



Conference Call Transcript

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PRESENTATION

Operator

Good day, everyone, and welcome to the Duke Energy third quarter earnings conference call. Today's call is being recorded. For openings remarks I would like to turn the call over to Sean Trauschke, Senior Vice President Investor Relations and Financial Planning, please go ahead sir.

Sean Trauschke - Duke Energy Corporation - SVP - Investor Relations and Financial Planning

Thank you. Good morning. Welcome to Duke Energy's third quarter 2008 earnings review. Leading our discussion today are Jim Rogers, Chairman, President, and Chief Executive Officer, and David Hauser, Group Executive and Chief Financial Officer. Given the current state of the economy, we plan to spend a little more time than usual on our prepared remarks. In addition to the normal discussion on the quarter's results we will also update you on our liquidity and credit positions as well as discuss regulatory initiatives.

I'd like to remind you that we will be at the EEI Financial Conference next week in Phoenix, Arizona, and we have our analyst meeting November 21st in New York City so we look forward to seeing you at both of those events. After our prepared remarks we'll open up the lines up for your questions.

Before we begin, let me take a moment to remind you some of the things we'll discuss today concern future Company performance and include forward-looking statements within the meanings of the securities laws. Actual results may materially differ from those discussed in forward-looking statements and you should refer to additional information contained in Duke Energy's 2007 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 discussion.

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. As a reminder, prior to the first quarter 2008, we presented ongoing earnings which excluded the impact of special items and discontinued operations. Like the first and second quarters, today we are reporting adjusted earnings which exclude mark to market impacts of economic hedges in the Commercial Power segment as well as special items and discontinued operations.

With that I will turn the call over to Jim.

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

Thank you, Sean. Good morning, everyone, and thank you for joining us today. Most importantly, thank you for your interest and investment in Duke Energy. As we said in our earnings news release this morning, we reported adjusted diluted earnings per share of \$0.33 for the third quarter of 2008 versus \$0.45 in the third quarter last year. We are disappointed that we didn't meet or exceed the prior year's quarterly results. But before I talk about the third quarter, and our credit and liquidity position, I want to focus on what this means for achieving our 2008 employee incentive target of \$1.27 of adjusted diluted earnings per share.

Let me start by discussing the performance of our businesses. Most importantly, our core energy businesses are performing well and are ahead of plan through the third quarter. Our largest business segment, US Franchised Electric and Gas, is slightly behind plan year to date. But this is still a strong performance for this segment in light of two facts. First, we had the worst storm in the history of our company in the Midwest, which adversely impacted third quarter earnings per share by about 2.5 cents. Second, we experienced a reduction in our sales due to the weakening economy in the third quarter. We expect this slowing in sales to continue through the fourth quarter. But it is also important to note that unlike other companies in other sectors in a recession, we do not experience a precipitous drop in sales, but rather a gradual slowing in the demand for electricity. For instance, it was clear to us that many of our existing customers were using less electricity in the third quarter. Yet we have added about 46,000 new customers since the prior third quarter.

It is also important to note both Commercial Power and DEI are ahead of our plan year-to-date on an adjusted segment EBIT basis. As I mentioned earlier, when combined with FE&G, we are exceeding where we planned to be at the end of the third quarter. But even with this strong performance by our core energy businesses year to date, we are no longer on track to achieve our employee incentive target of -- for 2008 of \$1.27 of adjusted diluted earnings per share. In fact, we are about \$0.05 behind on our plan at September 30th.

We are off-track for two primary reasons. First, Crescent has been adversely impacted by the downturn in the real-estate market, and second we have experienced a reduction in our electricity sales for the third quarter. Given the current state of the economy, and no contribution from Crescent in the fourth quarter, we do not believe we will be able to make this \$0.05 up in the fourth quarter. Consequently, we do not expect to achieve our employee incentive target of \$1.27 by year end.

As a reminder, the minimum payout under our annual incentive plan is \$1.20 of adjusted diluted earnings per share. We are focused on meeting or exceeding that target, and I am meeting with all employees after this meeting to discuss how we're going to do it. On November 21st, we will address our capital program and projected earnings growth for the period 2009 through 2013. Early next year, we will announce our employee incentive target for 2009.

Now I will address third quarter 2008 as compared to third quarter 2007. The difference in adjusted diluted earnings between the two quarters was driven primarily by one factor: significant weather-related impacts, particularly in the Franchised Electric and Gas segment. These impacts adversely impacted our adjusted diluted earnings per share by approximately \$0.08. Two examples of the weather-related impacts are last year we had record-setting hot weather in our Franchised Electric business. This year the weather was more normal. And in September, we had the Midwest storm I described earlier. It resulted in increased storm restoration costs as well as lost revenue from sustained outages.

Turning to reported diluted earnings, the difference between adjusted and reported earnings in this year's third quarter was primarily driven by three non-cash items. These three items adversely impacted our reported diluted earnings per share by about \$0.15. But they had no impact on our cash position at the end of the third quarter. They are mark-to-market adjustments at Commercial Power, impairment on emission allowances due to the invalidation of the Clean Air Interstate Rule, or CAIR, and real estate project impairments at Crescent. David will discuss all of these items in greater detail in a few minutes.

Due to the significant impact of Crescent on our results, I would like to take a few minutes to comment on Crescent. As you may remember, we sold about 49% of this real estate business in 2006. This transaction produced approximately \$1.6 billion in cash to Duke Energy when we closed.

Year-to-date, we have taken impairment charges totaling \$214 million. Aside from the year to date impairments at Crescent, which are approximately \$0.10, Crescent has a year-to-date adjusted segment EBIT loss of approximately \$16 million. We do not expect any contribution from Crescent in the fourth quarter. Therefore, on an adjusted EBIT basis, we expect an approximate \$0.04 variance to the \$75 million adjusted EBIT contribution we expected in our plan for 2008. If there's any good news in the impairment charge of \$114 million we took this quarter, it is that now we have a zero basis in Crescent, and it had no impact on our cash position.

Before I turn it over to David, let me give you an overview of how we're handling our capital program. In preparation for 2009, we have taken several decisive actions on the assumption that we will still be in a recession during the year. And that the credit markets will remain challenging. Whether the recession will be a two or three-quarter event, which is the type of recession that we have experienced over the past 25 years, or a four-to-six quarter recession, which is similar to the last one we had in 1980 and the years before, is not clear at this time. We are planning for both scenarios, among others. Despite our third quarter results, our cash from operations is on track with our 2008 plan. With respect to our 2008 CapEx plan, we expect to spend at least \$200 million less this year. As we look to 2009, we believe sales growth will be anemic but cash from operations will continue to be solid.

Now let me describe the actions we have taken. First, we have re-prioritized our routine capital projects in Franchised Electric and have deferred and delayed some of these projects beyond 2009. As you all know, some of our capital expenditures for our regulated business can be deferred from time to time. However, even these are ultimately non discretionary. Second, we are delaying by a year the start of construction on our Buck combined cycle natural gas plant in the Carolinas. And we are compressing the construction schedule of our Dan River combined-cycle unit. Both of these plants would come on-line in 2012. We need these plants to meet the projected growth on our system in the 2012 time frame and delaying the Buck unit won't affect our ability to meet future demand.

Thirdly, we continue to make progress on our two new baseload power plants, Edwardsport in Indiana, and Cliffside in North Carolina. Most importantly, both of these plants provide us an opportunity to begin cash recovery of financing costs before the plants are fully constructed and put in service. Assuming we receive a favorable order from the Indiana Commission this year, we will have current recovery of financing costs associated with our construction work in progress on Edwardsport. On Cliffside, in our next general rate case proceeding in North Carolina, we have the opportunity to recover the North Carolina allocable portion of financing costs associated with construction work in progress for investments made up to the hearing date for that proceeding.

Finally, I would say we have the ability to make further capital spending adjustments if the credit markets don't continue to thaw. From a financial perspective, we plan to issue shares through our Dividend Reinvestment Plan and other internal plans through the end of 2009. This will generate approximately \$450 million in additional cash. As a consequence of these actions, we don't need to issue Holdco debt in 2009, and we expect to finance our CapEx plan by issuing debt at the operating company level where we are a single-A issuer. We don't know how long we will be in these tight credit markets. Therefore, we are preserving and expanding our operational and financial flexibility.

With these actions and our strong balance sheet, one of the strongest in our industry, we are well positioned and prepared to change or adapt to meet the challenges that may come during this period of uncertainty. With that, let me turn it over to David to discuss, in more detail, the quarter.

David Hauser - Duke Energy Corporation - CFO

Thank you, Jim. I will begin reviewing our business segment results with our largest business segment, U.S. Franchised Electric and Gas. The segment reported third quarter 2008 EBIT from continuing operations of \$726 million -- a decrease of \$34 million when compared to last year's third quarter. The year-over-year decline in segment EBIT was primarily driven by weather-related impacts totaling approximately \$163 million. When compared with last year's record setting above-normal weather, we experienced a negative weather impact of approximately \$111 million. That's a large variance. But you will recall that in the Carolinas, the number of cooling degree days was the highest ever recorded in both August and September of 2007. And in the Midwest, August 2007 was the hottest on record in Cincinnati.

The segment's results were also reduced by approximately \$52 million as a result of storm restoration costs in the Midwest, including lost revenue from sustained outages. These weather-related impacts were partially offset by approximately \$41 million of rate increases in Ohio and Indiana. The rate increase in Ohio was mostly due to a natural gas base rate increase in June. In Indiana, the increase is primarily due to recovery of our qualifying pollution control costs through a rider. The segment also benefited from an approximate \$23 million increase in wholesale and bulk power marketing results, net of sharing, as well as a \$19 million increase in equity AFUDC. Our increased bulk power marketing results demonstrate our ability to seize opportunities to sell our excess generation when available. Equity AFUDC contributed \$35 million in the third quarter of 2008.

Now let me discuss a few items we have mentioned in previous quarters that continue to impact our quarter over quarter results. The segment's results included a \$52 million net reduction in retail rates in North Carolina as a result of last year's rate review. This reduction includes the offsetting impact of \$27 million in rates related to the 12-month incremental rider of \$80 million that began in January 2008 to provide for sharing of the merger savings. It's important to remember that the decrease in rates in North Carolina, excluding the impact of the incremental rider for merger savings, is mitigated by the elimination of our clean air amortization. In the third quarter of 2007, we recorded amortization for North Carolina's Clean Air Program of approximately \$75 million.

Finally, our customer base continues to grow in both the Carolinas and the Midwest but at a lower growth rate than we expected in our original plan. On average, we added 46,000 customers during the 12-months ended September 2008. However, offsetting this growth in customers has been a decline in our kilowatt-hour sales per residential customer which have been affected by the current economy. The Carolinas have experienced continued declines in the textile industry while the commercial sectors continue to grow.

Next, I will review Commercial Power. For the quarter, Commercial Power reported adjusted segment EBIT of \$93 million from continuing operations, compared to \$159 million in the third quarter of 2007. The decrease in Commercial Power's results was due to the following drivers. First, a \$69 million impact caused by the timing of recovery of fuel and purchased power costs under the RSP in Ohio. Bear in mind that our Ohio generation is not subject to regulatory accounting treatment. Consequently the results for Commercial Power are subject to volatility due to the over or under-collection of fuel and purchased power costs. Of the \$69 million impact, approximately \$26 million is related to under-collections in 2008 that are expected to be collected by the end of this year. The remainder represents over-collections that occurred during 2007, which have been subsequently refunded.

Next, our Midwest gas assets contributed \$18 million less than in the prior year, primarily due to \$15 million in bad debt reserves recorded on power sales to Lehman Brothers. In other words, Lehman was unable to pay for power that we delivered to them. Commercial Power does not have any other exposure to Lehman. Lastly, milder weather had a \$9 million unfavorable impact to native margins. Partially offsetting these variances were lower purchase accounting expenses of \$19 million.

Now let me discuss each of the two adjustments to Commercial Power's reported segment EBIT. It's important to highlight that both of these adjustments are noncash items. The first adjustment was the mark-to-market impact of economic hedges. For the third quarter of 2008 the mark-to-market impact of economic hedges was a \$119 million loss. As you may recall, we recorded gains earlier this year as coal and power prices increased, and now as they are declining, we have recorded losses. On a year-to-date basis the net mark-to-market impact of economic hedges is a \$35 million gain. The second adjustment was an \$82 million emission allowance impairment due to the invalidation of CAIR in the federal courts. The court ruling effectively reduces the number of emission allowances required for compliance with EPA standards for all years after 2009. And market prices of these allowances dropped accordingly. Duke, in the acquisition of Cinergy, wrote up the basis of the Cinergy emission allowances to the April 2006 market prices. The non-cash impairment of \$82 million represents the loss in market value of the emission allowances no longer required for compliance.

Now let's turn to our International business. For the third quarter of 2008, Duke Energy International reported adjusted segment EBIT from continuing operations of approximately \$77 million, a decrease of \$15 million when compared to last year's third quarter. The decrease in DEI's results was primarily driven by lower results in Peru due to unfavorable hydrology and lower prices. In addition, results in our Central American operations were lower due primarily to reduced plant dispatch as a result of hydrology. Finally, our Central American results were also affected by write-offs of spare parts and fuel inventory. These negative drivers were partially offset by an improvement in our Brazil results due to increased demand and higher contracted prices. Additionally, DEI recognized higher results in National Methanol and favorable average foreign exchange rates for the quarter. Remember, the earnings impact from changes in foreign exchange rates is reduced by the corresponding effect on interest expense of local currency Brazilian debt. You may be wondering about the impact of the recent devaluation of the Brazilian currency on Duke Energy. As a rule of thumb, the impact of a 10% devaluation in the Brazilian currency exchange rate would be about a \$0.01 to our annual earnings.

Next up is Crescent Resources. Crescent experienced another tough quarter due to the downturn of the real estate and credit markets, and frankly we don't see the earnings prospect for Crescent turning around any time in the near future. During the quarter, Crescent recorded additional non-cash impairment charges due to the continued implementation of its revised business strategy. As we told you in last quarter's earnings call, Crescent restructured the terms of its long-term debt obligations in June. That led to a management decision to revise its business strategy, which resulted in plans to accelerate the sale of certain properties. Consequently, as the revised business strategy was deployed, and the real estate and credit markets continued to deteriorate, Crescent recorded impairment charges on assets in the second and third quarters. Our proportionate share of the impairment charges for the third quarter is approximately \$114 million. Consistent with the second quarter, we again considered them to be a special item and have excluded them from the segment's adjusted equity earnings. Crescent reported a \$10 million adjusted equity earnings loss

for the third quarter 2008 compared to a \$10 million in positive adjusted equity earnings in the prior year's quarter. Lower current year results reflect decreased residential and commercial sales.

Let me put our exposure to Crescent in perspective for you. As of September 30th, 2008, Duke Energy has a zero book basis in its investment in Crescent. We will not recognize any future Crescent operating losses as long as our investment balance is at zero. Also, Crescent's debt is non-recourse to Duke Energy. We continue to be a named guarantor on surety bonds and letters of credit related to projects at Crescent that were in progress at the time of the creation of the joint venture in September 2006. These sureties and letters of credit which total approximately \$120 million relate to performance guarantees, and we will only be called upon to perform if Crescent fails to do so. In fact, Crescent has already completed a substantial portion of its obligations under these commitments.

With that I will move on to our "Other" category, which primarily includes costs associated with corporate governance and Duke Energy's captive insurance company. Other reported a third quarter 2008 adjusted net expense from continuing operations of \$60 million compared to \$49 million in the third quarter 2007. The increase was due primarily to favorable captive insurance results in the third quarter of 2007.

Next I will turn to a few important non-operating items. Interest expense for the three months ended September 30th, 2008 was \$176 million, compared to \$177 million during the same period in 2007. The impact of higher debt balances was offset by increased capitalized interest and lower average short-term interest rates during the quarter. Capitalized interest, including AFUDC debt, was approximately \$26 million during the quarter as compared to \$18 million in the same period last year. This increase was principally the result of the capital expenditure program. Interest income and other was \$24 million during the quarter, as compared to \$73 million in the same period last year. The decrease is primarily due to prior year interest income related to a federal tax settlement. Additionally, the effective tax rate for the quarter was approximately 38% compared to 35% for the same period last year. The increased effective tax rate was primarily due to the annual true-up of the prior year tax returns during the quarter. Year to date effective tax rate was about 34% compared to 33% in 2007. We currently expect the effective tax rate will be roughly 34% for 2008.

Given the current credit crunch, I am going to discuss our overall credit and liquidity situation in a little more detail than I usually do on our earnings call. Our liquidity remains strong. Our total available liquidity was approximately \$2.2 billion at September 30th, 2008. We have taken steps to maintain sufficient liquidity, and we are focused on maintaining liquidity in 2009 and beyond should the current period of financial market uncertainty become extended. We drew down approximately \$1 billion on September 30th under our \$3.2 billion Master Credit Facility that expires in June 2012. We value preserving liquidity. And in light of the uncertain market environment, we made this proactive financial decision to bridge our access to the debt capital markets. The interest rate for borrowings under the Master Credit Facility is tied to the bank prime rate, which is currently 4% and was 5% at the time of the drawdown.

Furthermore, our exposure to the failure of a single financial institution is minimized under the Master Credit Facility, as there are over 20 participating institutions in the facility. One of those institutions was Lehman Brothers, who as of September 30th had a \$100 million commitment under the facility. As a result of Lehman's bankruptcy filing, \$37 million of their commitment had subsequently been assigned to another financial institution, while the remaining \$63 million had been terminated. Additionally, as of September 30th, 2008, we have cash, cash equivalents and short-term investments of approximately \$1.6 billion which excludes approximately \$500 million held in foreign jurisdictions.

During this recent crisis, we have maintained access to the commercial paper market. However, commercial paper is being placed at higher interest rates and shorter tenors. At September 30th, we had total commercial paper programs of \$2.2 billion. Approximately \$1.1 billion of commercial paper was outstanding as of September 30th with an average rate of 5.32% and at average maturity of 5.1 days. During October, the tenor of commercial paper issuances has begun to increase. Our commercial paper had an average maturity of 10 days at October 31st.

In light of the current focus on liquidity and capital markets, we wanted to share our planned level of capital expenditures for 2009. Our present plan is to invest approximately \$4.7 billion, which is comparable to the estimate for 2009 we shared with you at our analyst meeting in September 2007. As the year has progressed, our estimates and assumptions for 2009 have evolved. Jim discussed a few CapEx deferral decisions we have made. Offsetting those deferrals is an assumption change. Last year we had assumed a wind joint venture in 2009. Our updated assumptions for 2009 do not assume a wind joint venture.

As we've been establishing our capital plan for 2009, our focus has been on liquidity and protecting our balance sheet while also preserving opportunities for growth. We plan to accelerate our DRIP and internal plan equity issuances and through 2009 this will generate approximately \$450 million. We had originally expected to do this beginning in 2010. Our original intention to limit equity issuances using these internal plans to approximately \$600 million over the five-year planning period has not changed. From now until the end of 2009, we only need debt issuances of approximately \$2 billion.

Further, our scheduled debt maturities are approximately \$700 million in 2009 and \$1 billion in 2010. We believe utility operating subsidiaries will continue to be able to issue debt. However, these issuances will come at an increased cost. On the other hand, holding company debt financings will most likely be challenging to accomplish and could remain that way throughout 2009. We do not need to issue Holdco debt in 2009. We will provide more details around our five-year business plan, including our planned capital expenditures on November 21st.

With that, I will turn the call back over to Jim for an update on our regulatory activities.

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

Thank you, David. First, I will update you on our Electric Security Plan for Ohio, which we filed in July. We're pleased to report that we reached a settlement agreement subject to Commission approval on our ESP last week for a three-year term from January '09 through December 2011. Rates are effective January 1st, 2009. The average annual increase is 2% in 2009 and 2010 and 1.2% in 2011. These increases are net of the impact of the expiring Regulatory Transition Charges for residential at the end of 2008 and nonresidential at the end of 2010.

The agreement is structured to minimize price increases and volatility for our customers and it provides a reasonable revenue stream. It includes provisions to meet Ohio's new renewable energy portfolio standard and provides tracking mechanisms for the installation of smart grid technology as well as for cost recovery for our save-a-watt energy efficiency plan. The agreement allows our Midwest gas fired plants to be sold to a third party as well as to an affiliated company. But our Midwest coal assets, currently dedicated to serving Ohio customers, won't be transferred. We have an evidentiary hearing on Monday and we're hopeful of a Commission order by year end.

Now I will update you on our save-a-watt model. In Ohio our save-a-watt model -- our save-a-watt plan was included in our ESP. The agreement on the ESP replaces the existing energy efficiency program with the new save-a-watt model. It will compensate us based on the success of our energy efficiency programs. Under this proposed agreement, the company is paid a percentage of the cost avoided by not having to build new generation facilities. It rewards utilities based on performance against targets that are outlined in a state mandate rather than target set by the utility. Ohio is unique among our jurisdictions because of its energy efficiency requirement of 22% of energy sales by 2025. The save-a-watt agreement in Ohio represents the breakthrough milestone we needed in our efforts to make our communities the most energy efficient in the world. Our Save-A-Watt approach has growing support from the environmental community. In Ohio, the Sierra Club and the Natural Resource Defense Council were instrumental players in helping us reach the agreement on our proposal.

Let me quickly update you on where we are with save-a-watt in our other jurisdictions. In Indiana, we reached a constructive settlement in principle on our plan with the Indiana Utility Consumer Counselor. We filed our proposed settlement with the Commission in August. On Monday of this week, we filed a settlement with three major intervenors, Nucor, Steel Dynamics, and Kroger with the Commission. We have an evidentiary hearing later this month in which I plan to testify and we are hopeful of a decision by year end. In North Carolina where we had hearings in August we filed a brief in our proposed order last month. We still hope for an order before year end. In South Carolina, we have a settlement with all intervenors except environmental groups. We are hopeful that the commission closes the docket and requests briefs and proposed orders by year end. In Kentucky, we are finalizing our save-a-watt testimony and petition, and we plan to file them on November 17th.

To conclude, as you can see, given the current uncertainty in the economy and the financial markets, we're taking proactive steps to ensure steady progress on our capital and regulatory initiatives. We believe we're positioned -- we have positioned Duke Energy to weather this current economic downturn, whether it's relatively short or becomes a prolonged recession. We are committed to our dividend. In fact, our Board of Directors declared the fourth quarter dividend last week. And we have paid our dividend for 82 consecutive years. Twenty years ago last month, I started my career as a utility CEO with a company that is now Duke Energy Indiana. One of my first actions was reinstating the dividend for the company that hired me. Throughout my career, we have paid dividends every quarter.

Finally, our strong balance sheet gives us significant financial flexibility to change and to adapt as needed. As I noted earlier, on November 21st, we will give you a snapshot of our five-year capital spending and earnings growth expectations from 2009 to 2013. Other members of our management team will update you on our regulatory and growth initiatives. We will also have a panel with the chairmen of three of our state utility regulatory commissions. They will be there to answer your questions. This will give you a good opportunity to hear first hand their views on utility ROEs, renewables, energy efficiency, reliability, and the other key issues. We hope to see all of y'all there. With that, let's open the lines so that David and I can take your questions.

QUESTION AND ANSWER

Operator

Thank you. (OPERATOR INSTRUCTIONS). We'll take our first question from Jonathan Arnold with Merrill Lynch.

Jonathan Arnold - Merrill Lynch - Analyst

Good morning, guys.

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

Good morning, Jonathan.

Jonathan Arnold - Merrill Lynch - Analyst

I just like to clarify what you said on -- some of the things you said on capex. I believe there was a number of deferred items for this year of about \$200 million. Did I hear that correctly?

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

Our expectation is at least \$200 million of capex from '08 we will not spend.

Jonathan Arnold - Merrill Lynch - Analyst

Is that just because you will spend it later or these are things you're just not going to do?

David Hauser - Duke Energy Corporation - CFO

Well, we had told you a number in February of a little over \$5 billion in capex, so what we're saying is that it will be at least \$200 million below that in '08, and then we're telling you in '09 that it's \$4.7 billion, and that's a combination of two things. It's some deferrals associated with the electric business, but then it's an assumption -- we had an assumption before that we had a wind JV, and we do not have that assumption any more, so that makes expenditures appear larger for wind in that 4.7.

Jonathan Arnold - Merrill Lynch - Analyst

And the \$4.7 billion was the original estimate for '09, so those numbers are roughly equal.

David Hauser - Duke Energy Corporation - CFO

That's true. That's coincidence, but that's true.

Jonathan Arnold - Merrill Lynch - Analyst

What was the rough scope of the deferral and the wind JV pieces?

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David Hauser - Duke Energy Corporation - CFO

I'd look at it as \$400 million on each side.

Jonathan Arnold - Merrill Lynch - Analyst

Okay. Then you have said you are going to revisit this on the 21st. Is this -- is what you are telling us in '09 basically what you are going to tell us then about '09 and your -- will you revisit the subsequent years, or is '09 also subject to revision later in the month?

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

No, the '09 number is what we're going to tell you on November 21st, and it is the remaining four years that we will present to you at that time. But there will be no change in the \$4.7 billion number that we have told you today.

Jonathan Arnold - Merrill Lynch - Analyst

So what you are already telling us today about '09 is that will you do, say, \$450 million rather than maybe a couple hundred million of DRIP, and hence you're bringing down your debt financing requirement by maybe \$200 million to \$250 million.

David Hauser - Duke Energy Corporation - CFO

I don't think that's exactly the right math. We are doing DRIP for about \$450 million, but we had no DRIP in our prior plan in '09. So that would reduce debt by \$450 million.

Jonathan Arnold - Merrill Lynch - Analyst

I'm looking at my assumption, not what you said. Thank you very much.

David Hauser - Duke Energy Corporation - CFO

Thank you, Jonathan.

Operator

We'll take our next question from Greg Gordon with Citigroup.

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

Welcome, Greg.

Greg Gordon - Citigroup - Analyst

So, a couple questions. Not to beat a dead horse but you had given a \$4.7 billion budget for '09, but you had also indicated subsequent to that that IGCC Edwardsport was going to be \$600 million over budget. So I have pro forma more like a \$4.8 billion number for '09 net of that Edwardsport statement that you had made. So are you telling us that you are going to be able to manage down back to the \$4.7 billion number taking into account the Edwardsport cost increase?

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

Yes. What we're basically saying, and I think the number was roughly \$350 million over our original estimate, and as we recalibrate, we have managed to include that and to stay on track with the Edwardsport construction project.

Greg Gordon - Citigroup - Analyst

Great. You take \$200 million out of the capex this year, you substitute \$400 million, \$450 million of parent financing, debt financing for equity, so I can see how the math with allow to you get pretty close to eliminating the need for parent financing just looking at that \$750 million delta plus the reduction in the capex. Is that the right way of thinking about it?

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

That is exactly the right way. Our whole plan was to eliminate the need for Holdco financing. If the markets open and the pricing is good we would certainly access it, but our plan is, we don't have to.

Greg Gordon - Citigroup - Analyst

Thank you. Second question. You gave a rule of thumb on the Real. It really didn't move aggressively against you until after the close of the books in the third quarter. And I'm looking at a rough draft here so please correct me if I'm wrong, but does it look like if the Real has moved 20% to 30% against you in the fourth quarter so you'd have a three cent head wind on currency in the fourth quarter?

David Hauser - Duke Energy Corporation - CFO

No. The one cent that I gave you is an annualized number. So if it moved against us 10% in the fourth quarter, would you take one-fourth of the one cent.

Greg Gordon - Citigroup - Analyst

Thanks. My next question is, I know that you have had strong performance from your 25% investment in the National Methanol business, which is co owned with (inaudible) that business from my understanding manufactures and sells MTBE which is correlated revenues should be correlated to the gasoline price. Can you tell us what your expectation is, whether earnings will be -- comparisons will be meaningfully down in '09 versus '08 just because of how much fossil fuels have declined?

David Hauser - Duke Energy Corporation - CFO

That entity does two things. It sells methanol and it sells MTBE, and the correlation with oil and with gasoline are pretty soft. So we've never gone into detail of how much money National Methanol makes and I don't think we're going to dig into the segment at this point.

Greg Gordon - Citigroup - Analyst

Okay. Thank you.

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

Thank you very much, Greg.

Operator

We'll take our next question from Nathan Judge with Atlantic Equities.

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

Welcome, Nathan.

Nathan Judge - Atlantic Equities - Analyst

Thank you. Just to clarify on the DRIP, you said that your original expectation was for \$200 million over -- well, for \$600 million in total starting in 2010, and that remains the same, although it sounds like the DRIP of \$450 million in '09, that the timing has changed. Do I have that right?

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

Right. Let me say it again in my words to make sure we're communicating clearly. In our original five-year plan that we gave you in September, we said that we could handle that -- that \$23 billion plan with only issuing \$600 million of equity through the DRIP. We haven't changed that assumption. All we have done is changed the timing. In the original plan, we weren't going to turn the DRIP on into 2010 and what we're doing is turning it on now, but we haven't changed with respect to the \$600 million number.

Nathan Judge - Atlantic Equities - Analyst

This capex review of 2009 later in the month on the analyst day, its not clear whether or not you're going to do a larger review of your total \$27 billion that you plan to spend over five years. Are you looking at further years or not?

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

What we have done is, remember the number is roughly \$23 billion for the five-year period ending in12. What we are going to give you is the five-year period 2009 through 2013, and basically given where we are today, our current projection is, is that five-year number is roughly in the same zip code as the one that we gave you in September of '07.

Nathan Judge - Atlantic Equities - Analyst

So given the slowdown in the economy, given some of the recessionary approaches, doesn't sound like there's been much of a dramatic change. I'm asking more about the flexibility around that capex post 2009. What variability and what kind of latitude do you have on that number?

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

That's a very good question. We have spent a remarkable amount of time looking at our operational and financial flexibility, and we have really been through all our major projects and --. For instance, with respect to our base load plants it's been our judgment, particularly given the fact that we get cash CWIP with both of them, that to keep those plants going full speed, no slowdown in the capex, in the construction with respect to those two plants. With respect to some of our routine maintenance on our Franchised and Electric business, some of our projects we can move into the out years, and we have done some of that. We have further flexibility around these individual projects, but there are thousands of projects we didn't look at all of them. We looked at many of them in terms of making our decisions about how to do this.

But at the end of the day, there is nothing that's really discretionary in your regulated business. You might move it out a year or two years or three years but eventually you have to reinvest in your assets. We obviously, with respect to our wind investments, we have flexibility there, but the tension is with our ability to grow earnings. So again, what we have been solving for over the last two months is to build a way forward, build a plan that gives us maximum operational and financial flexibility, all of this being done with the assumption that it's unclear now whether this recession will be a two to three-quarter -- what I call a "V Recession", which for the last 25 years, they've all been two to three-quarter recessions, or whether it's going to be a four to six-quarter recession, what I would call a "U Recession", and we haven't had one of those since 1980, and we don't know whether or not we're tracking in that direction. But one of the things our research has shown us, that in all the prolonged longer recessions, there is a huge snap back in the demand for electricity at the end of a prolonged recession. We looked at the recessions prior to 1980,

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and what we saw, there was a huge rebound. And so in our planning, we're very sensitive to that, and we want to make sure, since our job is to have affordable, reliable electricity 24x7 that we're planning in a way to deal with that possibility.

Nathan Judge - *Atlantic Equities - Analyst*

Thank you very much.

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

Thank you, Nathan.

Operator

And we'll take our next question from Paul Patterson with Glenrock Associates.

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

Paul, welcome.

Paul Patterson - *Glenrock Associates - Analyst*

Thank you. Good morning, guys. Can you hear me?

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

Very well.

Paul Patterson - *Glenrock Associates - Analyst*

Just to sort of change tack here, the ESP settlement in Ohio, one of the more interesting elements was the 15% ROE cap. I was wondering if you could sort of say, you know, how that came about. Was that just part of the give and take in terms of negotiations, or is it basically your reading of the legislation that PUCO would have come to a similar determination if it was a litigated case what have you? Any thought process on that? Want to touch base with us?

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

This was just a give-and-take negotiation. One of the important things -- we spent a lot of time trading this and we looked at other parts of the package, and we agreed to this in the context of other aspect of the settlement. The actual ROE adjustment excludes purchase accounting and goodwill. It excludes mark-to-market accounting, it excludes material nonrecurring gains and losses so we worked very carefully to structure it in a way that we believe makes sense, and we're very comfortable with this provision, and our comfort is because of our comfort with other aspects of the settlement.

Paul Patterson - *Glenrock Associates - Analyst*

Okay. Great. Then just finally on Crescent, do I understand right that we're basically going to see -- this is going to be a very small part of the business going forward. You guys don't expect to see much coming out of it or much of a hit from it, and at most is \$120 million performance guarantees that you theoretically might be on the hook for. Other than that we're pretty much Crescent is going to fade away.

David Hauser - *Duke Energy Corporation - CFO*

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I think you said it exactly right until the real estate markets turn, which we hope it happens at some point.

Paul Patterson - Glenrock Associates - Analyst

Great. Thanks a lot.

Operator

And we'll take our next question from Hugh Wynne with Sanford Bernstein.

Hugh Wynne - Sanford Bernstein - Analyst

You all are fairly close to Washington. I was wondering if you might give us a bit of insight into what this change in administration might mean for some of the large pending environmental issues that are of relevance to coal-fired firms like your own. And I'm thinking of the fact that the appellate court had overturned the Clean Air Interstate Rule and the Clean Air Mercury Rule and regulations issued by the EPA around cooling water intake structures, all of which have important implications for day-to-day operations. Also looking forward a bit to what the larger democratic majority might mean for CO₂. Is there anything you can share with us about the schedule on which some of those issues might be resolved?

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

Sure. I would start out by saying clearly given the change in the Senate and the change in the House, and in the White House, there will be new direction on energy and environmental issues in Washington. We believe that we are in step or maybe a step ahead of where they're headed. Clearly on climate we have been working that issue very aggressively and supporting climate legislation. We believe the probability of climate legislation in the next session of Congress is very high. The only question is whether it will be in '09 or '10.

With respect to renewables, that's going to be a key part of any legislation that comes out of Washington, and there as you know, we've invested in wind with 5,000 megawatts under development. We think that they will be pushing more and more for wind. We think given the credit crunch we're well positioned to take advantage of that market, and we think the margins will actually go up because so many of the players will not be able to access capital.

Secondly, we think there will be a push on solar. As you know we have several innovative proposals pending here in North Carolina. Energy efficiency will be a center piece in any legislation. We think our save-a-watt, we've been working on for a year and a half puts us in a good place to deal with that and to profit from that emphasis on energy efficiency. There will be greater emphasis on the smart grid and on projects like coal gasification, as well we believe there will be a stronger emphasis on nuclear because that's the only option that you can generate electricity with zero greenhouse gases.

With respect to coal, we feel like the fact that we are in the process of finishing off our two coal units is a good thing that we've turned dirt and we're building them. We think it will be increasingly difficult to build coal plants. Going forward we think the value of those plants to us will only grow over time because there's only really two base load sources of power, and that's coal plants and nuclear plants, and we all know it takes at least a decade from the time you conceive to the time you turn it on any nuclear plant. So we feel like that we're positioned to ride the wave. We think, Hugh, in your question on SOx, NOx, mercury, fine particulate, our view there is that new regulations could be tougher, and will be tougher, and we're prepared for that.

And so it's pretty clear that one of the top priorities, and I've had an opportunity to spend over six hours in the last three to four months talking directly to President-Elect Obama. He understands our country's dependency on coal. He understands the importance of moving forward and addressing energy issues in the climate issue, and my bet, and it's only a bet, is that this will be one of the top three issues this administration addresses in the next 18 months.

Hugh Wynne - Sanford Bernstein - Analyst

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Very helpful. Top three issues, you mean SOx, NOx, and mercury?

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

No, I mean the top three national issues. The economy, I would say Iraq, and probably energy and climate.

Hugh Wynne - Sanford Bernstein - Analyst

Energy and climate generally. I see what you are saying. Would you care to make any comment about the ability of Duke's various subsidiaries to pass through increases in pension costs in 2009?

David Hauser - Duke Energy Corporation - CFO

Let me comment on that. If you look at pension costs this year versus next year, you are going to see that the change is not going to be very significant. As a matter of fact, our pension costs this year is about \$122 million, and next year our best guess is \$10 million increase. So that's the way you ought to think about that. Keep in mind there's a variety of movers. First of all, beginning of this year our plan was very well funded. It's certain not as well funded now. As is everybody's. But also discount rates change next year, and that's an offsetting impact on pension expense.

Hugh Wynne - Sanford Bernstein - Analyst

Great. Thank you both very much.

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

Thank you. We have time for one more question.

Operator

And our final question today comes from Zach Schreiber with Duquesne Capital.

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

Zach, welcome.

Zach Schreiber - Duquesne Capital - Analyst

Thank you, Jim. Quick question on CAIR. You folks are in a very important position as it relates to this court case. Wanted to get your take as to what the judge in the panel was getting after, when they requested folk's comments on whether or not there be just a remand without vacature or if vacature was necessary in light of the court's findings. Wanted to get your take as to where you folks stand on the record as it relates to vacature or just a remand leaving the current order in effect, pending the EPA's promulgation of any new rules. And also, wanted to discuss the issue of whether or not the court could split the baby in half and partially remand, partially vacate. If they can legally vacate just the SO2 provisions, but remand, leaving in effect the NOx provisions. Whether or not that could legally happen, it's our understanding that that would be unusual, unprecedented. So, basically, bunch of CAIR questions, what's the judge asking, what's the panel asking, what's your position and what is legally possible in this environment?

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

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Zach, I'd be delighted to answer that. I would say you've asked the question on the right day because we will be filing today with the court. Marc Manly, our General Counsel, is here. I'd like to turn to Marc to start the answer and then I'll wrap on it.

Marc Manly - Duke Energy Corporation - Chief Legal Officer

Zach, we could spend hours on your question and it's clear that you've been following the record. The court issued its ruling in July, I think, and directed the parties today to file briefs as to their positions on the vacature issue. Our brief, and we're going to be joined by a number of parties and we've been discussing this with a number of the petitioners, that we're going to encourage the court not to vacate the entire rule, but to remand to the EPA for a period of time to adjust its rules to be consistent with the decision of the court. We don't know what other parties are going to do, but that's certainly our position with a coalition of folks.

Zach Schreiber - Duquesne Capital - Analyst

Are you guys going to request a partial vacature? You said something -- you said you're going to request that they not vacate the entire rule, does that mean that you're going to request that they vacate part of the rule? The SO2 provisions? Are you going to request that they split the baby in half?

Marc Manly - Duke Energy Corporation - Chief Legal Officer

No, we're going to request it to be remanded to the EPA for a period of time for the EPA to make amendments and changes to the rule and not have the -- not have phase one for sure, vacated.

Zach Schreiber - Duquesne Capital - Analyst

So, you folks are going to basically advise the court, as the victorious party in this court case, that you do not support vacature of any part of this rule, either in part or in its entirety?

Marc Manly - Duke Energy Corporation - Chief Legal Officer

We will file our brief today, so that brief will correct me if I am wrong on this, but I think you have it right. Our remand will say, remanded EPA for the EPA to fix things in its rule, without the rule being vacated, so the existing rules will stay in place through at least phase one.

Zach Schreiber - Duquesne Capital - Analyst

Got it, and where do you think other parties are at? It seems like everyone has been sort of keying off you folks, as to what folks were going to do here. And what do you think the judge was trying to get at by requesting the [en banc] review. It seems like the judge was trying to look for a graceful way out here, is that your reading as well? And do you think that if folks like yourselves, having won this case, say we don't need vacature as a remedy here, that the judge and the [en banc] panel will be deferential to those requests or do you think that this is more of an intellectual exercise and they're still going to vacate it?

Marc Manly - Duke Energy Corporation - Chief Legal Officer

Let me correct one thing, the EPA requested that the entire court take up the whole issue. As you know, it was a three judge panel that issued its ruling this summer and the EPA has asked that the entire DC Court of Appeals to take up the matter. That's pending before the court. The court, the panel that issued the order asking the petitioners to file briefs today -- I think they were trying to sort through what to do with this very important rule and being prudent and cautious and seeing if there is a way out of having the entire rule vacated. And its for that reason, we think its important because even though we were successful in our petition, but in a very narrow topic, which was the basis of the allowance allocations, we don't think its appropriate to vacate the entire CAIR rules to get things fixed. Thus, we want it remanded to the EPA during that period to get the more narrow things fixed without throwing out the entire baby with the bath water.

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Zach Schreiber - Duquesne Capital - Analyst

Got it.

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

And, I would add that I think there are a number of other parties that urged us to take that position, because they do not want to see the CAIR rule completely vacated and I think, this isn't an intellectual exercise by the court in my judgment. I think they now understand the consequences of their decision and are trying to find a way to honor their decision with respect to us, and at the same time keep the rule in effect.

Zach Schreiber - Duquesne Capital - Analyst

And so, from a practical perspective, phase one, if the court was deferential to your request and other parties' requests, assuming that they were in line with yours, phase one would stay in effect pending the promulgation of new rules by the EPA or some legislation possibly overriding this, but phase one would stay in effect?

Marc Manly - Duke Energy Corporation - Chief Legal Officer

That's right and our request for remand and to delay any vacature is to give the EPA time to up through the end of phase one to make whatever amendments they need to do to pass muster.

Zach Schreiber - Duquesne Capital - Analyst

And do you think the other SO2 petitioners support unanimously your position on remand and not vacature and do you think the NOX petitioners support a remand without vacature?

Marc Manly - Duke Energy Corporation - Chief Legal Officer

The conversations have been fluid. We have a number of people that we are joining with in a brief and today will tell how the other petitioners come in and what they argue.

Zach Schreiber - Duquesne Capital - Analyst

But, would you say that the 1000 pound gorillas are on the side of remand without vacature, and some of the smaller munis are going to on the side of vacature and how will the court balance 20,000 megawatts saying just remand it. Is there any reading weighting the court is supposed to give based on sort of the emissions intensity of the different petitioners or does each brief count have the same equal standing for the court?

Marc Manly - Duke Energy Corporation - Chief Legal Officer

You'll have to ask the court that, but I hope that they go with our advocacy.

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

But, Zach, I'll tell you this, I pay him a lot of money to be General Council, but that's way above his pay grade to answer that. [Laughter] But, thank you for your questions and I hope our answers have been helpful.

Zach Schreiber - Duquesne Capital - Analyst

Very, Jim, thank you.

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

Sean? Thank you all very much for today and I hope this conversation has been helpful and again, thank you for your interest and investment in our company and look forward to seeing many of you at EEI and most of you on November 21st. Thank you very much.

Operator

And, ladies and gentlemen, that will conclude today's conference. Thank you so much for your attendance and have a great day.