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PRESENTATION

Operator

Good day, everyone and welcome to the Duke Energy fourth quarter earnings conference call. Today's call is being recorded.

At this time for opening remarks, I would like to turn the call over to the Vice-President of Investor and Shareholder Relations for Duke Energy, Mr. Sean Trauschke. Please go ahead, sir.

Sean Trauschke - Duke Energy Corporation - VP, Investor & Shareholder Relations

Good morning, and welcome to Duke Energy's fourth quarter 2006 earnings review. Leading our discussion today are Jim Rogers, President, Chairman, and Chief Executive Officer; and David Hauser, Group Executive and Chief Financial Officer. Also available to take your questions are Jim Turner, Group Executive and President U.S. Franchised Electric and Gas; and Steve Young, Senior Vice President and Controller.

This call will be a little different than past calls. We will cover results from all of Duke Energy's businesses as they stood as of December 31, 2006. Accordingly, we will be discussing the results of Gas Transmission and Field Services. Because Duke Energy and Spectra Energy are separate, publicly traded companies we are unable to have Spectra Energy participate on this call. As a result, we will not make any forward-looking statements regarding Spectra Energy.

Please direct any questions you may have about Spectra Energy's ongoing business to John Arensdorf, Vice President of Investor Relations at Spectra Energy. In addition, Spectra Energy has established a list of Q&As which can be viewed on their investor website at www.spectraenergy.com.

Jim will begin today's presentation by providing a general overview of our results. David will provide more detail and context around our Company's results and those of each of our businesses. Jim will close with a discussion of our outlook for 2007 and beyond. Following those prepared remarks we will open the lines for your questions.

Before we begin, let me take a moment to remind you that some of the things we will discuss today concern future Company performance and include forward-looking statements within the meanings of the securities laws. Actual results may materially differ from those discussed in these forward-looking statements and you should refer to the additional information contained in Duke Energy's 2005 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. With that, I will turn the call over to Jim.

James Rogers - Duke Energy Corporation - Chairman, CEO

Thank you, Sean. Good morning, everyone. Before we dive into the numbers, let me begin by saying how pleased I am with the significant progress we made in 2006 to position our Company for future success. It was truly a transformational year for Duke Energy. We acted quickly

and decisively. We integrated two companies. We sold non-core businesses and completed a spin-off of Spectra Energy in January 2007, all within nine months.

Additionally, we purchased core assets, achieved positive regulatory outcomes and obtained Department of Energy support for our clean coal technology projects. Many of these initiatives came to fruition during the fourth quarter.

I'm very proud of the Duke Energy team. They worked hard and accomplished much during a period of change and uncertainty. Their dedication clearly demonstrated a commitment to creating superior and sustainable value for our stakeholders. We are very pleased with the reception both new Duke and Spectra Energy have received in the marketplace. We think the combined value the market has placed on Duke and Spectra Energy validates our decision to separate these companies.

That said, let me turn to the purpose of this call. This morning we reported ongoing diluted earnings per share of \$0.43 for the fourth quarter 2006, which was flat compared with the results for the fourth quarter 2005. Ongoing diluted earnings per share for the full year '06 were \$1.81 compared to \$1.73 for '05. That's almost a 5% increase year-over-year.

Ongoing results for the fourth quarter '06 were driven by the addition of earnings related to the former Cinergy operations and a lower effective tax rate, which were primarily offset by lower results from Crescent Resources and the increase in shares outstanding resulting from the merger. Now I will turn it over to David to provide more details around the quarter's results.

David Hauser - Duke Energy Corporation - CFO

Thank you, Jim. I will review the results of each of our business segments in just a moment. But first let me provide you with a summary of the special items for the quarter. I'm not going to walk through each item in this table. But we thought it would be helpful for you see a summary of the items that are included in our reported numbers. Some of the larger special items, such as costs-to-achieve both the merger and gas spin-off, were associated with the transforming steps we took this past year. Likewise, the \$28 million pre-tax impairment is related to the sale of Bolivian power plant assets we announced on Monday.

The largest adjustment, settlement reserves, includes a \$100 million litigation reserve related to the settlement of a contract dispute between Citrus Trading Corp. and Spectra Energy LNG Sales formerly known as Duke Energy LNG Sales. Also included in this adjustment is a reserve related to some contract settlement negotiations. The last item is an \$8 million tax adjustment associated with the sale of TEPPCO in the first quarter of 2005.

Now let me begin reviewing our quarterly results. I will start with our largest business segment, Franchised Electric and Gas. That segment's EBIT increased by \$144 million over the fourth quarter of 2005. As you would expect, the addition of Cinergy's regulated operations had the greatest impact on this segment's results. Our new franchised operations in the Midwest contributed EBIT of approximately \$153 million net of \$16 million for rate reductions required as part of merger approvals in Ohio, Indiana and Kentucky.

On a similar note, rate reductions in the Carolinas had an impact of approximately \$35 million for the quarter. This is a result of our agreement to recognize most of the five years of the merger savings that we are sharing with our customers within the first 12 months after the closing of the merger. Excluding the impact of these rate reductions our results in the Carolinas were up \$26 million from last year's quarter. This increase was primarily driven by O&M expense which was down by approximately \$75 million, mostly due to costs caused by an ice storm in the fourth quarter of 2005. We also recorded clean air amortization of \$38 million in the fourth quarter, down \$33 million from the fourth quarter of 2005.

Offsetting these positive results were three primary drivers. First, mild weather in the fourth quarter resulted in an unfavorable variance of \$20 million when compared to fourth quarter 2005 results. Weather in the fourth quarter of 2006 was 8% below normal and 10% below the prior year. It's worth noting that December of 2006 was the third mildest December on record in the Carolinas. Second, bulk power marketing results were down by approximately \$15 million. We recorded a charge of \$18 million in the second quarter of 2006, related to a change in methodology for calculating profits to be shared with our customers. We were able to reverse this charge in the fourth quarter due to the reconsideration by the North Carolina Utilities Commission. However, bulk power marketing results were down for the quarter despite this favorable ruling due to lower prices and volumes.

You may remember that hurricane activity triggered unusually high gas prices in the fourth quarter of 2005. In fact, the price per megawatt hour in the fourth quarter of 2006 was \$50 lower than in 2005. Finally, due to nuclear refueling outages, purchased power expenses were higher in the fourth quarter of 2006 and we had less availability to sell off system when compared to last year.

Before we take a look at Commercial Power, let me remind you that this segment includes our Midwest gas fired plants and the former CG&E non-regulated generation acquired when we merged with Cinergy. Ongoing EBIT for this segment was down approximately \$30 million compared to the fourth quarter of 2005. The former CG&E non-regulated operations in Ohio contributed \$36 million of EBIT for the quarter. But this contribution was more than offset by \$42 million in net purchase accounting charges related to the merger.

Other drivers for the quarter included a \$13 million EBIT loss from our Midwest gas fired plants and \$10 million of costs associated with our synfuel facilities before the benefit of associated tax credits. I would like to take a moment to talk about the impact of mark-to-market accounting on some of our activities within the Commercial Power segment. As we have previously discussed, most of the output from our generation in Ohio is sold to our native load customers under the provisions of the rate stabilization plan. We will economically hedge the remaining output by selling the power forward and buying the associated inputs of coal and emission allowances.

Certain transactions that we use to execute this hedging strategy receive mark-to-market treatment under the accounting rules. We consider any mark-to-market impact as part of ongoing earnings, which is consistent with Duke's past practices. Going forward, in order to provide better transparency for this segment, we will begin to include the effect of mark-to-market treatment as a separate earnings driver.

This business experienced quite a few changes during 2006. So we thought it would be helpful to provide you with an EBIT bridge for 2007. For the full year 2007, we expect an ongoing EBIT contribution of \$200 million from our Commercial Power business. The key drivers for 2007 are a \$100 million positive impact from the addition of Cinergy assets for a full year as opposed to the three quarters we had in 2006; a purchase accounting charge of about \$90 million, approximately \$20 million less than we recognized for 2006; the receipt of approximately \$40 million in fuel and purchased power which had been under collected in quarter three and quarter four of 2006; \$10 million in improved results from our Midwest gas fired assets; and \$9 million of other improvements. As you think about our Commercial Power business, keep in mind that most of its 2007 ongoing segment EBIT will come from sales to our regulated customers.

Moving now to International, where ongoing EBIT was \$81 million in the fourth quarter down by approximately \$16 million when compared to the same period in 2005. The decrease in ongoing EBIT was primarily from lower margins at National Methanol due to lower commodity prices while the quarter-over-quarter results for our Latin American operations were essentially flat. I have already discussed special items, but I want to point out that because the contract dispute with Citrus Trading Corp. was assigned to Spectra Energy as part of the spin-off, the \$100 million litigation reserve related to that settlement will no longer be carried in Duke Energy's International operations.

Next, let's look at Crescent Resources. Crescent's ongoing results of \$17 million were \$87 million below the strong fourth quarter of 2005 when we benefited from a number of large transactions. During September 2006, we reduced our investment in Crescent and now report its results under the equity method of accounting. The reduced ownership percentage resulted in a reduced contribution to our earnings as compared to the fourth quarter of last year. In addition, lower sales of residential and commercial properties in the fourth quarter of 2006 were partially offset by lower operating expenses.

Before I talk about Natural Gas Transmission and Field Services, I will go through our other category. This includes the cost of corporate governance, merger and gas spin-off costs to achieve, captive insurance and de-designated hedges related to Duke Energy Field Services. Other's ongoing loss from continuing operations was \$91 million for the quarter, which is an improvement of \$28 million compared to the fourth quarter of 2005. These improved results were primarily due to the negative impact of mark-to-market changes in 2005 associated with our de-designated hedges, as well as fewer economic hedges in 2006. As you recall, we had economically hedged through the end of 2006. So in effect all of these hedges have rolled off as of the end of the year.

With that, I will turn to the segments that were spun-off to form Spectra Energy. Before we move on to the Natural Gas Transmission and Field Services segments, let me remind you that on January 2, 2007, Spectra Energy was successfully spun-off from Duke Energy. On January 3, Spectra Energy started trading as a stand alone company on the New York Stock Exchange under the symbol "SE."

For the Natural Gas Transmission segment, fourth quarter 2006 ongoing segment EBIT was \$338 million compared to \$344 million in fourth quarter 2005. The decrease in ongoing results was primarily caused by higher operating and maintenance expenses including pipeline integrity work, project development expenses and other increases primarily associated with the U.S. and Western Canada pipeline and storage operations. These increased expenses were partially offset by higher processing margins on the Canadian Empress system.

Let's continue on to Field Services. As a reminder on January 1, 2007, Duke Energy Field Services changed its name to DCP Midstream LLC. Results for this segment still reflect Duke Energy's 50% interest in DCP Midstream. Field Services reported fourth quarter 2006 ongoing equity earnings of \$119 million compared with \$127 million in the fourth quarter 2005. Lower commodity prices were the primary driver for the

reduction in ongoing equity earnings for the quarter. During the quarter, DCP Midstream paid tax distributions of approximately \$98 million and dividends of \$243 million to Duke Energy.

Now I would like to comment on a few miscellaneous items of interest. As to interest expense. It was \$325 million for the quarter compared with \$250 million for the fourth quarter of 2005. The \$75 million increase mostly reflects the addition of Cinergy's debt onto our balance sheet at the time of the merger.

Taxes for the fourth quarter 2006 reflected a number of tax benefits, including favorable tax settlements for research and development costs, tax benefits related to the impairment of the investment in Bolivia, the reversal of previously recognized taxes related to dividends on foreign operations, and tax credits recognized on synfuel operations.

Keep in mind that we have assumed a 2007 effective tax rate of 35.5% excluding the impact of synfuel credits.

Before I move on, I would like to provide a rough approximation of a split of the 2006 ongoing diluted earnings per share of \$1.81 between Duke Energy and Spectra. As you are aware, it's never easy to perform the allocations necessary to do this sort of calculation. Let me emphasize that this number contains several assumptions. Given that for the \$1.81 ongoing earnings per diluted share we estimate the split between Duke Energy and Spectra Energy to be approximately \$1.07 and \$0.74 respectively.

Now let me shift gears and talk about a couple of items for 2007. The board has approved a share buy-back program of up to \$500 million beginning in January. We will purchase shares of Duke Energy if, and only if, the stock price hits the pricing point established in the plan. To date we have not purchased any shares. After the spin of Spectra Energy, Duke Energy began 2007 with a net cash balance of approximately \$2 billion. This net cash balance is significantly higher than what we had originally forecasted primarily as a result of the cash proceeds received on the Crescent transaction as well as the sale of CM&T during 2006 and the lower amount of repurchases under our stock repurchase plan.

As we mentioned during our road show, we anticipate using this cash to help fund our CapEx program. So this is a good point to provide greater detail about CapEx spending going forward. In December, we provided CapEx projections by functions, expansion, environmental, maintenance, et cetera. We thought it would be helpful to provide some additional information on our CapEx for our U.S. Franchised Electric and Gas segment. For that reason we have included the percentage allocation of our projected regulated CapEx by jurisdiction in this presentation.

As you would expect, the large majority of our CapEx requirements over the next three years are in the jurisdictions of our largest regulated businesses, Duke Energy Carolinas and Duke Energy Indiana. They account for 67% and 23% of regulated CapEx respectively. Combined, this represents 90% of our spending and includes a portion of the new generation projects we have talked about in the recent past. The remaining 10% of regulated CapEx will be spent in our Duke Energy Ohio and Duke Energy Kentucky jurisdictions. With that, I would like to turn it back over to Jim.

James Rogers - Duke Energy Corporation - Chairman, CEO

Thank you, David. I would like to wrap up this call by looking back briefly at 2006 and then give you a sense of our agenda for 2007 because like last year it is very full. I've always believed that looking back at the lessons learned strengthens the way you approach the future. Last year we completed a merger, reduced the risk profile of our business and completed the spin-off.

We completed the merger with Cinergy ahead of everyone's expectations including our own. We negotiated a reasonable shared savings resolution with our customers that front loaded their benefits while giving our shareholders the opportunity to benefit from merger savings over time. Our merger score card reminds us we still have work to do to achieve all of the objectives we set out to achieve. We will continue to hold ourselves accountable by tracking our progress on this score card on an internal basis going forward.

We learned again the importance of having constructive relationships with our regulators and customers. We work hard to understand their concerns and then to address them. These relationships, forged over years of hard work and commitment, were a foundation upon which this successful merger was built. I really compliment our regulatory teams for the good work that they did. We learned that a good integration plan begins with getting the right people in the right spots right away. I am happy with the quality of the leadership team we have assembled and I'm pleased by how well we have come together.

We continue to learn how to improve our productivity and our operations by combining and streamlining best practices from both companies. I am looking forward to discussing in future calls how these lessons enhance the quality of our earnings and cash flow long term. So I credit all of our employees with a home run for the merger and for working to fulfill its promise.

I mentioned we have a full agenda for 2007. Now let me turn to our state regulatory agenda to give you a sense of what I mean. We are working to create a regulatory framework that balances the needs of our customers, our shareholders and the environment. As such, we've included a regulatory calendar in this presentation that reflects our current thinking. Obviously, this calendar will change as events change, but it provides a good perspective on what is ahead of us.

In North Carolina, based on customers' growing demand, we must increase the size of our generation system by one-third over the next 15 years. That means modernizing our coal fleet with more efficient and lower emissions technology. Expanding Cliffside station by retiring older units and replacing them with two new ones is a major step. We expect a Commission decision on this plan by the end of this month.

Under the North Carolina merger approval order, this June, we either have to file for a rate case or show cause why one is not needed. As we've told you before, we don't expect the outcome of the rate review to have a material financial impact on the Company. Our primary objective is to secure a timely recovery of our invested capital. In North Carolina and South Carolina, we are pursuing legislation to recover our financing costs for Cliffside station, as well as for our proposed nuclear station in South Carolina.

Timely recovery of and on our invested capital is also our strategy for a new coal gasification plant in Indiana, a state that has construction work in progress recovery for such investments. The Indiana Utility Regulatory Commission will hold hearings in June on our CPCN application for the Edwardsport IGCC plant.

In Ohio, we filed for an extension of the rate stabilization plan through 2010. Our belief is that this is the best way to provide certainty for our customers and our shareholders while we work towards a longer term solution for Ohio's regulatory framework. I anticipate that we will see legislation introduced in Ohio this year designed to provide that longer term solution, and you can bet we will be at the table working to shape its outcome. This is an ambitious agenda, but I know that our team is up to these challenges.

On another front, climate change has made it to the top of everyone's list of important issues. Most importantly from our perspective, legislation to cap carbon emissions is one of several proposals at the top of Congress' agenda. Hearings are underway. New bills have been introduced and eventually Congress will move to mark up a bill.

Early last year, we joined the United States Climate Action Partnership, USCAP. This diverse coalition of businesses and environmental groups includes Alcoa, DuPont, Caterpillar, GE and other utilities, FP&L Group, PG&E Corp, and PNM Resources. Together we recently offered recommendations including a mandatory cap and trade regime for greenhouse gas emissions.

USCAP's proposal has been described as watershed event that will accelerate Congressional action on climate change. Because Duke's name has been so publicly identified with this issue over the last couple of weeks, I want to take the opportunity on today's call to give you a clear, but hopefully concise, understanding of our challenge and our strategy for addressing it.

We start with a proposition that market-based cap and trade mechanisms have generally worked well as a means to reduce the level of power plant emissions in a manner that does not drive up our costs or our customers' bills precipitously. Our goal is to achieve carbon reduction legislation that follows the successful prototype. We believe that legislation should provide allowance allocations that are fair for all regions and economic sectors, and that result in compliance costs that are reasonable and affordable for those adversely affected by the new caps.

With 98% of our power coming from coal and nuclear fuels, our prices are stable and they are well below the national average in our five states. We intend to maintain this price position for our customers over time even as we comply with prospective new carbon regulations. We anticipate no impact on our cost structure from carbon regulation in the next three years. But we are looking beyond the immediate time horizon and taking steps now that will allow us to minimize the eventual impact on customers.

If Congress follows the pattern it did for sulfur dioxide regulation in the Clean Air Act amendments of 1990, we will have a ready period of five years after legislation is enacted before the carbon emissions cap takes effect. Based on the likely time frame for completing legislation, we anticipate the effective date will be 2014 or 2015. But we were taking actions now to get ready. However, we have not ruled out the possibility that a bill could be enacted in the next two years in the run-up to the presidential election.

We are already factoring in carbon prices in our evaluation of generation alternatives including Cliffside, a new state-of-the-art super critical coal plant in North Carolina, IGCC, new nuclear and combined cycle gas plants. It may seem counterintuitive to some, but adding two units at Cliffside coupled with increased energy efficiency, we will actually reduce our carbon footprint by allowing us to shut down older units there and to limit the use of others.

Accelerated development implementation of new energy efficiency technology will be another positive consequence of carbon regulation. I believe that's a strong reason for supporting a mandatory cap that will provide the economic incentive to support advances in energy efficiency. Anticipation of a carbon cap will similarly accelerate development of renewables and we expect to be able to expand their use.

Today, 22 states have renewable portfolio standards, although the five states we serve do not. I anticipate a nationwide renewable portfolio standard will be enacted maybe as early as this year. There is clear movement in Congress for this. In addition to making operational changes to reduce our emissions we will work to establish regulatory mechanisms that will limit and smooth out the cost of compliance for our customers. We believe that with the appropriate timeframes and a fair allocation of allowances, climate legislation will be a win for our customers, shareholders and, of course, the environment. You can expect us to continue to play an active role on this issue.

I will be discussing climate change and the role of energy efficiency in more depth at the Wall Street utility group conference this Thursday in New York, along with Tom King, President and CEO of Pacific Gas & Electric Company; and Dian Grueneich, a member of the California Public Utilities Commission.

To conclude, let me turn to our growth strategy for 2007 and beyond. It boils down to three key drivers. First, steady sales growth of 1.5% in kilowatt hour demand in the Carolinas and 1% in the Midwest. Second, enhanced cost reductions due to merger savings and ongoing continuous improvement initiatives. Third, obtaining returns on the significant capital investments we have planned including \$9 billion in regulated CapEx over the next three years, and the constructive regulatory framework to support that.

I believe our story is straightforward, but the hard work is just beginning. We are in a strong position to meet our challenges while growing earnings and dividends in the future. We have doable regulatory plans. We have set a 2007 employee incentive target of \$1.15 per share on an ongoing diluted basis on which we expect to grow ongoing earnings by 4% to 6%. We have a dividend yield of approximately 4% with a payout target of 70% to 75%. When you put all this together, Duke Energy is a solid investment proposition. Now, let's go ahead and open up the lines for your questions. James?

QUESTION AND ANSWER

Operator

Thank you, sir. Today's question-and-answer session will be conducted electronically. [OPERATOR INSTRUCTIONS] We will take our first question with Greg Gordon from Citigroup. Good morning.

James Rogers - Duke Energy Corporation - Chairman, CEO

Good morning.

Greg Gordon - Citigroup

Two quick questions. First, you say that you are factoring the potential cost of carbon into your resource planning. Can you give us a sense of the range of potential carbon prices? These obviously are not using a single point estimate. But the range of expectations you have on sort of a minimum versus a maximum assumed price?

James Rogers - Duke Energy Corporation - Chairman, CEO

We have looked at a range. And actually, in our proceeding in Raleigh, we have looked at the Bingaman proposal of \$7.50. We looked all the way up to \$20 by 2021.

Greg Gordon - Citigroup- Analyst

And you are assuming, quote-unquote fair and equitable allocation of credits. So I presume you are using a range of assumptions on how many credits are sold versus granted to emitters?

James Rogers - Duke Energy Corporation - Chairman, CEO

Yes. We have. Actually in doing our analysis, we haven't included the allocation number in what we presented; but our operating assumption is that this bill will follow what was worked out in the Clean Air Act Amendment in 1990 with respect to sulfur dioxide. As well as what was worked out with NOx in terms of the allocation percentages is a phase out of these allocations over several decades.

Greg Gordon - Citigroup- Analyst

Thank you. On the Ohio front, obviously a huge smorgasbord of regulatory activity. On the Ohio front, the chairman of commission was recently in New York and seemed confident that he would be able to get the legislation he needs to have the flexibility to negotiate post away transition plans. One of the CEO's at other Ohio utilities voiced skepticism that you can get the momentum you need to actually make that happen. What do you think?

James Rogers - Duke Energy Corporation - Chairman, CEO

I hate to be in a position of disagreeing with other CEOs in the state now that I live in Carolina. My observation would be Chairman Schriber stepped up at a time when we were, like many states, prepared to go to market under the new legislation and made the decision that he thought it would be better for the state to have a longer transition period. And that morphed into the rate stabilization plans which have been approved for all utilities in the state. All of these plans are different, reflecting the differences in the companies and the characteristics of the companies in the state. If you compare how prices have moved and the volatility of the prices in Ohio to Illinois or Maryland or some of these other states, I think the Chairman Schriber's move in that direction has been validated by how the state has performed compared to other states with respect to price movements for customers. It would be my judgment that there is strong support for extension of the rate stabilization plans. I think the belief is that we need to also address how we build new generation in the state to meet the growing demand in the state. And a lot of people are tending to coalesce around the notion that you grandfather the existing plants that were de-regulated in 2000 and that you provide regulatory mechanisms very similar to what you have -- have had traditionally in regulated states with CWIP an important part of getting a certificate and CWIP during the process to encourage the building of more plants in the state to meet the growing base load demand in the state. The short answer on this is, a lot to get done. I think there are two paths and, as you know, we're pursuing both paths. One is extension of our current plan. We believe the commission has the authority to do that. I think the Supreme Court says that. We also believe that legislation is another route and we're pursuing that. And I believe Chairman Schriber has the ability to pull people together in the state and make that happen.

David Hauser - Duke Energy Corporation - CFO

Greg, let me add one thing. This is David. Just a reminder that if you look at the price of our RFP today, it's essentially at market prices. The contract prices within the RSP. So that puts us in a good position as far as if it is extended, there is no huge increase in rates as you've seen in some other areas.

Greg Gordon - Citigroup- Analyst

Thanks, guys.

James Rogers - Duke Energy Corporation - Chairman, CEO

Greg, thank you.

Operator

Next we will hear from Paul Patterson from Glenrock Associates.

James Rogers - Duke Energy Corporation - Chairman, CEO

Good morning, Paul.

Paul Patterson - Glenrock Associates - Analyst

Good morning.

Paul Patterson - Glenrock Associates - Analyst

Can you hear me?

James Rogers - Duke Energy Corporation - Chairman, CEO

Yes, sir.

Paul Patterson - Glenrock Associates - Analyst

What is the expected mark-to-market impact in 2007 and in the synfuel impact as well?

David Hauser - Duke Energy Corporation - CFO

Let me start with the synfuel impact. It's in our \$1.15 that we've told the world - it's \$0.03.

David Hauser - Duke Energy Corporation - CFO

And the market-to-market impact is very inconsequential, obviously depends on what happens to the market but in the first quarter it will be \$7 million or so.

Paul Patterson - Glenrock Associates - Analyst

Okay. And then in terms of you mentioned, Jim, the cost to customers with carbon legislation really shouldn't change. I was wondering if you could elaborate on that. Why wouldn't it change for your customers?

James Rogers - Duke Energy Corporation - Chairman, CEO

Clearly during the -- we look out three years and we don't think legislation will be effective during that period. I think the second point is that one of the keys to smoothing out the impact on regions of the country, which will be adversely impacted or disproportionately impacted, states that are primarily and customers that are reliant upon coal and that will primarily be in the Midwest and the Southeast. And I take comfort in the way it was allocated historically with respect to SOx and NOx and how the phase out occurred over time and what they did was they allocated significant allowances in the early years to give time to make the transition to give time to develop new technologies. And I think as that happens, as these phase out, yes the cost will go up. But it will go up in a way that's manageable for the customers.

Paul Patterson - Glenrock Associates - Analyst

Okay, so you are talking about the near term as opposed to as time goes on.

James Rogers - Duke Energy Corporation - Chairman, CEO

That's right. It's a near term conclusion.

Paul Patterson - Glenrock Associates - Analyst

Okay, thanks a lot.

Operator

Next we will hear from Maureen Howe, RBC Capital Markets.

Maureen Howell, RBC Capital Markets- Analyst

Just a little clarification if you will on the natural gas plant losses of \$13 million during the quarter and the outlook for 2007 of an EBIT contribution of \$10 million. I'm wondering if you can elaborate on perhaps steps that have been taken to either lock in that situation or otherwise turn it around.

David Hauser - Duke Energy Corporation - CFO

Let me clarify a couple things here. So if you look at the DENA plants -- the natural gas plants of the old DENA plants are what we are talking about, they lost about \$70 million for the year, \$13 million for the quarter. Next year we would anticipate them losing about \$60 million, although we certainly have plans to improve on that. If you look at our \$1.15 estimate we put out or our \$1.15 earnings target, that has a \$60 million loss on those gas fire plants.

Maureen Howe, RBC Capital Markets- Analyst

Okay. So the improvement is the \$10 million in EBIT?

David Hauser - Duke Energy Corporation - CFO

That's right.

Maureen Howe, RBC Capital Markets - Analyst

Appreciate that. That's great. Thank you for that clarification. And in terms of that improvement have there been steps taken or is it just a different outlook for spark spreads in the region?

David Hauser - Duke Energy Corporation - CFO

There have been some clear steps taken associated with how they are dispatched in MISO and they, in fact, generated more power in the fourth quarter of this year than they did in the fourth quarter of last year. So there are clear steps being taken.

Maureen Howe, RBC Capital Markets- Analyst

Okay. And, David, I realize this is really now in Spectra but maybe you can just help with the Citrus trading settlement. I forget which page its on but there is a statement made in here that \$65 million was the charge associated with the settlement negotiations. Are those lawyers fees?

Maureen Howe, RBC Capital Markets- Analyst

No. I'm a little concerned.

David Hauser - Duke Energy Corporation - CFO

Let me clarify. There are two items being discussed. The Citrus settlement is \$100 million. That's one item. And that is a settlement with the counterparty. The second item is a \$65 million item. That is a totally different contract and has nothing to do with Citrus. It's a totally different contract settlement negotiation.

Maureen Howe, RBC Capital Markets- Analyst

And are you at liberty to discuss that contract?

David Hauser - Duke Energy Corporation - CFO

No. We aren't going to put out who that's with or what the issues are there.

Maureen Howe, RBC Capital Market- Analyst s

Okay. I guess that's it. Thank you for the clarifications.

David Hauser - Duke Energy Corporation - CFO

Thank you so much.

Operator

Nathan Judge with Atlantic Equities has our next question.

Nathan Judge, Atlantic Equities- Analyst

Thank you.

James Rogers - Duke Energy Corporation - Chairman, CEO

Good afternoon in your case.

Nathan Judge, Atlantic Equities- Analyst

I was going to say good morning or afternoon. Just with regard to a couple of cleanup questions here. Could you give us the impact for the full year of weather and how that compared to normal.

David Hauser - Duke Energy Corporation - CFO

The weather for the full year - let me give it to you two different ways to think about because for the Carolinas, for the full year it's about \$32 million. But that's just the Carolinas.

Nathan Judge, Atlantic Equities - Analyst

That would be a negative is that right?

David Hauser - Duke Energy Corporation - CFO

Yes, 32 negative. If you look at the weather compared to -- you may recall that we had an EBIT estimate of 1950 that we told the world for the U.S. FE&G. The weather difference between that and where we ended up was \$47 million.

Nathan Judge, Atlantic Equities - Analyst

Okay.

David Hauser - Duke Energy Corporation - CFO

Is that helpful?

Nathan Judge, Atlantic Equities - Analyst

That's very helpful. Thank you. Just to give us an update on how much or just an update on synergy savings on the merger and how that compares to your target?

David Hauser - Duke Energy Corporation - CFO

I think we would say it a couple different ways. We spent less on cost to achieve than what was budgeted by about \$100 million. And the goal this year was to achieve \$140 million of savings. And we have done that. We won't be tracking savings specifically going forward. What we will be doing is looking at the total O&M budgets for all of the affected areas and driving it off those O&M budgets instead of tracking specific savings.

James Rogers - Duke Energy Corporation - Chairman, CEO

Or to say it another way, we are actually embedding the savings into the budget.

Nathan Judge, Atlantic Equities - Analyst

Great. With regard to Cliffside. I know there's been talk about a partner looking at that. Could you give us an update on where that stands and is there potential in your budget that you gave for Cap Ex. Do you actually include expectation of having a partner?

James Rogers - Duke Energy Corporation - Chairman, CEO

First, Nathan, we did include the expectation of having a partner in our capital budget. We're in conversations today and I would characterize them as on track to get this worked out. As you know this was an issue at the hearing. We talked about it at length. We actually went into a confidential session with the commission itself and talked in even greater detail about this because we thought it was important that our commission understand our thinking on this and why we are moving down that road.

Nathan Judge, Atlantic Equitie- Analyst s

Great, thank you. Finally, this is a much broader question. You have done a lot of very decisive things in creating value for the shareholders. As you see your portfolio of assets today, are you happy with the current set of assets? Do you see opportunities to perhaps optimize both by acquiring and divesting particular assets? Or how do we stand there?

James Rogers - Duke Energy Corporation - Chairman, CEO

My judgement is we have a great set of assets. Our focus is really on driving the 4 to 6% growth off the '07 target. And I think we can do that. It takes achieving some of our regulatory goals. It takes making good investments. We are required to invest in our scrubbers and our plants and bring them in on time and under budget. So, we have a great set of assets and it will, as we look forward, we will be able to drive that growth from those assets. However, we are going to be very opportunistic in looking at other opportunities that can add to it. I would say that 4 to 6% doesn't assume anything whether it's back to additional acquisition, bolt-on, mergers or anything. Our focus is on the 4 to 6% growth and that's the cake. And if something good comes along and makes sense, that is accretive over time and that will be the icing on the cake. Our focus is on the cake. And time will tell with respect to the icing.

David Hauser - Duke Energy Corporation - CFO

I would add one thing to that. We like our 85%/15% kind of mix that we have today. The management team likes being in that spot and would expect anything we do to keep us more or less in that spot.

Nathan Judge, Atlantic Equitie- Analyst s

Thank you very much for the clarity.

James Rogers - Duke Energy Corporation - Chairman, CEO

Other questions, Nathan?

James Rogers - Duke Energy Corporation - Chairman, CEO

Thank you.

Operator

We now have a question from Michael Lapidés from Goldman Sachs.

Michael Lapidés -Goldman Sachs & Co. - Analyst

Actually a couple of questions. First, can you refresh us on the amount by jurisdiction of the rate credits that expire in '07? Second, can you talk about, if you get permission to build Cliffside, can you talk about the units that are retired specifically, what is currently in rate base for those units.

James Rogers - Duke Energy Corporation - Chairman, CEO

First as we are looking for the amount by jurisdiction, let me talk about Cliffside. If we build Cliffside, we have committed to retiring four units, a total of 198 megawatts.

James Rogers - Duke Energy Corporation - Chairman, CEO

Then we made a further commitment that we would retire additional units to the extent our energy efficiency program produces reduction in demand. For instance, if we can implement energy efficiency programs that would reduce our demand and there is demand capacity and energy components of this. If we can produce 100 megawatts then we will be prepared to reduce our to shut down older units that represent the 100 megawatts. So we have made that commitment. We are confident that what we will do with respect to energy efficiency will allow us to shut down additional facilities up to the size of the Cliffside plant to the capacity megawatts that we put in rate base that will be able to offset that with energy efficiency. With respect to the numbers, David, on the jurisdiction.

David Hauser - Duke Energy Corporation - CFO

The credits for the Carolinas, it's about \$80 million of credit next year. So that's how much is remaining to be given back. And then it's about 19 or \$20 million in the Midwest of that about 16 is Indiana. That's how much is yet to be given back. We will give back \$100 million next year. Does that make sense.

Michael Lapidès -Goldman Sachs & Co. - Analyst

So that's for '08. Not for '07.

David Hauser - Duke Energy Corporation - CFO

Nope, I'm sorry. I'm still closing the books for last year. I said next year but I meant '07. That's to give back in '07.

Michael Lapidès -Goldman Sachs & Co. - Analyst

So \$80 million in Carolinas and \$20 million in the Midwest the bulk of it in Indiana.

David Hauser - Duke Energy Corporation - CFO

That's correct.

Michael Lapidès -Goldman Sachs & Co. - Analyst

And on the rate base of the retired unit for Cliffside, the 198 megawatts. How depreciated are those? What's left in rate base?

James Rogers - Duke Energy Corporation - Chairman, CEO

50 to 60-year-old plants. Very little left at rate base with respect to those facilities.

Michael Lapidès -Goldman Sachs & Co. - Analyst

Got it. Thank you, guys.

Operator

We will now hear from Sam Brothwell with Wachovia.

James Rogers - Duke Energy Corporation - Chairman, CEO

Sam, welcome.

Sam Brothwell – Wachovia Securities - Analyst

Good morning. I did hear you correctly, you have not yet done any share repurchases to date, is that right?

David Hauser - Duke Energy Corporation - CFO

That's correct this year, yes.

Sam Brothwell – Wachovia Securities - Analyst

Just relative to what you outlined late last year has your thinking on cash allocation, capital requirements and so forth, has that changed at all?

David Hauser - Duke Energy Corporation - CFO

No, I don't think so. We will still be using our cash to redeploy for the capital expenditures associated with largely the regulated business.

Sam Brothwell – Wachovia Securities - Analyst

Okay, thank you very much.

James Rogers - Duke Energy Corporation - Chairman, CEO

Thanks, Sam.

Operator

Now we will hear from Andrew Levy with Brencourt.

Andrew Levy - Brencourt- Analyst

Hey, guys how you doing?

James Rogers - Duke Energy Corporation - Chairman, CEO

Good morning.

Andrew Levy - Brencourt - Analyst

Jim, you have been very busy the last two years. You got the merger with Cinergy and Duke and the recent spin-off of Spectra and knowing you so many years you are always thinking and clearly how you answered Nathan's question, you definitely are thinking. So, what type of transactions are you interested in doing as you move forward?

James Rogers - Duke Energy Corporation - Chairman, CEO

Andrew I -- I have been around long enough not to answer a question like that on a phone call where I'm speculating about things that look interesting to me. That would be long conversation and I don't know anybody here wants to hear all that. I would say that we are very focused as I said a few moments with Nathan that we are really focused on driving the business. I still think we are in a period in history where we have to demonstrate to you and to others in the investment community that these mergers actually produce real value for shareholders. Clearly getting this thing done in 11 months was a great achievement for our team. We are off to a great start as David was saying. Our cost to achieve is coming in lower. We think our savings are a little ahead from a head count standpoint we're a little ahead. But I think we got more to do. To really demonstrate that we can manage our costs in a period of rising costs. And there is a true offset that comes from combining these companies. At the same time we maintain good reliability, good responsiveness to our customers, great storm restoration. So, from my vantage point we got to prove the case. And in most states where there is opposition to acquisitions or mergers has been where their experience has been somewhat middling in terms of whether it really produces real value for customers. Long-term, we seek consolidation in this industry. But we think our assignment is to prove it. That it creates value for both customers and shareholders and that's what our focus is today.

Andrew Levy - Brencour- Analyst t

That's the best way to spend 2007 is kind of where the thinking is.

James Rogers - Duke Energy Corporation - Chairman, CEO

That's a great way to think about it.

Andrew Levy - Brencourt- Analyst

Perfect. Thank you.

Operator

Paul Ridzon with Keybank has our neck question.

Paul Ridzon - KeyBanc Capital Markets- Analyst

Andy, kind of asked the same question I was going to ask. So I think I'm all set.

James Rogers - Duke Energy Corporation - Chairman, CEO

I was hoping you would come up with a different way to ask the same thing.

Paul Ridzon - KeyBanc Capital Markets- Analyst

Jim, if you look around the country where do you see opportunities for M&A?

James Rogers - Duke Energy Corporation - Chairman, CEO

Ditto last answer.

Paul Ridzon - KeyBanc Capital Markets- Analyst

Thank you very much.

James Rogers - Duke Energy Corporation - Chairman, CEO

Thanks.

Operator

Next we will hear from Ashar Khan with SAC Capital.

Ashar Khan - SAC Capital - Analyst

Good morning.

James Rogers - Duke Energy Corporation - Chairman, CEO

Welcome.

Ashar Khan - SAC Capital - Analyst

David, could you provide a bridge it would be helpful as you did for the commercial power for the Franchise Gas and Electric, \$1800 if I'm right for this year to \$2300 which is, if I'm right, forecasted for 2007.

David Hauser - Duke Energy Corporation - CFO

Yeah, let's just walk through two or three things. So first of all, you will add in the Midwest, right? So you will add in the first quarter of the Midwest.

Ashar Khan - SAC Capital - Analyst

Approximately how much?

David Hauser - Duke Energy Corporation - CFO

That's about \$198 million.

Ashar Khan - SAC Capital - Analyst

Okay.

David Hauser - Duke Energy Corporation - CFO

Then you will have the regular -- regulatory donations will drop. They will drop from \$140 to \$100. So that adds about \$40 million.

Ashar Khan - SAC Capital - Analyst

Okay.

David Hauser - Duke Energy Corporation - CFO

Normal weather would add a little over \$50 million.

Ashar Khan - SAC Capital - Analyst

Okay.

David Hauser - Duke Energy Corporation - CFO

And then I think most of the rest is some cats and dogs. We did have a rate increase in Kentucky that and that adds about \$50 million.

Ashar Khan - SAC Capital - Analyst

Okay.

David Hauser - Duke Energy Corporation - CFO

I think everything else is a variety of items moving around.

Ashar Khan - SAC Capital - Analyst

Okay. And then if I can just ask, what was the cause, if I am right your assumption was \$1.6 billion of cash in the December road show and you ended up with \$2 billion if I'm right there is \$400 million of extra cash apples to apples, is that the right way to look at it? I'm just trying to understand what the major source of that was.

David Hauser - Duke Energy Corporation - CFO

We define that as a good thing. The real driver is we ended up in a much stronger position. We had set a cash amount that we were going to send off with Spectra and our Canadian operations did very, very well in the last quarter of the year. And so generated more cash than we thought which put us in a stronger position because we kept the cash the same. We were sending off with Spectra. That was a conscious decision.

Ashar Khan - SAC Capital - Analyst

If I could just follow-up on that. So I guess you have \$2 billion there and negative cash flow for a billion a year. There is no opportunity to buy back shares. It's all going to be used, if I'm right, to basically fund the next two years negative grab on cash. Is that the way to look at it?

David Hauser - Duke Energy Corporation - CFO

That's certainly our plan right now is to use it to fund the capital expenditures. But as you know we always reassess and make changes as we go through the year.

Ashar Khan - SAC Capital - Analyst

If I can just end up with Jim. You had mentioned and I'm a little bit slow on following the North Carolina, but one thing you guys had mentioned was to do something in the legislature to get a bill passed which would give you automatic recovery of some of these investments going forward. If I could just check on that. You might have mentioned that earlier. Where you stand on that and how that fits into your plan.

James Rogers - Duke Energy Corporation - Chairman, CEO

I briefly mentioned it earlier. But our goal is to pass legislation somewhat similar to Florida that allows for construction work in progress that provides -- in Florida when they passed it, the primary purpose is to create an incentive to build nuclear. I think it's needed given the cost of coal plants to apply to both nuclear and coal. But, the second reason that we want it passed is because at the end of the day, it smooths out the cost impact on consumers over time. And the actual cost of the plant is less because you are not accumulating as much AFUDC during the period when you building it so the plant comes in closer to the actual out-of-pocket cost of the plant. So we think that is a benefit to consumers both lower costs, smoother transition and also is a better answer for us because we're not spending five to ten years building a coal plant or nuclear plant where we were spending the money and not getting recovery of the money as we spend it. We think it makes sense to get legislation like that passed. I believe we will have an opportunity in the Carolinas to do this this year. There is proposed bill with respect to renewables. And I think that bill will ultimately to be maybe too granular about this and it will be expanded to address energy efficiency as well as CWIP because they all tie together.

Jim Turner - Group Executive and President U.S. Franchised Electric and Gas

Ashar, its Jim Turner. In addition to the legislation related to CWIP, you mentioned investments. I would just say we have expenses we would like to have the legislature take a look at in terms how they get recovered, specifically purchased power costs and cost related to the reagents that we use, the chemicals we use in our plant as we are beginning to scrub some of these units in the Carolinas.

Ashar Khan - SAC Capital - Analyst

Okay.

Ashar Khan - SAC Capital - Analyst

Jim, what's the timing of this. We should be looking for summer? When would something like this happen?

James Rogers - Duke Energy Corporation - Chairman, CEO

Well, since I've tied Turner's bonus to get this done, most of it done this year, I think we are currently focused on having it done by summer.

Ashar Khan - SAC Capital - Analyst

OK. Thank you very much.

Operator

There are no further questions. I will turn the conference over to Mr. Sean Trauschke for any additional further remarks.

Sean Trauschke - Duke Energy Corporation - VP, Investor & Shareholder Relations

As always our team is happy to take your follow-up questions and I want to thank you for joining us and we look forward to speaking with you next quarter.

Operator

Thank you. That does conclude today's conference call. We thank you for your participation and have a nice day.