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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Duke Energy third quarter earnings conference call. As a reminder, today's call is being recorded. And now at this time for opening remarks, I would like to turn the call over to the Vice President of Investor/Shareholder Relations for Duke Energy, Ms. Julie Dill. Julie, please go ahead.

Julie Dill - *Duke Energy - VP of Investor & Shareholder Relations*

Good morning and thank you for joining us today. With me are Paul Anderson – Chairman and CEO and David Hauser – Group Vice President and Chief Financial Officer. In addition, Fred Fowler – President and Chief Operating Officer, Rich Osborne – Group Vice President for Public and Regulatory Policy, Jim Mogg – Group Vice President and Chief Development Officer and Steve Young – our Corporate Controller – will also be available to answer your questions today.

This morning, David will review third quarter results and then Paul will provide an update on a number of enterprise initiatives, including the work associated with exiting the DENA business, and an update on our proposed merger with Cinergy.

Before we begin with our prepared remarks let me read to you the Safe Harbor Statement.

> Some of the things we will discuss in today's call concerning future company performance will be forward-looking statements within the meaning of the securities laws. Actual results may materially differ from those discussed in these forward-looking statements, and you should refer to the additional information contained in our third quarter 2005 earnings release filed with the SEC on Form 8-K and other SEC filings concerning factors that could cause those results to be different than contemplated in today's discussion.

Since we will be speaking about our proposed merger with Cinergy, I would ask you to please refer to the S-4 filing of Duke Energy Holding Corp on file with the Securities and Exchange Commission for factors and risks related to the merger.

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 will be made available on our investor relations website at: www.duke-energy.com.

Before we begin our prepared remarks I would like to briefly address our reported earnings as seen in our release this morning.

In an attempt to help you fully understand the results of our business this quarter, we ended up giving you a lot of numbers! Let me just quickly summarize these for you.

The 4 cents per basic share is a total reported number and includes the effect of moving DENA to discontinued operations. The 99 cents per basic share represents the business results excluding discontinued operations this quarter. And the 59 cents per basic share is representative of our ongoing operations.

While there is a lot of 'noise' in the numbers this quarter, please do note that, year to date, our ongoing earnings per basic share were $1.37 compared with $1.22 last year. That's a 12% increase for the first nine months of the year over the same period last year.

Following our prepared remarks we will open the lines up for questions. With that I'll turn the call over to David.

David Hauser - *Duke Energy - Group VP & CFO*

Thank you, Julie.

Let me start with Franchised Electric. That business had an outstanding quarter with a 34% increase in segment EBIT compared with last year's third quarter. Higher earnings for the quarter were due primarily to hot summer weather, strong bulk power sales and lower Clean Air amortization. Our weather statistics were 19% warmer than normal in the quarter compared to 14% below normal during the same period in 2004. As a matter of fact, our service territory experienced our highest peak day ever in July and had the hottest September since we've been keeping records.

Segment EBIT for the year to date is basically flat compared with last year. For the full year 2005, Franchised Electric is now expected to deliver ongoing earnings slightly better than last year's results.

You may recall our investor chat in June where Ruth Shaw mentioned additional capex of approximately $100 million was approved for 2005. These investments were primarily focused on reliability and integrity projects. However, with a record-breaking hurricane season and the fact that 1,500 of our employees and contractors were helping other utilities in their efforts to restore power, some of the projects that were planned for this year will be postponed. We now expect we will actually spend about $50 million of the additional capex this year.
Many people are concerned about rising fuel costs and the effect these will have on power prices. For Duke Power customers, we continue to deliver power at prices well below the national average. Our customers benefit from our diverse generation assets, which include coal, nuclear, hydro and natural gas, and our ability to effectively manage the costs associated with these different types of fuel.

As it relates to coal, we currently have more than 90% of our needed supply contracted for 2006. On the nuclear side, Duke Power has 100% of its uranium supply, often referred to as yellow cake, contracted through 2008. We also have contracts in place for the same time period for the conversion and enrichment services of the uranium.

As you know Duke Power passes its fuel costs through to customers which is accomplished through an annual fuel clause adjustment. Effective in 2005, fuel costs increased total rates for our residential customers by about 3.5% in North Carolina and approximately 6% in South Carolina. Since coal and nuclear are our primary sources of power generation, Duke Power has not experienced the dramatic increase in fuel costs like some of our peers who are more dependent upon gas-fired generation.

Now let me move on to Natural Gas Transmission.

Our Natural Gas Transmission business continues to deliver solid EBIT growth. Segment EBIT increased 22% this quarter and was up almost 6% for the year to date. Gas Transmission's US operations and expansion projects delivered about half of the EBIT increase for the quarter and our Canadian operations the other half. It may surprise you to see such strong earnings from our US operations in light of the recent hurricanes in the Gulf. Through the use of our gas storage facilities, we were able to dispatch the systems such that not a single contracted customer missed a delivery during that trying time. Our Canadian operations saw good results from Union Gas and earnings from new assets, which were transferred from Field Services and acquired from ConocoPhillips during the quarter. Earnings for the quarter also benefited from the foreign currency translation of the Canadian dollar.

Expectations for segment EBIT growth at Natural Gas Transmission are unchanged at 3 – 5% annually, with 2005 coming in at the high end of that range.

Now let me turn your attention to Field Services.

Field Services, which now represents Duke Energy's 50-percent interest in Duke Energy Field Services (DEFS), reported third quarter 2005 equity earnings of $701 million. Ongoing results were $87 million, excluding the $576 million pre-tax gain related to the change in ownership with ConocoPhillips and a $38 million benefit related to the settlement of de-designated hedges. These results were driven by strong commodity prices and operating improvements during the quarter. These positives were partially offset by higher operating costs associated with asset integrity work and lower volumes due to hurricane interruptions.

As a reminder, the change in ownership to a 50/50 partnership requires that Duke Energy recognize earnings from the Field Services partnership as equity earnings and no longer as consolidated segment EBIT. The primary difference between the two is that the equity earnings amount includes adjustments for interest expense associated with Field Services' debt and a small amount of income taxes related to certain operations within the partnership. Duke Energy's share of interest expense and income taxes totaled approximately $15 million this quarter.

Ongoing equity earnings for the fourth quarter 2005 are expected to be as strong as the third quarter and could exceed $120 million, depending on commodity prices. This amount includes the remaining recognition of the de-designated hedges of $35 million. Keep in mind this guidance is also net of interest expense and taxes due to the change in accounting.

So now let's move on to DENA.

The presentation of DENA's earnings this quarter is the result of a lot of accounting noise and may be a bit confusing, so let me walk you through all the different pieces.

As a result of our decision to exit substantially all but the Midwest part of our portfolio, we have reclassified those results to Discontinued Operations retroactive to the beginning of the year. Accounting rules require us to recast prior periods for Discontinued Operations as well.

DENA's segment EBIT results for 2004 have been adjusted for earnings and losses associated with the portion of DENA's business classified as Discontinued Operations this quarter. There is no equivalent 2005 number in the DENA reporting segment because all continuing operations for DENA are now reported in 'Other'. As a result, the DENA reporting segment shows a $27 million variance period to period, which is wholly attributable to last year's results related primarily to the Midwest operations.

You'll recall that DENA's continuing operations include the Midwest assets, certain contracts and corporate allocations, and the remaining wind-down of the DETM business. The current-year results from these operations are included in "Other" EBIT which I will address when I review those results.

Earnings and losses associated with the generation asset portfolio of approximately 6,300 megawatts of facilities located in the West and Northeast, along with DENA's contractual positions, are now recorded in Discontinued Operations.

On the next slide we have updated the financial impacts related to the exit decision.

The third quarter 2005 net pre-tax charge associated with the decision to exit these businesses was approximately $1.3 billion, or $800 million after tax. The split between the impact from the assets and the contracts has shifted just slightly from the numbers we provided you in September. The net charge includes approximately $600 million related to the generation assets and about $700 million related to forward gas and power purchase and sales contracts.

We also noted that we would be recognizing a gain of approximately $300 million within the next twelve months from the settlement of contracts. The gain is now expected to be about $100 million. The difference is the result of revisions to our previous estimates, the mark-to-market impact of both gas and power portfolios and rounding.

When we made our announcement in September, we were also not able to give an estimate of any additional transaction and termination costs, or the impact from our non-derivative contracts. We are now able to say that these costs will be in the range of $600 to $800 million and will be recognized as we exit the DENA business. This range includes approximately $40 to $60 million of severance, retention and other transaction costs not yet recognized.

Our DENA staff has been working very hard to mitigate the mark-to-market exposure associated with crashing all these hedges forward. They have made a great deal of progress, and instead of a pre-tax sensitivity to $1 move in spark spreads being $60 million at September 13th, it is now $20 million as of October 28th.

Taking into account the range of expected costs, we continue to expect to receive a minimum of $500 million in net cash inflows from the final disposition of DENA's assets and contractual positions.

Let me turn next to International Energy.

Our international operations reported segment EBIT from continuing operations of $63 million, $1 million less compared with the third quarter of 2004. A $20 million impairment was taken this quarter on DEI's investment in Campeche. Excluding this charge the quarter results would have shown an increase of about 30% over last year. This quarter's ongoing results were helped by stronger operations in Peru and Argentina, higher margins at National Methanol and favorable currency impacts related to the Brazilian real partially offset by higher expenses in Ecuador and Guatemala, and lower margins in Brazil.

Given DEI's strong performance so far this year, we expect to see ongoing segment EBIT of approximately $300 million.

Now I'd like to move on to Crescent Resources.

Crescent Resources reported third quarter 2005 segment EBIT from continuing operations of $120 million, compared with $43 million in the previous year's quarter. This increase was driven by the continued active management of Crescent's real estate holdings, which this quarter resulted in a gain on the sale of an interest in a portfolio of office buildings, the sale of a legacy land tract in South Carolina and increased residential lot sales. Partially offsetting these strong results was a $16 million impairment on a residential development located in South Carolina.

Crescent Resources' year-to-date EBIT from continuing operations was $210 million compared with $190 million in 2004. For the full year 2005, we expect Crescent to deliver significantly more than $250 million in segment EBIT from continuing operations and discontinued operations.

Going forward, Crescent will continue to have a robust real estate portfolio. We have deployed additional capex to Crescent to enhance their opportunities in the higher growth real estate markets and, in return, Crescent has successfully generated more earnings for our shareholders and returned more cash to the parent than was anticipated. At the end of the third quarter 2005 the book value of Crescent's portfolio was approximately $1.35 billion, compared with $1.1 billion at the end of 2004.

Now let me move on to Other EBIT.

Other EBIT, includes the change in mark-to-market value of the de-designated hedges from Field Services, the cost of our captive and mutual insurance companies, DENA's continuing operations, as well as the cost of corporate governance at Duke. On a reported basis, Other EBIT was a $175 million net expense for the third quarter of 2005 compared with a $25 million net expense for the same period last year.

Let me step you through each of the significant pieces of the variation. The largest component totals approximately $104 million and is related to the impact of crashing the hedges associated with our Field Services business. There are three pieces to this – first is the realized deterioration of the 2005 hedges resulting in a $44 million loss. Next is the mark-to-market change related to the 2006 hedges which was a $43 million loss in the third quarter. Both of these items are included in ongoing earnings. Third, there is a $17 million loss classified as a special item relating to the change during the quarter of the mark-to-market value of the 2005 DEFS hedges that were not settled as of September 30th.

The next largest variance of a negative $54 million relates to insurance. A third of this amount is related to the deconsolidation of Duke Energy Field Services, as we now have to treat that business unit as we would any third party for accounting purposes. Another third is associated with anticipated impacts from Hurricanes Katrina and Rita, and the balance is related to timing differences on the recognition of captive insurance claims.

DENA's continuing operations had a positive impact on this quarter's results of approximately $11 million, including a $30 million gain due to the de-designation of hedges related to the Southeast plants which were sold last year. This gain was considered a special item for the quarter.

Ongoing Other EBIT is expected to be about $310 million in net expenses for 2005, excluding any changes due to mark-to-market fluctuations on the de-designated hedges as we have no way of estimating what that variance would be at this time. This guidance also does not reflect the full impact associated with hurricane damage. We don't anticipate significant losses on our own systems but we don't know the status of our industry mutuals yet.

Now let me move on to briefly review some other income statement and balance sheet items.

Duke Energy's consolidated debt balances are $2.7 billion lower from year-end 2004. Total debt at the end of the third quarter was $16 billion. The significant debt reduction in the third quarter is primarily due to the deconsolidation of Field Services, which was about $2.3 billion, including $600 million of debt maturities in the third quarter. The remaining decrease was due to debt maturities at Duke Capital and Union Gas for a total of $331 million. Debt maturities for the fourth quarter will total approximately $300 million.

Just last week Gulfstream closed on $850 million of long-term notes. The funds raised through this issuance were used to pay off a short-term construction loan, cover financing fees and return approximately $620 million of equity to the owners -- Duke Energy and Williams. Duke received about $310 million.

For interest expense, Duke Energy reported a $101 million reduction from last year. This reduction is largely due to the deconsolidation of Field Services and net debt reductions over the last year. We continue to expect interest expense for the full year 2005 to be approximately $1.1 billion.

Cash and cash equivalents along with short-term investments totaled more than $1.4 billion at the end of the third quarter. The decrease in our cash balance from the second quarter is largely due to additional collateral requirements prompted by changes in commodity prices associated with DENA's discontinued operations. Since June 30th, we have posted an additional $375 million of cash collateral as a result of volatility in the commodity markets. We expect the majority of this position to be eliminated once we exit the DENA business.

While Duke Energy retired the 30 million shares associated with the share buyback in the first quarter of 2005, Merrill Lynch completed the 30 million buyback in the market on September 19th. An additional 2.6 million shares were repurchased on or before May 6th under a separate agreement with Merrill. We suspended any further repurchases under this second agreement when we announced the proposed merger with Cinergy.

Many of you have asked about when we might restart this buyback program in light of our strong cash balance. Let me first state that it is not my goal, nor the company's, to have a large cash balance on hand on an ongoing basis. However, at this time we are prohibited from repurchasing any meaningful number of shares due to SEC regulations until we complete the shareholder vote on the merger. After that we will be in a position to review our options with respect to a share buyback or other uses of our cash which may provide greater shareholder value.

In the intermediate term, our cash position will be used to fund capital expenditures, merger costs and minimally reduce debt. On a longer term basis, we would like to manage our cash requirements through our commercial paper programs and solid operations.

Now let me turn the call over to Paul.

Paul Anderson - *Duke Energy - Chairman & CEO*

Thank you, David.

I'm absolutely delighted with the performance of our business segments this quarter. Even with the challenges of hurricanes, supply disruptions, the decision to exit the DENA business and ongoing merger activities, this Duke Energy team remained focused on the tasks at hand. Our pipeline and field services operations got their systems back on line as soon as possible after the storms passed, our Duke Power teams helped other companies restore power to customers along the Gulf Coast and Florida and we were still able to deliver excellent results for our shareholders.

I am highly confident that we will exceed our revised incentive target of $1.65 per basic share. The only things we believe could derail us would be another natural disaster, significant spikes in crude oil prices or surprises from our mutual insurance companies.

Let me talk a bit more specifically about our gas pipeline and storage businesses along the Gulf Coast. Nearly all of our assets are operational with just two compressor stations still offline due to flood damage but they are expected to be back in service in a few weeks.

There has been a good deal of concern about winter gas supplies and I'm happy to report that our gas storage facilities in the Northeast are 95 to 98% full and our storage facilities in the Gulf Coast region are quickly filling up with injections reaching as much as 500 million cubic feet per day.

While I'm on the subject of storage, let me remind you that we closed on the purchase of the other 50% interest in Saltville in August, making us the sole owner of that facility.

Before I update you on our activities related to DENA and the merger I would like to highlight Duke Power's announcement last week concerning its plans to complete a combined construction and operating license application for a nuclear facility. While site selection will be completed by the end of this year, there will be numerous other milestones along the way. The process to complete the license application and get approval from the NRC is at least 5 years away and we would not expect a plant to be up and actually running until 2016. So, while a significant strategic move, we do not expect any short-term financial impact.

With respect to DENA, let me tell you how we're progressing with the disposal of the business. As David mentioned earlier our teams have been working hard to mitigate the mark-to-market earnings volatility associated with the contractual positions which should help expedite their sale. We have a short list of interested parties in these contracts and we are very pleased with those discussions. As a matter of fact, we've already reached agreements on over 50% of our gas transportation and storage business.

With regard to the assets, we've had a very high level of interest in our portfolio. We have short-listed parties for these assets as well, and we are delighted with the progress that has been made to date and are confident we can beat our target of September 2006 to exit this business.

In addition, on Monday we closed on the sale of Fort Frances, a facility located in Ontario. This asset was not contemplated to be included with the other assets for sale as the buyer was a primary customer of the facility and was a natural fit for this purchase.

We know based on feedback following the analyst meeting in September that you would like a little more detail concerning the merger, so let me update you on the latest developments.

First, some of you expressed concern that our strategic rationale for pursuing this merger may have been compromised by our decision to exit the DENA business. Let me assure you that this is not the case. When we announced the merger back in May, we indicated it would provide a stronger merchant platform. That is still true even with the decision to exit DENA except for the Midwest assets. Duke and Cinergy have complementary positions in the Midwest which will result in a more balanced fuel portfolio. Additionally, we will combine our assets with the existing Cinergy commercial platform. We will be involved in trading, however, the tenor of the majority of the contracts we will be willing to enter will be less than one year. This will result in a much stronger merchant platform than what exists today.

Let me move on to approvals.

To date, we have filed for regulatory approval from all five states: Indiana, Ohio, North Carolina, South Carolina and Kentucky. In South Carolina and Kentucky, we have made good progress on settlement proposals with the respective states' commissions.

As a matter of fact, yesterday in South Carolina, the commission approved the settlement that stipulated the state's share of merger-related cost savings for the first five years would be $40 million delivered as a one-year rate credit to customers. Duke has requested the ability to amortize the $40 million over five years for regulatory accounting purposes. In addition, Duke Power will extend its bulk power profit sharing program by three years through 2010.

In Kentucky, the settlement agreement submitted to the commission provides a rate reduction related to merger savings of $7.6 million. This proposed rate credit would be spread out over a five-year period following the close of the merger. We have also proposed to share in the profits from off-system sales as is currently done in the Carolinas. We expect the Kentucky Public Service Commission to issue an order this month.

While it's too early to say definitively how the discussions in the other three states will conclude, we are very comfortable with the progress made so far. We firmly believe we'll be able to achieve settlement agreements within the parameters we've discussed.

On the federal level, we were granted early termination of the Hart-Scott-Rodino waiting period in August and have filed all of the other approval requests. We've also seen much less intervention on the FERC merger application than is typical for transactions of this size.

Given the decision to exit the DENA business, we are in the process of recasting our historical financials in order to make an amended S-4 filing with the SEC so that delayed us a bit but we plan to have that filed before the end of the year. As a result, we are targeting the special shareholder meetings for February 2006.

Our integration efforts are going well and initial reports by the teams are taking place this week. We've made our first pass at a high level business model and organizational structure, and anticipate naming the management team by Thanksgiving.

Finally, let me make a few comments regarding the goal of $2 per diluted share in 2007 that we laid out at our September meeting. As I said then, the purpose of the goal was to give you an indication of where we expect to be, not to provide a studied commitment that we would be forever reconciling to. However, I do appreciate that you would like a bit of clarity as to what we might be assuming in the number.

First, it is based on combining Duke and Cinergy's existing businesses with no major step outs. It assumes we will pursue organic growth and limited acquisitions along with other actions entirely within our control, such as our recently announced MLP and an income trust, which continues to be evaluated.

We used a forward curve that had the price of oil at $57 per barrel in 2007 and assumed normal NGL correlations. As you know, this could be a bit of a wildcard depending on your view of the oil market. Having said that, even with a $10 drop in oil prices, we could still reach the $2 mark with a modest share buyback.

Perhaps most significantly, we have assumed that excess cash will be used to buy back shares unless there are clearly better investment opportunities. You may have noticed that this management team has been aggressive in its generation of cash and I would expect that we will continue that way.

It is also worth noting that the $2 per share does not assume separation of our gas and power businesses. That alternative will be pursued only if it creates shareholder value over and above what we can achieve on a combined basis.

I am very excited about the prospects for Duke Energy. The operations continue to produce solid results and the opportunities to maximize shareholder value are many. We do recognize that our first priorities are to close on the merger with Cinergy, which we expect to accomplish in the first half of 2006, and to execute on the disposal of DENA's merchant generation assets in the West and Northeast, along with the contractual positions associated with them. Our eye is firmly on the ball, and we are committed to increasing shareholder value with solid earnings dividend growth.

Now we'll be happy to take your questions.

QUESTION AND ANSWER

Operator

We'll first go to Paul Fremont with Jefferies.

Paul Fremont - ***Jefferies & Co. - Analyst***

Thank you. For two years in a row you seem to have exceeded your own expectations at Crescent. Should we assume, on a going forward basis, results more in line with the past two years? Or does that -- on a longer-term basis drops back to where your expectations had been, more in the $150 million range?

Paul Anderson - ***Duke Energy - Chairman & CEO***

We hesitate to comment one way or another on that because real estate markets are extremely hard to predict. I've got Jim Mogg here and he's responsible for Crescent, so I'll just put him on the spot.

Jim Mogg - ***Duke Energy - Group VP & Chief Development Officer***

Hey, Paul. We are certainly going to have a very good 2005 at Crescent. And we have a nice inventory of product going forward, but we don't think you should lock in on this number as the go-forward number. The market has been very good, and we'll continue to take the opportunities as they come. But these last two years have been very, very good years in this sector.

Paul Fremont - ***Jefferies & Co. - Analyst***

And -- Jim, as long as we have you on the line, can you update us on where you are in terms of hedging on Field Services? Or whether you've decided not to hedge in terms of going-forward production?

Jim Mogg - ***Duke Energy - Group VP & Chief Development Officer***

We haven't hedged at all beyond 2006. So the 2006 numbers that David gave to you is where we're at for 2006 on Field Services. And at this point, we don't have any plans to increase those hedges.

David Hauser - ***Duke Energy - Group VP & CFO***

Basically, we made the decision when we went to 50/50 on Field Services, not to do any hedging. Because at that point, everything becomes mark-to-market and, quite frankly, I think that volatility is something we can live without.

Paul Anderson - ***Duke Energy - Chairman & CEO***

Paul, you may recall, we have five million barrels effectively hedged next year, but we are marking it to market this year.

Paul Fremont - ***Jefferies & Co. - Analyst***

Thank you.

Operator

Next we'll take a question from Craig Shere with Carolyn Securities.

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

Hi, good quarter.

Paul Anderson - ***Duke Energy - Chairman & CEO***

Thanks.

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

I guess it was good that Paul touched on Crescent. The other item that was a nice upside surprise is International. But David, Paul; we didn't really get any kind of thoughts on a go-forward basis off of $300 million base, if there could be growth and repetition in that going forward?

Also I just wanted to clarify in my mind. DEFS equity income results are going to appear higher relative to what was happening before because the below-market hedges are now showing up in Other, is that correct?

David Hauser - ***Duke Energy - Group VP & CFO***

Yes, the below-market hedges are showing up in Other, that is correct. That's the same way we did it last quarter, also.

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

Right, right. I just wanted to remind myself. How should we think about 2006 and beyond for International -- I know you were talking that not being a strategic area for you. You were going to let that segment kind of prove its medal, in terms of being a long-term part of your portfolio. But now it turns out to be doing a little better. How repeatable is this?

Fred Fowler - ***Duke Energy - President & COO***

Yes, Craig. This is Fred Fowler. I think two things you need to take in mind on International. The fundamentals for this business are pretty good. But two key drivers this year have been National Methanol -- so the forward look of energy prices could bring it back. The other one is, we've had a nice run on currency in Brazil, and so if that changed, that could bring it back some. But as far as the basic fundamentals of the business, we feel pretty good about them right now.

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

What kind of long-term growth rates would you apply to that kind of business? I mean maybe we have it based a little lower than what we start with this year. But off that, do you think this is a 3% to 5% grower or flat or a couple percent?

Fred Fowler - ***Duke Energy - President & COO***

I think it's more like 2% to 3%.

Paul Anderson - ***Duke Energy - Chairman & CEO***

And not necessarily off of the 2005 level, because as Fred said, we got a couple of pops there from currency and National Methanol. So I wouldn't take 2005 and add 2% to 3% for next year.

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

Sure. It sounds like you got some good pops in a couple segments that maybe we need to take into account for next year's modeling.

Fred Fowler - ***Duke Energy - President & COO***

Yes, world MTBE prices just went berserk during the third quarter. They were actually up like 100%, I believe. You just don't expect that to sustain.

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

Great, and one last question. Paul, you kind of commented how the combined merchant business, even after the sale of a lot of legacy, DENA stuff outside of the Midwest is stronger -- more diversified fuel mix. But when you talk about stronger, better positioned -- are you still thinking about roll-ups, although maybe more geographically?

Paul Anderson - ***Duke Energy - Chairman & CEO***

We're thinking certainly about roll-ups but we'll be focused on regulated business, but there might be some unregulated business with that. But we're not thinking that our roll-up strategy will be driven by the unregulated generation. I think it will be driven by the regulated generation.

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

Okay, great. Thank you.

Operator

Next we'll take a question from Maureen Howe with RBC Capital Markets.

Maureen Howe - ***RBC Capital Markets - Analyst***

Thanks very much. I just have a couple of technical questions. With respect to Franchised Electric, I'm wondering -- the strong bulk power marketing results, are those results net of sharing with the customers?

Paul Anderson - ***Duke Energy - Chairman & CEO***

Yes.

Maureen Howe - ***RBC Capital Markets - Analyst***

Okay, thanks very much. And my next question has to do with the Natural Gas Transmission. We know that there is an increase in earnings from the transfer of the Canadian assets out of the DEFS into DEGT. Can you tell us how much that contribution was in the quarter?

David Hauser - ***Duke Energy - Group VP & CFO***

Yes, I can. It looks like it was about $7 million from the new Canadian assets.

Paul Anderson - ***Duke Energy - Chairman & CEO***

Yes.

Maureen Howe - ***RBC Capital Markets - Analyst***

$7 million U.S. presumably?

David Hauser - ***Duke Energy - Group VP & CFO***

Yes.

Maureen Howe - ***RBC Capital Markets - Analyst***

Great, that's it. Thanks very much.

Operator

Our next question comes from Matthew Akman with CIBC World Markets.

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

Thanks. My question is for Paul, on the issue of separating gas from electric, when the stock was trading at a higher multiple maybe you could have argued that the value of the gas pipelines was maybe reflected in that stock. But with the multiple having come off here, it's harder to make that argument. So I think it's easier to make the argument that the value of the pipelines is not reflected in the stock. So does that maybe accelerate the possibility of splitting off some of those assets to surface that value? Or are there other strategic considerations that are really driving the timing of that decision?

Fred Fowler - ***Duke Energy - President & COO***

Well, the timing of that decision is really driven by getting the merger approval and getting our shareholder meeting over before we actually sit down in earnest and address that issue. We're continuing to look at it. It is certainly a viable option and it shows a lot of promise. But it is nothing that we can focus in on until we actually complete the merger and get through our shareholder meeting.

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

Let me ask a follow-up. Canadian pipeline and utility stocks are trading at about 20 times earnings and you guys have a lot of Canadian assets, yet there's a little bit of turmoil in the income trust market here. So, as an alternative, or maybe in addition to an income trust, have you ever considered just splitting off that Canadian business to surface that value?

Fred Fowler - ***Duke Energy - President & COO***

I would say that we have got that high on our list of strategic priorities to look at this once we get through the merger. Our next highest priority will be to look at the relationship between gas and electric and the financial structuring of the gas business, including how we're structured in Canada versus the U.S., how it affects our credit rating, and how it affects our cost to capital. We see that there's a lot of potential in those strategic areas to create some value. But we're on hold until we get through the shareholder vote here.

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

Okay, thanks. Those are all my questions.

Operator

And next from Atlantic Equities, we have Nathan Judge.

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

Good morning. I just wanted to clarify something on your guidance. You did mention that you expect to exceed $1.65 on a basic per share estimate. But that includes some of the de-designation of the hedges. If I calculate that, it was in $44 million and $43 million in the quarter. Is that right?

David Hauser - ***Duke Energy - Group VP & CFO***

Well, it would include the settlement of all the 2005 hedges. Of course, all the de-designation by the end of the year for the 2005 hedges washes out and disappears and is irrelevant. You will still have the mark-to-market of the 2006 hedges that are in the $1.65 number.

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

So in the quarter, specifically, the $44 million would have been included or would not have been included? And the $43 would have been included?

David Hauser - ***Duke Energy - Group VP & CFO***

Both the $44 million and the $43 million were included. The $44 million was the settlement of the hedges, and the $43 million was the 2006 hedges.

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

Okay. And then following on to that, the $54 million related to the Captive Insurance Company, that's included or excluded from that guidance?

David Hauser - ***Duke Energy - Group VP & CFO***

That is included in the guidance.

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

Okay. So all of those factors would have been included in the ongoing results, as you expect them?

David Hauser - ***Duke Energy - Group VP & CFO***

Yes. The only things that are excluded are the express special items we listed in the press release.

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

Fine. Okay, great. Thank you very much for clarifying that. But I wanted to move on to the regulated electric business. And this partly deals with the Cinergy progress dealing with the Cinergy merger and closing that. Could you just give us an idea of what the last 12 months regulated return on equity would have been for Duke Power?

David Hauser - ***Duke Energy - Group VP & CFO***

I think--

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

Actually, North Carolina, just a lead-up.

David Hauser - ***Duke Energy - Group VP & CFO***

As of June 30, it was 11.4%.

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

Okay.

Paul Anderson - ***Duke Energy - Chairman & CEO***

I'm impressed.

David Hauser - ***Duke Energy - Group VP & CFO***

He didn't even look at a note.

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

Has that materially changed in the third quarter, do you think?

David Hauser - ***Duke Energy - Group VP & CFO***

I don't know that -- rate base would have gone up and earnings would have gone up, so I don't know that answer.

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

Okay. This leads into the negotiation with perhaps sharing with customers. Can you give us an idea how that's progressing? And I guess you're looking for a more of a year-end timeframe. But any thought or color on that, as we stand today?

Fred Fowler - ***Duke Energy - President & COO***

When we're in the middle of discussions like that, I don't think it's appropriate for us to really speculate on anything specific. As I said, we're feeling very good about the discussions that we've had, as they're very constructive. And we feel that we're going to come in within the guidelines that we've put out to the marketplace. But beyond that, I don't think I'd want to get too much into specifics.

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

Fair enough, on DENA, the continuing operations -- the presentation, there was a mention of an improvement in DENA, which I believe is a Midwest assets reported earnings of a positive EBIT of about $11 million. Am I reading that correctly?

Fred Fowler - ***Duke Energy - President & COO***

Yes.

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

And if I look at the results versus last year, it looks like there was a negative $21 million or negative $20 million or so last year. Is that related to the same assets?

Fred Fowler - ***Duke Energy - President & COO***

Yes. Keep in mind the $11 million has a $30 million gain that's a special item associated with the southeast. So the ongoing number would have been negative $19 million for DENA.

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

I see, okay. So when we look at your disclosure in the back of the press release with regard to reconciling GAAP to ongoing results -- just to kind of think about the operations of the Midwest generation in Other, is it appropriate to look at the negative $149 million as kind of base for that business?

Fred Fowler - ***Duke Energy - President & COO***

I'd look at it this way. We had previously given you guidance of Other of about $200 million. Now we've given you $310 million. The essence of that difference is the DENA losses on an annualized basis.

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

Very good. Thank you very much.

Operator

Our next question now comes from Tom O'Neill with Citadel.

Tom O'Neill - Citadel Investment Group - Analyst

I just had a question on the DENA commentary -- the incremental cost of exiting. Could you go over those again?

David Hauser - ***Duke Energy - Group VP & CFO***

Yes. In the 8-K that we filed yesterday, we said that we'd have $600 million to $800 million of costs associated with DENA. That is a number that we had announced before, that we couldn't estimate. Now we've done a lot of work and can estimate it. So that $600 million to $800 million is associated with structured gas contracts and structured power contracts. I think the important thing to keep in mind with DENA, is that at the end of the day, we still anticipate getting more than $500 million in cash out of it.

Tom O'Neill - ***Citadel Investment Group - Analyst***

Great. That's what I wanted to clarify. The second was -- I was wondering if you could give a sensitivity to say, a $10 a barrel move for DEFS, given its current ownership structure?

David Hauser - ***Duke Energy - Group VP & CFO***

I don't think we've calculated that recently. Julie, do you have something there?

Julie Dill - ***Duke Energy - VP of Investor & Shareholder Relations***

When you're looking at the Field Services business on it's own, if you're looking at an NGL move -- because we have the offsets in crude because we're so heavily hedged on Field Services, there's a -- for every $0.01 change in NGL there's a $5 million health in the Field Services segment and that's offset by a $4 million loss in Other.

Tom O'Neill - ***Citadel Investment Group - Analyst***

Those are on a -- I guess I was thinking of these in terms of the 2007 numbers you were talking about. So trying to think of it on an un-hedged basis.

David Hauser - ***Duke Energy - Group VP & CFO***

If all the relationships held between NGL and oil and you were just looking at oil on an equivalent basis for our 50% share in DEFS, it is equivalent to about 18 million barrels equivalent a year. So a $1.00 move in a barrel is about $18 million, on an annualized basis, ignoring any hedges.

Tom O'Neill - ***Citadel Investment Group - Analyst***

And that's the 50% ownership level?

David Hauser - ***Duke Energy - Group VP & CFO***

Yes.

Tom O'Neill - ***Citadel Investment Group - Analyst***

The last question was just what assumption do you have around Crescent in 2007 -- just following on Paul Fremont's question?

Fred Fowler - ***Duke Energy - President & COO***

We don't really have a specific assumption on Crescent. We've got an inventory of properties and the team is out there working that inventory, but it's very, very difficult to predict on that. Jim, do you want to comment?

Jim Mogg - *Duke Energy - Group VP & Chief Development Officer*

I think that's right, Paul. We certainly have not put out the budgets for any of our units for that time frame, at this point.

Tom O'Neill - *Citadel Investment Group - Analyst*

Okay. Great. Thank you.

Operator

And our next question now comes from Karen Taylor with BMO Nesbitt Burns.

Karen Taylor - *BMO Nesbitt Burns - Analyst*

I just have a quick question on the Gas Transmission segment. What portion of the 22% increase in results, roughly half or 11% is from the U.S. side and the other half from Canada. Only a small amount was from the businesses transferred in. How much of that remaining 11% was from the foreign currency move?

Fred Fowler - *Duke Energy - President & COO*

$8 million id from the FX move.

Karen Taylor - *BMO Nesbitt Burns - Analyst*

And then so, the residual then comes from simply better performance in Canada in aggregate?

Fred Fowler - *Duke Energy - President & COO*

Well, we've had some new rate structures in Canada this year, as part of it. We've had a big focus on O&M (operations & maintenance) expense which is part of it.

Paul Anderson - *Duke Energy - Chairman & CEO*

Union Gas saw improvement due to timing of the rate structure.

Fred Fowler - *Duke Energy - President & COO*

Union Gas's rate settlement timing is part of it.

Karen Taylor - *BMO Nesbitt Burns - Analyst*

Okay. Thank you.

Operator

Moving on now, from Glenrock Associates, we have Paul Patterson.

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

Good morning, guys, how are you?

Fred Fowler - ***Duke Energy - President & COO***

Good.

Paul Anderson - ***Duke Energy - Chairman & CEO***

Great.

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

You mentioned the $8 million in Canada. What was the total currency impact so far in the quarter, corporate-wide?

David Hauser - ***Duke Energy - Group VP & CFO***

Well, Brazil was also $8 million and those are the two big ones. And both of those numbers, keep in mind, are on an EBIT basis. So if you went to an earnings basis, it's about $6 million in total.

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

And year-to-date?

David Hauser - ***Duke Energy - Group VP & CFO***

Hang on a second. I think we've got that.

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

And also just the weather impact. I guess -, I wasn't really clear on how much, on an EPS basis, that that benefited you guys?

Fred Fowler - ***Duke Energy - President & COO***

On an EBIT basis, the weather impact on the power company was $100 million for the quarter.

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

$100 million EBIT?

Fred Fowler - ***Duke Energy - President & COO***

Yes.

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

And year-to-date?

Fred Fowler - ***Duke Energy - President & COO***

I don't have that--

Paul Anderson - ***Duke Energy - Chairman & CEO***

I think it was very minimal because the power company is pretty much flat, year-to-date.

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

And then if you have the currency thing?

David Hauser - ***Duke Energy - Group VP & CFO***

Canada, year-to-date, $30 million of EBIT; Brazil, year-to-date is $17 million of EBIT.

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

Great. Thanks a lot, guys.

Operator

Our next question now comes from Dan Eggers with CS First Boston.

Dan Eggers - ***Credit Suisse First Boston - Analyst***

Good morning, guys.

David Hauser - ***Duke Energy - Group VP & CFO***

Hi, Dan.

Dan Eggers - ***Credit Suisse First Boston - Analyst***

Quick question. Looking out to 2006 with the merger ongoing and a lot of moving pieces, how are you guys going to gauge performance for your incentive compensation this year? Obviously, the $1.60, $1.65 has been a pretty transparent target. How are you approaching that for next year?

Fred Fowler - ***Duke Energy - President & COO***

We'll set a target, just like we did this year. Unless something very surprising happens, that target should be higher than our target was for this year. And we will set it with the board, just like we set the $1.65. And it will not change at the time of the merger because it will take into account the fact that we've fully anticipated merging these two companies and the management team will be judged on accomplishing that merger. And so the earnings-per-share target will reflect the impacts of the merger.

Dan Eggers - *Credit Suisse First Boston - Analyst*

So we should look for that -- the normal late January time frame?

Fred Fowler - *Duke Energy - President & COO*

Yes. I'm not sure the exact time frame, but I think last year we actually put it out before the first of January, because we had our December board meeting where it was set. And I don't know if it'll be set in the December board meeting or by some other mechanism. But as soon as it's set with the board, it becomes a disclosable event. So, just as soon as we set the target internally, we'll make it public.

Dan Eggers - *Credit Suisse First Boston - Analyst*

One other question? The book value at Crescent has gone up. Just to confirm, you guys are not marking that book-to-market, correct? That is -- the book value is actually the original investment?

Paul Anderson - *Duke Energy - Chairman & CEO*

We're actually investing in that business.

Dan Eggers - *Credit Suisse First Boston - Analyst*

So the CapEx you spent year-to-date or quarter was greater than the book value of the assets you sold to generate a pretty robust EBIT; is that correct?

Paul Anderson - *Duke Energy - Chairman & CEO*

For the year-to-date, Yes.

Dan Eggers - *Credit Suisse First Boston - Analyst*

Got it. Thank you, guys.

Operator

Our next question now comes from Ashar Khan with SAC Capital.

Ashar Khan - *SAC Capital - Analyst*

Good morning. I just wanted to check back, what CapEx are you going to end up this year at?

David Hauser - *Duke Energy - Group VP & CFO*

CapEx for this year will be roughly $3 billion, as I recall. I'll just look up that number. Yes, that -- $3 billion and about another $350 for the Clean Air. So, in total, about $3.3 billion.

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

And what should we expect next year -- around the same level?

David Hauser - ***Duke Energy - Group VP & CFO***

We haven't set next year's budget yet but excluding the Cinergy merger I would think it's in the same ballpark. But we haven't resolved all that yet.

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

Okay. And then just going back to your question on the buy-back -- you said that once the merger gets approved, which I think Paul indicated you're targeting a vote in February, correct? So that would allow then to make a decision on buy-backs, going forward, at that period of time? I just want to -- is that my correct understanding?

David Hauser - ***Duke Energy - Group VP & CFO***

Yes, that's right. That's when we have the option to go into the market again.

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

Okay. Thank you.

Operator

And now we'll take a follow-up question from Maureen Howe with RBC Capital Markets.

Maureen Howe - ***RBC Capital Markets - Analyst***

Thanks very much. One technical thing again. I wanted to clarify that your sensitivity to a $1.00 change in the park-spread was $20 million. Was that EBIT -- $20 million in EBIT?

David Hauser - ***Duke Energy - Group VP & CFO***

Yes.

Maureen Howe - ***RBC Capital Markets - Analyst***

Okay. And I'm wondering if you can take us through the process from here forward on obtaining the combined construction and operating license for this proposed nuclear facility. And just again, wanted to clarify that you're targeting 2018 in-service date?

Fred Fowler - ***Duke Energy - President & COO***

Yes, I think Maureen -- again, this is a process that we think -- to obtain that license is probably a minimum of a three-year process. Once you do obtain it, you're probably then -- between then and construction, you're probably looking at another five-year period, minimally.

Maureen Howe - ***RBC Capital Markets - Analyst***

Following the -- you get the license, and then it's five years to start construction?

Fred Fowler - ***Duke Energy - President & COO***

No, to complete.

Maureen Howe - ***RBC Capital Markets - Analyst***

To complete?

Paul Anderson - ***Duke Energy - Chairman & CEO***

But the earliest we would expect would be 2016, as far as actually seeing electronics on the bus bar.

Maureen Howe - ***RBC Capital Markets - Analyst***

So -- but the numbers kind of don't add up. If we started today to get the license, wouldn't we expect to see perhaps an in-service date by 2014?

Fred Fowler - ***Duke Energy - President & COO***

I just think it will be longer rather than shorter, Maureen.

Maureen Howe - ***RBC Capital Markets - Analyst***

Like the three years to get the license and the five years to complete, are those best case scenarios? And you've put in some sort of a buffer period?

Paul Anderson - ***Duke Energy - Chairman & CEO***

Well, there's two years before you actually apply for the license.

Maureen Howe - ***RBC Capital Markets - Analyst***

Okay.

Paul Anderson - ***Duke Energy - Chairman & CEO***

It takes two years to develop your license application.

Maureen Howe - ***RBC Capital Markets - Analyst***

Okay.

Paul Anderson - ***Duke Energy - Chairman & CEO***

Then three years and then five years.

Maureen Howe - ***RBC Capital Markets - Analyst***

All right, sorry.

Paul Anderson - ***Duke Energy - Chairman & CEO***

Now did we get there?

Maureen Howe - ***RBC Capital Markets - Analyst***

That helps, thanks a lot.

Operator

And that does conclude our question-and-answer session today. Ms. Dill, I'd like to turn the conference back over to you for additional or closing remarks.

Julie Dill - ***Duke Energy - VP of Investor & Shareholder Relations***

I just want to thank everyone for joining us today. And as always, the IR team here at Duke Energy is happy to take any follow-up questions that you might have. So thank you very much.

Operator

That does conclude today's conference call. Thank you, everyone, for your participation.