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PRESENTATION**Operator**

Good day everyone and welcome to the Duke Energy first quarter conference call. Today's call is being recorded. At this time for opening remarks, I would like to turn the call over to Vice President of Investor and Shareholder Relations for Duke Energy Mr. Greg Ebel. Please go ahead.

Greg Ebel - Duke Energy Corporation - VP, Investor and Shareholder Relations

Good morning and thank you for joining us this morning. With me today are Paul Anderson, CEO and Chairman of Duke Energy and David Hauser, group vice president and CFO of Duke Energy. In addition, Fred Fowler – Chief Operating Officer, Keith Butler – Corporate Controller, and Myron Caldwell, our Treasurer are with us to assist with questions you may have today.

Today's call will be focused on the results for the first quarter of 2004 and our progress against our financial goals so far this year.

Before we start today let me read our Safe Harbor Statement.

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

In addition, a reconciliation of any non-GAAP measure to the most directly comparable GAAP measure will be made available on our investor relations website at: www.duke-energy.com.

Following Paul's and David's prepared comments we will open the lines for questions.

Now I'll turn to Paul for opening comments.

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Thank you, Greg.

I'd like to begin today's call by saying that we've made excellent progress on our plans for 2004 – and we're just four months into the year.

As you have seen this morning, Duke Energy reported earnings per share of 36 cents for the first quarter, which included 4 cents for special items. Ongoing earnings were 32 cents per share.

Our expectation was to do better than that. However, the 32 cents does include 6 cents per share of MTM losses during the quarter. If we had not incurred these losses we would have exceeded our expectations for the quarter.

Reported earnings for 2003 were 25 cents per share, which included an 18 cent charge for changes in accounting principles and a one cent gain on sales of assets. Ongoing earnings in the first quarter of 2003 were 42 cents per share.

Most of our business segments had a positive first quarter. Franchised Electric and Gas Transmission generated good earnings and strong cash flows. Field Services had a near record first quarter benefiting from higher frac spreads and better results from hedging activities. Crescent Resources, our real estate business, delivered much higher earnings as a result of significantly higher property sales compared with the first quarter last year.

While we are very pleased with our progress, we still have challenges to overcome. DENA had a disappointing quarter primarily because they were unable to capture any optionality. Nevertheless, DENA expects to realize its budgeted optionality for the rest of the year. The summer months, which typically have warmer weather and higher volatility, have historically provided the best opportunities to capture additional margin.

Another challenge is the effect of changing commodity prices on the mark-to-market portfolio at DENA. In the first quarter, changes in gas and power prices combined to work against the MTM book to the tune of about \$93 million.

While I know you are all aware that MTM earnings are largely non-cash in nature, I find this level of earnings volatility a continuing challenge and we intend to significantly reduce this exposure in 2004. When we decided to exit the merchant generation business in the Southeastern US and not complete the construction of certain plants in the West, we increased our exposure to MTM changes by moving the associated hedge contracts to the MTM book. Currently, we have mitigated about half of the MTM portfolio that existed at the beginning of the year. Until we fully mitigate these positions, we will continue to be exposed to swings in MTM earnings.

With four months behind us, we have made significant strides in reaching our other financial goals. We've announced or already closed on asset sales which will generate cash proceeds of \$1.5 billion, successfully reaching our goal for the entire year. We reached this goal substantially through the sale of the Australian gas and power business for approximately \$1.2 billion.

One final point on our successful asset sales program – From an accounting perspective, we did better than expected on the sale of the Australian assets with an after-tax gain of \$238 million; and, while we have recorded an after-tax loss of \$205 million related to the anticipated sale of the Southeastern generation assets, the total earnings impact was a net benefit of \$33 million. We're optimistic that we will be able to announce a transaction concerning the Southeast generation assets in the second quarter and would expect to complete the sale by year end.

Another important goal for the company is to significantly reduce debt on the balance sheet. Through the first quarter of 2004 debt reductions have reached approximately \$200 million. We are very confident that we will meet our \$3.5 to \$4 billion goal for debt reduction this year.

We have also maintained our strong cash position – increasing cash and cash equivalents another \$300 million in the quarter for a total of \$1.5 billion.

And finally, the company continues to record victories in our efforts to reduce certain legal and regulatory risks. At Duke Power, the U.S. Attorney completed his investigation of accounting issues and made no charges against the company or any employees. Also at Duke Power, the court released a summary judgment in favor of the company as it related to possible violations of New Source Review rules. The U.S. government may appeal, so this issue is not final just yet, but we feel positive about the results thus far.

And finally, the company has recently reached a settlement with Enron with respect to its bankruptcy. As a result we will eliminate a net accounts payable position resulting in an increase of about 9 cents per share in the second quarter of 2004. This benefit will be excluded from ongoing earnings.

While I am disappointed with DENA's results for the first quarter, I am extremely pleased with the progress we have made on our asset sales and debt reduction. We are well on our way toward meeting our financial objectives.

With that, let me turn things over to David to review the details for the first quarter.

David Hauser - Duke Energy Corporation - CFO

Thank you, Paul. Let me first begin with Franchised Electric.

Duke Power reported segment EBIT of \$424 million for the first quarter of 2004 compared with \$454 million for the same period in 2003.

Primary drivers for the quarter were reduced revenues from wholesale power sales which were partially offset by higher retail sales due to favorable weather.

Higher operating expenses also contributed to lower results this quarter. Increased expenses were primarily associated with planned nuclear outages and \$11 million in charges for storm damages.

This increase in expenses was partially offset by a prior year charge for storm damages of approximately \$35 million.

The North Carolina Clean Air amortization expense was approximately \$16 million during the first quarter of 2004, compared with \$17 million last year.

We saw heating degree days increase almost 2% from last year's first quarter. This favorable weather increased gigawatt-hour sales to our residential and commercial customers by 3.4% and 2.6%, respectively. However, sales to industrial and wholesale customers decreased by 4% and 7.2%, respectively. The number of customers increased by 1.5% compared with the first quarter last year.

With the first quarter behind us, Franchised Electric remains on target for the year.

Now let me move on to Natural Gas Transmission.

Our gas transmission businesses in the US and Canada delivered \$398 million in segment EBIT for the first quarter of 2004 compared with \$423 million in 2003.

Excluding the prior year gains on asset sales of \$16 million and the current year foregone earnings of \$17 million related to 2003 asset sales, EBIT would show an increase of about \$8 million.

The increase in results can be attributed to contributions from business expansion projects in the US and the positive impact from foreign currency translation of the Canadian dollar. Partially offsetting these increases were lower results at Union Gas driven by warmer weather during the quarter – down about 5% - and previously expensed project development costs that were capitalized in the first quarter of 2003.

Cold winter weather continues to illustrate the need for more gas infrastructure. Three of our major pipelines recorded peak day records during this year's winter heating season.

- Texas Eastern – recorded 7 of its top 10 peak days,
- Algonquin – had 9 of its top 10 peak days,
- East Tennessee – 5 of its top 10 peak days

And at Union Gas, while they had warmer weather overall for the quarter, 4 of its top 10 days also came this year. In every case, new records for the highest peak day occurred this year.

One item of note on the change related to foreign exchange rates: You might recall that the Canadian dollar had a significant move late in the first quarter of 2003 and has remained fairly stable since that time. Taking into account the effect of a higher Canadian dollar on our interest expense, the positive impact from currency changes in the quarter was approximately 1 cent per share.

Natural Gas Transmission remains confident that it will meet its segment EBIT target for the year.

Now let me turn to Field Services

Overall, Field Services had a great quarter. They delivered near record earnings of \$92 million for the first quarter largely driven by favorable frac spreads and improved hedging results. This compares with \$30 million for the first quarter of 2003. While NGL prices have not changed dramatically – only increasing 1¢ from last year – natural gas prices were 90¢ lower than last year. This improved the frac spread by 94¢ to \$1.20.

Field Services realized strong margins from its processing business, especially on keep-whole contract margins which increased nearly \$20 million over last year's first quarter.

More favorable results from trading and marketing activities also contributed to higher earnings this year.

Operating costs during the quarter were about \$136 million and in-line with expectations for the year. For the full year 2004, we expect operating and G&A expenses to be about \$575 million.

At the Duke Energy level, net of all hedging, the EBIT sensitivity for a 1¢ change in Natural Gas Liquids (NGL) prices is approximately \$6 million. This NGL sensitivity is positively correlated and is a forward-looking twelve month estimate as of March 31, 2004. At the 100% Field Services level, without hedging, a 1¢ per gallon change in NGL prices moves segment EBIT by about \$18 million.

A significant event in the quarter was the decision to dividend cash up to Field Services' parent companies. The total dividend was \$50 million of which Duke Energy received about \$35 million.

We expect to receive additional dividends on a quarterly basis this year, although the final amounts have yet to be determined.

Now I'd like to turn your attention to Duke Energy North America.

DENA's results for the quarter continue to reflect the poor market conditions for the merchant energy business. Depressed spark spreads continue to limit DENA's ability to capture value in the

marketplace. While production volumes increased over last year, volumes are still very low as a percentage of available capacity.

DENA reported a first quarter EBIT loss of \$521 million compared with a positive \$23 million last year. Included in this quarter's results is a \$325 million loss associated with the anticipated sale of the Southeastern US generation assets. As you know, we have been working with potential buyers on this sale throughout the first quarter and this charge reflects our current view of what we expect to realize on the sale. As Paul mentioned before, we're optimistic about a second quarter announcements and remain confident that we will complete a sale by year end.

Changes in the mark-to-market portfolio also had a negative impact of \$93 million on the quarter. Taking into account minority interest associated with these MTM charges, the negative impact on the quarter would be about \$87 million.

Let me turn to the next slide to provide a more detailed look at the quarter.

At Duke Energy North America, gross margin realized from the accrual book in the first quarter of 2004 amounted to \$54 million.

Total expenses, including minority interest, for the first quarter totaled \$160 million. Netting the gross margin and expenses, we come to an EBIT loss of \$106 million before the loss on the Southeast assets, the negative impact from mark-to-market earnings and the gain on sale of other assets.

It's important to note that DENA's earnings profile remains subject to seasonality and we expect higher margins to be realized during the summer months.

In developing our EBIT forecast for DENA, the effect of mark-to-market earnings were assumed to be zero for the year. Absent the effect of any MTM earnings and before the effect of the net losses on asset sales, we continue to believe that a 2004 EBIT loss of approximately \$300 million is reasonable for DENA.

Let me add another word about the earnings exposure our increased MTM portfolio has created. Our Daily Earnings at Risk, or DER, has gone from an average of \$6 million in the fourth quarter of 2003 to an average of \$25 million in the first quarter of 2004. In fact, on certain days during the first quarter our DER hit more than \$40 million. Considering the potential for this kind of earnings movement - up or down - you can understand our desire to reduce our mark-to-market exposure.

As Paul indicated earlier, we didn't see any opportunities to capture margins over and above our expected low-risk gross margin in the first quarter. We forecasted to realize some other sources of gross margin but low volatility and low spark spreads prevented this.

Now I'd like to move on to International Energy.

For the first quarter of 2004, Duke Energy's international operations reported EBIT from continuing operations of \$29 million, including a \$13 million non-cash charge related to the expected sale of our interest in the Cantarell nitrogen production plant in Mexico. Excluding this special item, ongoing EBIT was \$42 million. Reported EBIT for the first quarter of 2003 was \$40 million.

International Energy's Latin American operations were essentially flat with positive results from our Brazilian facilities offset by lower earnings from our other Latin American assets.

International Energy remains on target for reaching its segment EBIT goal for the year.

Our Asia Pacific and European operations are now included in Discontinued Operations and I'll review that section in just a moment. But first let me review Crescent Resources.

We are now reporting Crescent Resources as a separate segment from our other smaller operations. Crescent Resources is our real estate development and sales business.

Crescent delivered segment EBIT of \$60 million during the first quarter of 2004, compared with a break-even quarter last year.

Positive results for the quarter were primarily driven by strong sales for commercial properties and legacy land.

Since many of you may not be familiar with Crescent Resources let me provide you some information on their typical earnings profile in any given year. Due to the nature of the buyers, Crescent Resources typically closes most of its real estate transactions in the latter part of the year. In many cases, deals are closing right up until the last day of the year. So you will usually see a strong fourth quarter finish for real estate operations.

So I would caution you against taking this quarter's results and duplicating them for all four quarters. We remain comfortable with the guidance provided to you in early February where we expect Crescent to grow segment EBIT 0-2% over the medium-term, off of a base of \$150 million in 2003.

At the end of the fourth quarter 2003, to be consistent with accounting rules, we reclassified a number of operations to Discontinued Operations based upon our decision to exit these businesses or sell specific assets.

The major items in Discontinued Operations are the Australian assets and our European trading business.

As a result of the successful sale of the Australian business, the company recorded an after-tax gain of \$238 million in the first

quarter. We closed on this sale last week and expect to recognize a small additional gain on the sale in the second quarter of approximately \$30 million after tax.

The expectation for our European trading business is to wind down that business by mid-2004.

Next I'd like to review our progress against our other financial goals.

In the first quarter of 2004 we reduced our overall debt position by about \$200 million at Duke Energy.

We redeemed \$350 million of trust preferred securities at Duke Energy which was partially offset by higher short-term debt, primarily commercial paper, of approximately \$145 million.

While the debt reductions in the first quarter don't appear to move us very far along in reaching our goals for the year, our plan calls for significant debt reductions in the third and fourth quarters.

We have also just called an additional \$200 million of Duke Energy retail notes and \$100 million Canadian of preferreds at Westcoast.

I'd also like to point out that with closing the sale of the Australian assets another approximately \$900 million in debt will be paid off.

You'll notice that interest expense increased for the first quarter and this is due to several factors. Among the more significant factors is the required accounting treatment of the interest associated with trust preferred securities changed in the latter half of 2003. This interest expense of \$16 million was previously included in minority interest and is now classified in interest expense. Second, we recorded an \$11 million expense related to the first quarter remarketing of the debt associated with the first tranche of mandatory convertibles. And third, we had lower capitalized interest of \$14 million this year as compared with the first quarter of 2003.

For the full year 2004 we still expect interest expense to be approximately \$1.3 billion which will be \$100 million lower than our 2003 interest expense.

With respect to capital expenditures, we now expect the annual number for 2004 to be about \$2.5 billion. This increase is largely driven by the decision to fund our nuclear decommissioning costs of approximately \$262 million. With the substantial progress we've made on cash flow generation and the stable state of the balance sheet, we feel very positive about acting on opportunities to reinvest our cash in the company.

Finally and perhaps the most impressive is the fact that we have already reached our 2004 goal for asset sales.

Turning to our liquidity position, our total credit capacity at the end of the first quarter was \$3.3 billion. This includes credit facilities at Duke Energy, Duke Capital and other businesses. Our outstanding balances against these facilities were approximately \$1.4 billion at the end of the quarter.

At March 31, we had unused capacity of \$1.9 billion and cash and cash equivalents on hand totaling \$1.5 billion.

The company has been very successful in maintaining a significant liquidity position while still paying down debt over the last year.

We recently extended our Duke Capital letter of credit facilities and are in the process of renewing all of our major facilities at Duke Energy, including those at Duke Capital, Westcoast and Union Gas. All indications from the banks are very positive.

I'll now turn the call back over to Paul for his closing remarks.

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Before we take your questions let me summarize the key achievements in the first months of the year.

First, I'm pleased about the excellent progress we've made on our asset sales. Our original goal for cash proceeds was \$1.5 billion for the year and upon closing the sale of the Australian business last week we have reached that goal.

We are also making great headway toward strengthening the balance sheet. Debt reductions are off to a solid start and, at this point, we are very comfortable with reaching our 2004 target of \$3.5 to \$4 billion.

The strong cash flows generated through asset sales and solid earnings have put our debt reduction efforts ahead of plan.

The majority of our businesses are delivering solid earnings in line with expectations for the year. However, we continue to be dogged by issues at DENA. The earnings volatility generated by mark-to-market positions is not acceptable in our view, so we will continue to reduce this exposure.

We recognize that DENA continues to be a complex business and it will take some time to work through solutions to all of its issues. I equate it with eating an elephant – you just have to take it one bite at a time.

As a result of the successes in the first quarter, we are better positioned to continue pursuing opportunities to increase the returns from our other businesses. Gas Transmission is growing its operations through selected business expansion projects. Field Services is having a banner year so far with strong commodity

prices working in their favor. Duke Power always delivers solid earnings and cash flows through its stable, regulated utility business. Crescent Resources is well prepared to take advantage of cycles in various real estate markets. And, our Latin American operations are pursuing a variety of options to increase the returns from these good assets.

Clearly, momentum is now working for us instead of against us. We are no longer reacting to market conditions. Instead, we are proactively seeking ways to profit from market opportunities.

With that, let me open the lines for your questions.

QUESTION AND ANSWER

Operator

First, Carrie Stevens with Morgan Stanley.

Carrie Stevens - Morgan Stanley - Analyst

Hi, good morning.

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Good morning.

Carrie Stevens - Morgan Stanley - Analyst

Couple quick questions. With the revision of the Capex, I was wondering if this is kind of just a one-time change to the '04 outlook since it's just a funding, I guess, catch-up or how should we think of any longer term impact of that number?

David Hauser - Duke Energy Corporation - CFO

Carrie, this is David. The funding of the decommissioning is a one-time event. We had an internal decommissioning fund that we've been accruing just like you accrue depreciation for years and the decision was made to go ahead and fund that externally which is consistent with what most of our competitors have already done.

Carrie Stevens - Morgan Stanley - Analyst

OK. I guess, Paul, your comments related to DENA and being disappointed with the results for the quarter, I guess I'm just trying to understand what was the specific thing that you were disappointed with, was it the mark-to-market, was it the fact that you didn't realize any kind of spot margin, or was it on the cost side? And then maybe if you could also just discuss, I know you reiterated comfort with this year-end target. You know, beyond this year are you starting to see any improvement in kind of longer term fundamentals in the power markets, especially, I know there's been some discussion regarding the Western markets looking very tight. I was wondering if you could comment on that.

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Sure. Let me take the last one first. It's very hard to in just a couple months have a very different view on what's happening in the markets. There's no question that we've seen some very early

signs of things improving. Just a couple days ago all of our facilities in California were running at full tilt. But, it's very easy to get excited when you have a couple good days there and I don't want to project that too far into the future but I would say that if you had to say long-term are we seeing things more ticks up than ticks down, yes, I'll ask Fred to comment on this also, but I'm seeing a little bit more of that. The thing that disappointed me at DENA was the mark-to-market movements. There's nothing worse than having something that is virtually beyond your control. You wake up every morning and, Bobby Evans sends an e-mail and he says here's where our book is and some days its up and some days it's down and we end at the end of the quarter with a negative position. And the negative position in many cases is based on a very thinly traded market several years out. There's very little liquidity there. So the getting whipped around by the mark-to-market position was very disappointing, as was the lack of opportunity to capture any optionality. I'd like Fred to really expand on those answers a little bit.

Fred Fowler - Duke Energy Corporation - COO

Yes, I think from the standpoint of the disappointment in the first quarter I think you pretty much hit the nail on the head, Paul. Typically, the winter months do provide you some opportunities historically to capture some of that kind of value and we just didn't get it this year. I think from the standpoint of the markets, there's no doubt that the that markets in general, I think, are more constructive right now than they've been for quite some time. To me, I think it's a little early to make a call on it. I don't know if it's just kind of, you know, we're getting ready to go in toward the summer months and it's a little bit of a market that's been overdone my opinion, overly done on the down side, just kind of readjusting prior to getting ready for this summer, or if we truly have hit a bottom and this is the sign of the market changing, I think it's too early. I think as the year progresses, though, we'll get that answer.

Carrie Stevens - Morgan Stanley - Analyst

One quick follow-up. Is the improvement you're seeing just limited to the West, or are you seeing it in other markets like the Northeast and -

Fred Fowler - Duke Energy Corporation - COO

Yes, we're seeing it in the Northeast as well.

Carrie Stevens - Morgan Stanley - Analyst

OK. And the last question, I just wanted to understand, obviously strong quarter in field services and you're ahead on debt repayment. Does that at all give you increased comfort with your annual EPS outlook?

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Well, I think, if you put all the things together, we kind of come out neutral versus where we were at the beginning of the quarter. Because we're certainly feeling a lot better about Field Services. On the other hand, we have the negative movement at DENA. So at this point in time I don't think I want to change my level of optimism or pessimism for the year.

Carrie Stevens - Morgan Stanley - Analyst

OK, thanks.

Operator

We'll go to Ashar Khan with SAC Capital.

Ashar Khan - SAC Capital - Analyst

Good morning.

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Good morning.

Ashar Khan - SAC Capital - Analyst

Paul, can you just share with us, I know on the International side I guess you're seeing flat, you had mentioned that that part of the business is still earning if we see below average returns. What do you see now how that business can improve going forward?

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Well, there are two or three things happening there that will make for improvements. If you look at our International operations, we really have three major investments. We have Brazil, Peru, and Guatemala. If you look at Guatemala, we are halfway through our oil emulsion conversion there. And the improvement in Guatemala will come as we get full conversion over to oil emulsion and lower fuel cost there. So that's really the driving force in terms of improvement in Guatemala. In the case of Brazil, we had a slow start to re-contracting. If you recall the contracts on the assets that were privatized rolled off at 25% a year after. And we had expected to be able to re-contract the capacity faster than we did. But what had happened in Brazil, if you'll recall, a couple years ago there was a drought. And the drought sort of made a step change in terms of the demand for electricity. It dropped down, there was rationing for a while. And so there was a step change

down in demand. And we ended up at this point in time, I believe, 85% contracted of our capacity there as opposed to 100%. So the improvement there will be when we get back up to 100% contracted capacity and Brazil continues to be a growth market so we wouldn't expect that to happen. The third area in Peru is dependent primarily upon a lot of operating efficiencies, just an improvement here and an improvement there, just to give you a simple example; they raised the reservoir height a few feet at one of the hydro facilities. Now, that doesn't seem like much but that adds a tremendous amount of capacity when you spread that across the whole reservoir. So those types of improvements, it will be small, incremental improvements in Peru.

Ashar Khan - SAC Capital - Analyst

So what kind of time frame can we expect to see these efficiencies and better capacity factors and to kind of show, you know, into the results, you know, as you look into this business?

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Well, I would certainly expect by the third and fourth quarter of this year you'll start to see some improvements. And, by the end of this year you will start seeing those improvements.

Ashar Khan - SAC Capital - Analyst

You took a further write down on Southeast assets. Can you share what the level of investment is right now on that and I guess is that changing a little bit in terms of your expected proceeds?

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Well, the write down was really to reflect where we are in the sales process and to reflect what our expected proceeds are. We have not laid out our investment in those plants or broken it out specifically and we probably won't do that at this point in time. As you're probably aware, we are in the middle of a sales process. We sent out information, brochures, kind of had a first round, and we're now in a second round discussions with a short list of potential buyers, and based on the indications we've had from those buyers we feel that the write down is reflective of what we would expect.

Ashar Khan - SAC Capital - Analyst

OK. And if I can just finish off, on this mark-to-market earnings, can we expect still some risk for the remaining three quarters in terms of things happened in the first quarter, something could happen in the fourth or do you think the risk factors have been

further neutralized as we go forward and look at it for the remaining three quarters.

Paul Anderson - Duke Energy Corporation - CEO and Chairman

No, the mark-to-market exposure will exist as long as we have a mark-to-market book out there. As we said, we've reduced the size of that book. But until we actually eliminate that book we'll have the exposure. Now, it can go positive as well as negative, it swings around, it's sort of like, you know, what's the risk of having an index fund based on the Dow Jones Industrial average. But we will have that as long as we have a mark-to-market book.

Ashar Khan - SAC Capital - Analyst

OK. Can you just expand a little bit as to what led to this negative, I mean, what position, I guess, went against you? Because some of the other guys have shown some good mark-to-market earnings in the first quarter and as you said earlier in the call that you expected to make some money and could you just amplify as to what went wrong?

Fred Fowler - Duke Energy Corporation - COO

Yes, if you think about where did this book come from, it basically was in our, it was a part of our hedge book on our assets, when we decided not to complete assets, those plants in the West, as well as to sell off the plants in the Southeast, that then disqualified those hedges and they went to a mark-to-market book. So it's primarily a spark spread position, short on electricity on long on gas. And what we've seen in the first quarter is spark spreads have expanded.

Paul Anderson - Duke Energy Corporation - CEO and Chairman

I might point out that most of that movement comes from the price curve that goes way out beyond this year. That's why it's primarily a non cash item is that what you're doing is your marking-to-market a very long-term contract based on a very illiquid market two or three years out and as a result, you'll see some fairly significant swings in here even though they're non cash and they don't reflect what's happening in the very short-term.

Operator

Next question is from Ron Barone with UBS.

Ron Barone - UBS - Analyst

Good morning. With respect to Field Services how much was the contribution from trading?

Fred Fowler - Duke Energy Corporation - COO

From trading?

Ron Barone - UBS - Analyst

Yes.

Fred Fowler - Duke Energy Corporation - COO

About \$8 million.

Ron Barone - UBS - Analyst

OK. Thank you, Fred. And just one other one. In Duke's Energy and compensation targets, are you including mark-to-market?

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Yes, we are.

Ron Barone - UBS - Analyst

OK, thank you.

Operator

Over now to Matthew Akman with CIBC.

Matthew Akman - CIBC - Analyst

Thanks. I wanted to ask a question on page 15 the detailed breakdown on DENA, just trying to understand what's in and what's out there in terms of the Southeast assets. Can you just let us know, for example, in the expenses what's in and what's out related to the Southeast, is that in there at all, or is that not reflected in the expenses?

David Hauser - Duke Energy Corporation - CFO

All right, let me make sure I know where you are.

Matthew Akman - CIBC - Analyst

On page 15, your supplemental disclosures on DENA.

David Hauser - Duke Energy Corporation - CFO

OK. The chief risk officer tables is what you're looking at.

Matthew Akman - CIBC - Analyst

Yes.

David Hauser - Duke Energy Corporation - CFO

And ask me your question one more time.

Matthew Akman - CIBC - Analyst

In the expenses, for example, the operating expenses and the G & A anything related to the Southeast assets in there or not?

David Hauser - Duke Energy Corporation - CFO

The Southeast assets were part of the portfolio in the first quarter so all the expenses associated with the Southeast were in the segment EBIT numbers and the expenses were in depreciation in operating and maintenance expenses.

Matthew Akman - CIBC - Analyst

Thanks. One other question relating to Crescent. Obviously some significant asset sales in the first quarter. I'm wondering if you've changed your view on that at all because of potential rising interest rates, does that mean you'd look to accelerate asset sales at a time like this or what's the strategy there?

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Well, in general, the strategy hasn't changed from what it was before. We have found that 100 basis points doesn't make a tremendous difference in terms of Crescent's markets. Ultimately you can get to a point where it does make a difference. But the current markets seem very robust. They seem like they would be robust even with a modest interest rate rise.

And we've had this discussion back and forth with the Crescent folks and they seem quite confident that because of their mix of real estate, they've got commercial, multi-family, residential, that they're able to move in and out of what cycle is being is particularly strong at the time.

Matthew Akman - CIBC - Analyst

OK, thanks.

Operator

We'll now hear from Dan Eggers with CSFB.

Dan Eggers - CSFB - Analyst

Good morning. First question on the Field Services side, looks like there was a bit of volume decay from year-over-year and previous quarters. You had good margins, is there something we should be concerned about on the volume side?

Fred Fowler - Duke Energy Corporation - COO

Yes, we always have concerns on the volume side. I think, you know, we've seen a fairly delayed response on the drilling side of the business to the kind of prices we've seen. But it is pretty cranked up at this point. I think, you know, we've got gas rigs up approaching a thousand. So we'll, you know, let it run at that level. I think this year's going to be pretty telling. But we would expect to see some volumes come back as a result of that level of drilling. If we don't you know, I think as a country we have a bigger problem to deal with.

Dan Eggers - CSFB - Analyst

Understood. The trading component at Field Services was awfully helpful in the quarter. Can you just give us a little more color? Was it price movement? Was it the upward movement that helped you guys make a little extra money in this quarter and how do we think about that over the next three quarters in.

Fred Fowler - Duke Energy Corporation - COO

I think it was really two things. We include in that number as well our retail propane operation that we have. I'm sorry, it's a wholesale propane operation we have in the Northeast. That business continues to grow and do well, obviously in the winter months when you do have good weather like we did this year. Secondly, we had a good quarter the first quarter of this year but part of what makes the comparison look so good's we had a bad quarter last year. We basically had some gas spread hedge, some spreads that hit us that we lost money on but the way that we had to book them showed even a more dramatic loss in the first quarter than it actually was overall. So that's kind of one of the other reasons that the comparison looks pretty good right now, this quarter.

Dan Eggers - CSFB - Analyst

OK, great. And then on the DENA side, can you give us or let us know when you'd be willing to give us a little more color on the

hedge positions, the earnings or losses on the Southeast plants, just trying to get a better handle on what the underlying recurring earnings power's going to be?

Paul Anderson - Duke Energy Corporation - CEO and Chairman

I don't think that we'll be commenting any more on that until we have a transaction and at the point we have a transaction then I think it will be appropriate to talk about it.

Dan Eggers - CSFB - Analyst

So hopefully sometime in the current quarter we should hear about this then, right?

Paul Anderson - Duke Energy Corporation - CEO and Chairman

If we have a transaction in the current quarter.

Dan Eggers - CSFB - Analyst

OK. One last thing, can you give us a little color on your hedge position on your coal exposure, you know, kind of this year and then the out years and what you guys are seeing as you look to, you know, kind of continuously contract?

Fred Fowler - Duke Energy Corporation - COO

Yes I think overall I think we're in pretty good shape on coal as a result of, of the portfolio and the way we do manage the portfolio, we don't have big exposure. Although we do have some, from the standpoint we don't have everything locked in. But I can't give you the specific numbers of what we're having to buy this year but it's not large in order of magnitude to the overall portfolio. The other thing that I would mention is that we do have a fuel tracker on coal so it is a pass-through. But having said that, it's still something that we try to manage very hard, purely from a competitive standpoint. We want to make sure that our electric rates remain very competitive.

David Hauser - Duke Energy Corporation - CFO

Let me add one thing. The vast majority of our coal is long-term contracts. So we'll see the move as it is we buy on the spot but mostly we're long-term contracts, which are going up.

Dan Eggers - CSFB - Analyst

They are, so you guys are seeing some upward pressure, then, okay, good, thank you.

Operator

We'll hear now from Jose Almonte from Clinton Group.

Jose Almonte - Clinton Group - Analyst

Now, Couple quick questions. Could you elaborate a little bit further on these, I guess the contracts that went from accrual to mark-to-market, the duration or length of these contracts and the possibility that you may be able to unwind them or offset them somehow?

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Well, first of all, the reason that they went to mark-to-market is that they were contracts associated with plants that we had started construction on and then elected to defer construction on. So while they were originally intended to be contracts of the output of the plant, selling the output and gas to fuel the plants, since the plants aren't going to be completed or at least if the current time aren't scheduled to be completed, they suddenly become proprietary trading positions since there's no physical plant there. And that's why they're subject to mark-to-market. They go out a number of years. David, do you have the -

David Hauser - Duke Energy Corporation - CFO

2022.

Paul Anderson - Duke Energy Corporation - CEO and Chairman

So the 75%, I believe, are beyond 2005.

Jose Almonte - Clinton Group - Analyst

All right.

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Now, as far as offsetting them, we have offset some of them. We've bought back some of the positions. We have terminated some. We are doing it as quickly as we economically can. Obviously you can always go in any position for a price. But we're trying to do it as economically as we can, even though there's big swings on a non-cash basis, we don't want to spend actual cash to hold that volatility down if it doesn't make sense.

Jose Almonte - Clinton Group - Analyst

OK. Any thoughts on those deferred plants, you know, whether or not if you've seen any indication from market participants looking to, you know, potentially buy them?

Fred Fowler - Duke Energy Corporation - COO

Yes, we continue to have discussions with various parties on either the sale of those plants or doing some form of venture to complete them.

Jose Almonte - Clinton Group - Analyst

OK. Any thoughts on timing? Are the discussions something that might result in some transaction in '04?

Fred Fowler - Duke Energy Corporation - COO

I think we might see a contribution in '04.

Jose Almonte - Clinton Group - Analyst

OK. And then are we still talking with respect to the DENA sale, the Southeast plant, are we still talking about the total package of plants or are we talking potentially having some of these plants sold piecemeal?

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Well, we're in the middle of that process so I think the best thing is we've said until the process is done, we're not really going to discuss progress as we go along or any of the specifics of discussions that we have.

Jose Almonte - Clinton Group - Analyst

All right. And finally, the S-3 that was filed, the registration statement for Duke Capital, you know, which you filed to potentially issue \$1.75 billion, in light of the fact we're in debt reduction mode, what are the thoughts there, I mean, potentially we're looking to refinance some indebtedness to provide for some, you know, to capitalize where interest rates are now?

David Hauser - Duke Energy Corporation - CFO

We had essentially used up our capacity at Duke Capital so we wanted to set up some capacity. We will need a piece of it when

we do the mandatory convertibles the second tranche in August, then the balance of it is just for flexibility.

Jose Almonte - Clinton Group - Analyst

Got it. Thank you.

Operator

We'll hear now from Leslie Rich with Banc of America.

Leslie Rich - Banc of America - Analyst

My questions have been answered, thank you.

Operator

We'll move on to Greg Gordon with Smith Barney.

Greg Gordon - Smith Barney - Analyst

Thanks. Hi, Paul.

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Hi.

Greg Gordon - Smith Barney - Analyst

You make one statement here in your presentation that given where you stand in the financial restructuring, the amount of cash you have on the balance sheet, that you say your key businesses are positioned out to selectively pursue growth opportunities. Could you elaborate on, you know, which businesses you feel are now positioned to play offense and, you know, a year from now do you still think you're sitting on that \$1.5 billion cash balance and if you're at a more stable credit profile how much of that cash is going to be put to work?

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Well, I think it's premature to say how much of that's going to put to work but the businesses that we'll be focused on, one of the things that we've found is that because of the capital constraints in the past couple years, the businesses had not really put a lot on the drawing board. So this last quarter they've been actively identifying opportunities. And I don't have a total answer to that. But I would say that we'll see some good opportunities in Duke

Power, we'll see some good opportunities in Gas Transmission. Field Services will continue to have some growth opportunities, and I guess a little bit in Crescent, though Crescents been growing pretty fast, I think we can maintain the level of growth there but I wouldn't try to expand it too much. Basically, I think what we're saying is that all the activities have some opportunities, although we will be capital rationing very closely with DENA. So I would say that you could see expansion in capital of just about any area except DENA until we have a better feel for where we're going there.

Greg Gordon - Smith Barney - Analyst

And just connecting the dots with sort of your prior comments on your long-term vision for Duke and, you know, sort of target ratio around 70% on the dividend, sort of your ability to start to play, is it right for me to assume that your ability to right size the balance sheet and then start to play offense is sort of a critical component of getting there?

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Yes, it is.

Greg Gordon - Smith Barney - Analyst

OK, thank you.

Operator

We'll move now to Steve Fleishman of Merrill Lynch.

Steve Fleishman - Merrill Lynch - Analyst

Yes, hi, Paul.

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Hi, Steve.

Steve Fleishman - Merrill Lynch - Analyst

Couple questions. First, with respect to these hedge contracts that are now mark-to-market, I guess you're saying most of them are in the West, not really in the Southeast?

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Yes.

Steve Fleishman - Merrill Lynch - Analyst

OK because I would have thought you could sell the contracts in the Southeast with the plants.

Paul Anderson - Duke Energy Corporation - CEO and Chairman

Most of them are associated with the deferred plants that were in the West.

Steve Fleishman - Merrill Lynch - Analyst

OK. And as I understood Fred saying it sounds like these contracts are essentially a short spark spread contracts, because obviously you were long gas and short power.

Fred Fowler - Duke Energy Corporation - COO

Right.

Steve Fleishman - Merrill Lynch - Analyst

And you do have plants in the West that are long spark spreads so, I mean, in a way don't you kind of have a natural hedge between the two?

Paul Anderson - Duke Energy Corporation - CEO and Chairman

They don't necessarily tie into the same points, is one of the issues. And the other thing is you don't know how much you're ultimately going to be able to run those plants in the West. I think as the market strengthens we'll see that natural hedge will start to assert itself. But, at this point in time it's premature to say instead of running the plant at 30%, we'll be up at 45% or something.

Steve Fleishman - Merrill Lynch - Analyst

I guess it's both good and bad because I guess if things do get better in the West, you might benefit from your Western plants, but this position's kind of a short against that.

David Hauser - Duke Energy Corporation - CFO

It's a challenge -

Steve Fleishman - Merrill Lynch - Analyst

Goes both ways.

David Hauser - Duke Energy Corporation - CFO

If things get better in the West and you're running your plants more, you're generating cash, which is a very positive thing.

Steve Fleishman - Merrill Lynch - Analyst

Right.

David Hauser - Duke Energy Corporation - CFO

But your mark-to-market book may move against you.

Steve Fleishman - Merrill Lynch - Analyst

Right, OK, Secondly, on the nuclear decommissioning investments, I know under the FAS-143, these funds get more mark-to-market, although yours are all regulated. So my question is there any income statement impact going forward from putting this money in the fund or since it's all in the regulated business -

David Hauser - Duke Energy Corporation - CFO

No, there's no direct income statement impact. It increases the investment in the regulated power company.

Steve Fleishman - Merrill Lynch - Analyst

OK. So in a way, it actually increases essentially the rate base?

David Hauser - Duke Energy Corporation - CFO

Yes, it would increase the rate base.

Steve Fleishman - Merrill Lynch - Analyst

OK. Interesting. And then finally, on DEFS, I wonder if you could give some flavor of the strength in the first quarter. Is there any way to kind of give some flavor of what is more the impact of kind of sustainable change and how you've contracted out the business and maybe how you've repositioned in trading versus just the fact that we had some good market environment conditions?

Fred Fowler - Duke Energy Corporation - COO

Yes. Steve, you know, we've continued to work we've continued to work on converting keep-whole processing over to percent-of-proceeds. Probably in the short run with the kind of frac spreads we've been having that's probably been a negative for us. But we

still think in the long run that's a better structure to the business because of our belief that we're going to see natural gas selling very much on par or at a premium to crude oil. So I guess probably for the first quarter, that contractual restructuring impact is probably a negative that we should probably get the benefits of going forward so I guess that's kind of a, on a go-forward basis, a plus. There's no doubt that liquids prices have obviously helped us a lot. Year on year, they're about the same.

So you haven't had a big impact there. The thing that hurt us in the first quarter versus fourth quarter last year is gas prices are down about a buck so that hurt us on the percent-of-proceeds side. On the other thing, we continue to have a very focused effort on what we call, you know, real improvement on our operations. So I think that's one thing that you will continue to see on a go-forward basis. We have some pretty aggressive targets this year that the guys have set and it's through basically, you know, taking the existing assets and optimizing them better and managing them better. So I think you're going to continue to see that kind of activity.

The trading part of that business, those guys just continue, I mean, every year pretty solid performers. Typically, it's not a big operation. It's not a very high-risk operation. But these guys just kind of continually grind out somewhere around \$20 million a year on trading. Again, we do have that wholesale propane business in the northeast that they're continuing to grow. So I think that's a plus. Does that basically answer your question?

Steve Fleishman - Merrill Lynch - Analyst

Yes, thank you.

Operator

And that is all the time we have for questions at this time. I'd like to turn the call back to Mr. Ebel for closing comments.

Greg Ebel - Duke Energy Corporation - VP, Investor and Shareholder Relations

Thank you very much for being with us today. As always the IR team will be around after the call to take your questions, and we look forward to seeing you at the upcoming AGA and EEI conferences next month. Thank you very much.