan?

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

Yes, let me just cover two or three things. First of all, the back half of the year is always bigger than the front half of the year, largely due to the third quarter. A handful of things that are going on that are important. We think our gas plants will continue to do better. We had told the Street that the gas plants would lose $60 million this year, and as a matter of fact, we told them a number like that for the next two years after this. And now we see that as being half of that this year, and we also see that they should get to break even in 2009. So we see some real positives around the gas plants. The second thing we see is a continuation of -- well, the weather in the Carolinas is very good this week. We should see good results in the third quarter from Franchised Electric. We expect to get our full $0.03 out of synfuel, and we've only booked $0.01 so far, so that would be a positive. The final thing I would mention is that if you'll recall, we had purchase accounting in those estimates of $110 million, and first half of the year had about $78 million of the purchase accounting. The back half will have about $32 million. So there are a lot of things that are clicking well that cause us to be confident of exceeding the $1.15.

Dan Eggers - ***Credit Suisse - Analyst***

One last question on International. You guys have been performing awfully well there this year. Are we seeing kind of an increase in baseline earning power? Is that how we should be thinking about performance going forward?

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

I think we see a couple of things with International. One is we see the operations continue to improve. We see the pricing in those countries improve, and we see the value of assets in those areas improve. So we have kind of green lights in thinking about that business in several different -- from several different perspectives.

Dan Eggers - ***Credit Suisse - Analyst***

Does that mean asset value increasing, meaning that a monetization opportunity could present itself?

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

Well, I'll say it this way. Clearly that is an option that is always out there, but that is not an option we're actively pursuing at this point. Those assets are good performers. The countries are getting stronger, and we're very pleased with our position in Latin America at this point.

Dan Eggers - ***Credit Suisse - Analyst***

Thank you, guys.

Operator

Moving on, we'll take our next question from Paul Patterson with Glenrock Associates.

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

Good morning, Paul.

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

Good morning. How are you?

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

Fine.

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

Just on that purchase accounting question, could you tell us what -- I just wanted to go over that. Negative $53 million I think in the first quarter, and I think you said for the first half of the year you're expecting $78 million. Is that right?

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

That's right. Second quarter was $26 million; first half was $78 million.

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

That was one of the reasons why you raised guidance, because of change in that? Did I understand that correctly?

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

It's not a change. It simply is more weighted towards the first half of the year than the back half of the year and that is largely because the purchase accounting -- the bulk of it is associated with emission allowances, which we had to mark to market when we bought Cinergy. We sold some of those emission allowances in the first half of the year, which caused purchase accounting to be larger in the first half of the year.

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

Your slide -- the last slide showing the value proposition shows the same EPS growth rate for 2009, 4 to 6% growth -- yet I think you mentioned that CapEx was going to be growing and probably earnings were going to be going higher. Could you just elaborate a little bit on that?

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

I think our current estimate is 4 to 6%, and we haven't revised that yet, and again, we are in the process of finalizing our five-year plan -- and at the September 14th meeting we'll have an opportunity to address it.

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

So we'll wait until then to get more information on it.

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

Yes, sir.

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

Great. Finally, currency impact and the storm impact associated -- if you could give us a flavor for what that's been.

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

The April storm impact was $9 million. The currency impact in the second quarter on EBIT in Brazil was $3.7 million. On net income it was $1.9 million.

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

Great. Thanks a lot, guys.

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

Thank you.

Operator

We'll take our next question from Paul Fremont with Jefferies.

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

Good morning, Paul.

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

Good morning. Quick question. If I go back to the December EBIT guidance 2006, what I'm coming up with so far in terms of potential changes is for Commercial Power -- you were originally looking at $200 million. I assume that's probably $30 million better based on reduced DENA losses. I would also calculate something on the order of $110 million in lower taxes, associated with moving the tax from 33% to 27%. Are there any other major changes to those EBIT numbers or to the underlying core assumptions that you gave out in December that we should look at as a driver on 2007?

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

I think you should look at it this way. I think you should be very comfortable that Commercial Power will get to the $200 million, but there's moving pieces in there. So you ought to stick with the $200 million for Commercial Power. Keep in mind Crescent Resources -- it will be a bit of a stretch to get to the $100 million for Crescent Resources, I think. But you should expect that Duke Energy International and USFE&G do better than what we told you at the beginning of the year. As far as tax rate, keep in mind that the tax rate assumes synfuel, and that impacts the tax rate. So you will probably have a bit too much benefit in the tax rate in your calculation, it sounded to me like.

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

Okay. So what you're saying is that the original guidance included a synfuel contribution which would in some way already -- would be double counting if I simply gave you an additional $110 million in terms of lower tax?

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

I'm not sure where the $110 million is coming from, but it sounds like a really big number to me, for the impact of taxes.

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

Thank you very much.

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

That sounds too high.

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

Okay. Thank you.

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

Thanks, Paul.

Operator

We'll take our next question from [Asanja Hung] with RBC.

Lasan Johong - ***RBC Capital Markets / Dain Rauscher - Analyst***

Yes, good morning. Good quarter. Congratulations.

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

Thank you.

Lasan Johong - ***RBC Capital Markets / Dain Rauscher - Analyst***

Couple questions on different things. Ohio, if and when, let's say plan one -- no, plan two goes into effect where you go to market and you expect market rates to kind of seep into Ohio, how much are we talking about in terms of retail prices going up, and is there a mitigation plan as to how you might handle abrupt cost increase through customers?

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

Well, let me tell you the way I would look at it. If you look at the curve price we sell under today, it's something like mid-50s. 55 or so. And that is extremely close to what market would be. So you shouldn't expect a dramatic move as you've seen in some other jurisdictions.

Lasan Johong - ***RBC Capital Markets / Dain Rauscher - Analyst***

So you don't think it's going to be a problem if you do go to market in Ohio?

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

We don't see that as a significant issue, as you've seen in other places.

Lasan Johong - ***RBC Capital Markets / Dain Rauscher - Analyst***

Great. In terms of Save-A-Watt program, you said that Duke has to demonstrate reliable actual measurable performance enhancements and increases. Do you plan or do you think that Duke may end up investing in a lot of smart meters to try and get to that point?

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

Our long-term plan says in order to achieve the energy efficiency gains that we're striving for, we need meters with two way communication. So, yes that is part of our plan. It's further out. It's not in the first year, but as we look out over a five-year period, clearly we need to be moving in that direction in order to achieve the productivity gains in energy efficiency that we expect.

Lasan Johong - ***RBC Capital Markets / Dain Rauscher - Analyst***

Any preliminary estimates on how big the scope of the program might be?

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

We're working on it now. More to come.

Lasan Johong - ***RBC Capital Markets / Dain Rauscher - Analyst***

So we should expect an update in September?

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

Maybe as early as September.

Lasan Johong - ***RBC Capital Markets / Dain Rauscher - Analyst***

Okay. Earlier September. One more question. A little curious about the synfuel tax credit. I think you mentioned there was a $0.01 benefit in the first half to date, and the target was $0.03. I thought what I heard you guys say was that you expect to meet those targets in the second half of the year. But at oil prices close to $72 to $73, is that realistic? Is there not a phase-out coming into play?

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

There is a phase-out. We used a 35% phase-out in calculating our second quarter numbers. The forward curve as of today, 35% phase-out looks pretty good. So basically you should assume at -- if oil averages $80 or less for the balance of the year, we should get our $0.03.

Lasan Johong - ***RBC Capital Markets / Dain Rauscher - Analyst***

Excellent. Thank you very much.

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

Thank you.

Operator

Our next question will come from Jonathan Arnold with Merrill Lynch.

Jonathan Arnold - ***Merrill Lynch - Analyst***

Good morning.

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

Good morning.

Jonathan Arnold - ***Merrill Lynch - Analyst***

Can I just ask -- back on to synfuels and tax, David, if it's possible to say what the tax rate would have been without the synfuel benefit? And then maybe how we should think about a normalized tax rate as we go into 2008.

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

The tax rate would have been 33% without synfuel. You should think of it as 33% next year. Next year you begin to get some of the Clean Air -- the wind, rather, tax credits, which are about $0.02 a kilowatt hour, so 33% is a good number for next year. As you get more wind beyond that, it could be a lower number going forward. But we'll see how big the wind gets.

Jonathan Arnold - ***Merrill Lynch - Analyst***

Okay. And then had another one relating to the RPS and the cost recovery and the state's plan is obviously a lower target than is being talked about, the potential national mandate. In the legislation in North Carolina, if the -- if there were to be a tougher RPS standard imposed nationally, and it was beyond the scope of what the state has, would you be able to recover those costs as well?

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

We have some concern with the national RPS proposals. One was defeated in the Senate and one was approved in the House just Saturday. We're concerned in several ways, because the one in the House is really more of a tax than requiring actually renewables. The bill in North Carolina actually requires us to purchase from renewable facilities. And I think the important point about the state that's different than the federal -- there's actually a cap on those costs going forward to make sure there's a balance from a consumer perspective. On the one hand, we're getting adequate renewables, but not at a price that really drives up the cost to consumers. There's no such check on the federal legislation, and kind of reinforces in my mind why it is critical to allow RPSs to be set at the state level with local knowledge and concern with the impact on local consumers rather than a federal level where they're more interested in taxing consumers than actually providing renewables in the mix of generation.

Jonathan Arnold - ***Merrill Lynch - Analyst***

Thank you, guys.

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

Thanks, Jon. You can tell I spent time Saturday on the phone talking about this to my favorite congressman.

Operator

We'll go ahead and take our next question from Michael Lapides from Goldman Sachs.

Michael Lapides - ***Goldman Sachs - Analyst***

Hey, guys. Can you provide an update on the North Carolina rate review and what other key milestones investors should watch over the next three to six months?

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

We have been in conversations with the key parties in the state. The next key milestone will be on September 24th when the public staff states their position with respect to our rate filing. So I think that will be the next milestone. We will continue to have conversations with the parties. And then the next milestone will be a hearing in October. So those are the two milestones on the horizon. As you may remember, the Commission is required to act before -- so that rates can go into effect 1/1/08.

Michael Lapides - ***Goldman Sachs - Analyst***

Got it. Also, following back on the need for generation in Ohio, is there push-back likely from either the PUCO or legislative sources regarding whether generation should be put in a quasi rate based like structure, or whether it should be just be a PPA from your non-regulated assets back to the utility customer?

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

Based on conversations I've had with various leaders in the general assembly as well as in the executive branch, I would say it's trending more toward allowing utilities to buy and own generation than to purchase under PPAs. There's a growing concern in Ohio that we have not built enough generation to provide for the growing needs in the future, and that the best way forward may well provide for an option for the local utility to own or to purchase assets to be included in rates. Now, I say that making the point that the thought is that with respect to the generation that was de-regulated in 2000, that that would continue to be deregulated. We wouldn't try to put that back in. But with respect to new generation, you would have the widest range of options available to a local company to meet the needs of its customers, including the building and owning of generation.

Michael Lapides - ***Goldman Sachs - Analyst***

Is there a dramatic difference between what you think the market value of your gas generation is in that state -- your nonregulated gas generation in the state -- versus what your current book value is? I assume would you have to market, if there was a dramatic difference, but just curious in terms of what you've seen with other transactions in the region.

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

I think a couple of things I have observed. One is that clearly the book value of our assets is below replacement value, or the replacement cost to those units. Secondly, we see a convergence of market prices to our book value. So I think we see a convergence of those two values.

Michael Lapides - ***Goldman Sachs - Analyst***

Okay. Thank you.

Operator

We'll go ahead and take our next question from Leslie Rich with Columbia Management.

Leslie Rich - ***Columbia Management - Analyst***

Thank you.

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

Leslie, good morning.

Leslie Rich - ***Columbia Management - Analyst***

Good morning. I wondered if you could walk through sort of the two Ohio options. I will leave aside the sort of do nothing until we figure it out option. And if the current cost of generation embedded in your rates is more or less equivalent to market, I'm wondering what the rationale is behind extending the RSP for ten years and sort of what the pros and cons are, if you're at liberty to discuss those. And sort of strategically what would you prefer as the desired outcome.

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

I would say that our first choice is to extend the current RSP for ten years. And there are several key provisions with respect to any extension. One is, is that we are -- have the ability to own or purchase generation to meet the shortfall that we have today. And that's roughly 1,500 megawatts in the immediate term and some 900 megawatts for 2013. So I think that is critical. I think that, as I mentioned before, our need to obtain this generation is really tied to a growing concern in Ohio that we need adequate generation committed to the consumers of the state. So that is a very important provision in this. And it's very important for us to be able to maintain our reserve margins, particularly in periods like now, where we're experiencing significant heat wave in the area. Our second option, again, is keeping the existing framework in place as we continue to negotiate and wait for legislation. And the primary reason that we don't move go to market up because our current RSP price is almost on top of, as David said, the market price. We prefer to have a price that allows better sharing of the risks associated with fuel costs as we have in the current RSP. We prefer to have the ability to own generation or to build new generation in the state, and I think there's a couple ways we could do that either under new legislation or under the existing regime, and that's a much longer conversation. But I think the important point here is that we need predictability from our standpoint. And quite frankly, from our customers' standpoint, they need predictability and the avoidance of volatility. And by having a structured arrangement, as we've had in the last three years, it allows us to avoid, on behalf of our customers, the volatility that comes in relying on changes in market prices going forward.

Leslie Rich - *Columbia Management - Analyst*

So it's -- is it your opinion that legislation would be necessary that the utility commission acting alone might not be enough of a sort of long-term back stop?

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

I think the general feeling is, they would like to have greater clarity around the authority of the Ohio Commission. It would be my judgment that under the existing authority, they have the ability to structure -- to approve an arrangement like this, but that's just my point of view on it. I think the broader opinion is we need modification of the legislation.

Leslie Rich - *Columbia Management - Analyst*

And do you get the sense that this is sort of high on the governor's agenda or sort of buried amongst a number of issues?

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

I think the number one priority of the governor was to get the budget done. He got that done. And quite frankly, everything else paled in comparison to solving that, and he did. I think the next thing -- and I've read a number of articles where he's been quoted -- is really addressing the whole issue of energy, both from the standpoint of making sure that we're investing in energy efficiency in the state and that the state has some commitment to renewables going forward. So as I listen to his public comments, as I talked to his various advisors, it would be my judgment that this is one of his top priorities now, and going forward.

Leslie Rich - *Columbia Management - Analyst*

Thank you.

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

Thank you.

Operator

It looks as though we have time for one more question. We'll hear from Shalini Mahajan with UBS.

Shalini Mahajan - *UBS - Analyst*

Good morning.

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

Good morning. Welcome.

Shalini Mahajan - *UBS - Analyst*

Thank you. Could you give us some feel for the wind acquisition that you did in terms of size, if you can, and is this a business you're planning to expand going forward?

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

It is a business we're planning to expand. We've said there are three projects we're actively working on, two of which should come in next year, and the CapEx associated with those is about $400 million. And then there is a stream of projects beyond that still in the development stages. We'll have to see how many of those become real.

Shalini Mahajan - ***UBS - Analyst***

Would those be dependent upon the extension of PDCs?

David Hauser - ***Duke Energy Corporation - Group Executive, CFO***

Yes, you certainly would have to have the extension of the credits, I believe, for those to be viable projects.

Shalini Mahajan - ***UBS - Analyst***

Okay. And then separately for meeting the RPS in North Carolina, and, Jim, you mentioned you are evaluating bids. Is your inclination towards owning some of these within the utility or more a PP like arrangement?

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

It's my belief that we're looking at a blend of owning some, purchasing from others, and as we review the different proposals, it will give us an opportunity to make decisions as to what the mix ought to be.

Shalini Mahajan - ***UBS - Analyst***

Okay. Great. Thank you.

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

Thank you very much.

Operator

And at this time we are out of time for questions. Mr. Trauschke, I will hand the conference back to you for any final or closing comments.

Sean Trauschke - ***Duke Energy Corporation - VP of IR***

Thank you, Jimmy. As always our team will be available to answer any follow-up questions. We want to thank you for joining us today and look forward to speaking with you again in the near future.

Operator

And that does conclude our conference. Thank you for your participation. We do hope you enjoy the rest of your day.