

**FINAL TRANSCRIPT**

**Conference Call Transcript**

**DUK - Q4 2010 Duke Energy Corporation Earnings  
Conference Call**

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**ADDITIONAL INFORMATION on the merger AND WHERE TO FIND IT**

This document does not constitute an offer to sell or the solicitation of an offer to buy any securities, or a solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. In connection with the proposed merger between Duke Energy and Progress Energy, Duke Energy will file with the SEC a Registration Statement on Form S-4 that will include a joint proxy statement of Duke Energy and Progress Energy that also constitutes a prospectus of Duke Energy. Duke Energy and Progress Energy will deliver the joint proxy statement/prospectus to their respective shareholders. **Duke Energy and Progress Energy urge investors and shareholders to read the joint proxy statement/prospectus regarding the proposed merger when it becomes available, as well as other documents filed with the SEC, because they will contain important information.** You may obtain copies of all documents filed with the SEC regarding this transaction, free of charge, at the SEC’s website ([www.sec.gov](http://www.sec.gov)). You may also obtain these documents, free of charge, from Duke Energy’s website ([www.duke-energy.com](http://www.duke-energy.com)) under the heading “Investors” and then under the heading “Financials/SEC Filings.”

**PARTICIPANTS IN THE MERGER SOLICITATION**

Duke Energy, Progress Energy, and their respective directors, executive officers and certain other members of management and employees may be soliciting proxies from Duke Energy and Progress Energy shareholders in favor of the merger and related matters. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of Duke Energy and Progress Energy shareholders in connection with the proposed merger will be set forth in the joint proxy statement/prospectus when it is filed with the SEC. You can find information about Duke Energy’s executive officers and directors in its definitive proxy statement filed with the SEC on March 22, 2010. You can find information about Progress Energy’s executive officers and directors in its definitive proxy statement filed with the SEC on March 31, 2010. Additional information about Duke Energy’s executive officers and directors and Progress Energy’s executive officers and directors can be found in the above-referenced Registration Statement on Form S-4 when it becomes available. You can obtain free copies of these documents from Duke Energy and Progress Energy using the contact information above.

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## PRESENTATION

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### **Operator**

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

At this time for opening remarks I would like to turn a call over to Mr. Stephen De May. Please go ahead, sir.

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### **Stephen De May - Duke Energy Corporation - SVP, IR & Treasury**

Thank you. Good morning, everyone, and welcome to Duke Energy's fourth-quarter and year-end 2010 earnings review.

Leading our discussion today are Jim Rogers, Chairman, President, and Chief Executive Officer, and Lynn Good, Group Executive and Chief Financial Officer. Jim and Lynn will review our fourth-quarter and full-year results, discuss our performance in 2010, provide an update on key strategic matters, and provide financial guidance and our outlook for 2011. After their prepared remarks, Jim and Lynn will take your questions.

Today's discussion will include forward-looking information [and the use] of non-GAAP financial measures. You should refer to the information in our 2009 10-K and other SEC filings concerning factors that could cause future results to differ from this forward-looking information. A reconciliation of non-GAAP financial measures can be found on our website and in today's materials.

Note that the appendix to the presentation materials includes additional disclosures to help you analyze the Company's performance.

With that I will turn the call over to Jim Rogers.

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

Thank you, Stephen. Good morning, everyone, and thank you all for joining us today. We appreciate your interest and investment in Duke Energy.

We are extremely pleased with our financial and operational performance during 2010. We delivered on our commitments. One, by increasing earnings and the dividend; two, by operating our fleet and grid exceptionally well at record levels; three, by continuing our cost control efforts; and four, by delivering excellent customer service.

To begin today's discussion let's take a quick look at the fourth quarter. Then I will spend most of the time reviewing last year's accomplishments.

Today we reported fourth-quarter adjusted diluted earnings per share of \$0.21. That compares to \$0.28 last year. The favorable impacts of rate increases and weather were offset by three factors. One, increased costs related to plant outages. Two, a discretionary donation to the Duke Energy Foundation of \$40 million or \$0.02. And without this pre-funding of the foundation for future years we would have met the consensus for the fourth quarter. Thirdly, the continued impact of customer switching in Ohio.

For the full year we announced adjusted diluted earnings per share of \$1.43, an increase of 17% over last year's \$1.22. Our full-year results fell within the \$1.40 to \$1.45 earnings range we forecasted in the third quarter and significantly above our original guidance of \$1.25 to \$1.30. Even without the favorable weather, which contributed around a net of \$0.13, we would have landed at the high end of our original guidance.

We continued growing our quarterly dividend to shareholders, increasing the per share dividend from \$0.24 to \$0.245, a 2% increase. Our total shareholder return of 9.5% exceeded the 5.7% return of the Philadelphia utilities index.

Despite the demands on our fleet and grid due to extreme weather, we delivered record performance in 2010. Duke's nuclear fleet capacity factor of approximately 95.9% set a new fleet record. This is the 11th consecutive year in which the nuclear fleet exceeded 90%. For 2010, our nuclear fleet had the lowest total operating cost per megawatt hour among domestic fleets for the third straight year, as reported by the Electric Utility Cost Group.

Our non-regulated Midwest coal and gas generation fleet also performed well, generating power at record levels while staying focused on controlling costs and being available. We continued to diligently control costs. Our O&M expenses net of deferrals and cost recovery riders were held flat from 2007 to 2009. In 2010 the modest cost increases we experienced were primarily due to weather-related demands on our system, as well as increased costs associated with Duke Energy retail. The bottom line is we held O&M virtually flat for four years.

We also continued to deliver superior customer service. JD Powers' 2010 Residential Customer Satisfaction Study ranked Duke Energy Carolinas best among large utilities in the South region. And we just learned today that we were ranked second for satisfaction among business customers in the South, moving up from third last year.

Despite challenging record temperatures and high demand, our employees consistently delivered exceptional operating performance and excellent customer service. We are thankful for their dedication and commitment to serving our customers as well as our investors.

We also made progress on our four major fleet modernization projects in 2010. I will discuss these in more detail next.

Turning to slide five you can see the status at Edwardsport, Cliffside, Buck, and Dan River. These projects are the centerpiece of our plan to modernize our fleet, positioning us to deliver efficient, reliable, and increasingly clean power well into the future. In total, these projects represent investments of approximately \$7 billion and about 2,700 MW of capacity.

By 2015 the completion of these projects will enable us to close about 1,200 MW of aging, less efficient coal units and reduce our emissions footprint, better positioning ourselves for more stringent environmental regulations. Buck is scheduled to be in service later this year and Edwardsport, Cliffside, and Dan River are expected to go online in 2012.

In our renewables businesses we put more than 250 MW of wind and solar projects into service in 2010 ending the year with more than 1,000 MW. Each project was completed on time and within budget and is underpinned by long-term power purchase agreements. Additionally, during 2010 we executed more than \$500 million of project financings in our renewable energy portfolio.

Now let me spend a few minutes on the Edwardsport project in Indiana, which is approximately 80% complete as of December 31. It is expected to be in service in 2012.

We continue to work to resolve the issues addressed in our April 2010 filing with the Indiana Commission. In it, we requested approval of an increase in the project's estimated cost from \$2.35 billion to \$2.88 billion. As you know, several groups have opposed the continued use of coal in general and Edwardsport in particular. These groups have raised objections to both the plant and its revised cost estimate.

Last month Duke Energy Indiana filed a motion with the state regulatory commission proposing an updated procedural schedule in order to address these issues. Slide six includes a summary of the key dates in our proposed schedule.

Although estimated construction costs have increased over the original estimates, our IRP analysis confirmed that we need additional capacity and completing the plant is the best solution for our customers. As construction progresses we continue to monitor potential cost pressures with the project primarily related to labor productivity, including the impact of severe winter weather.

In addition, due to delays in the approval of our CWIP riders, AFUDC costs are increasing. However, we continue to aggressively explore appropriate measures to mitigate these cost pressures and deliver the project within our \$2.88 billion cost estimate.

As we step back, it's important to remember the sound reasons for the project. The reasons we started the project continue to exist today. As new environmental regulations are implemented, we expect as much as one-third of US coal plants to shut down by 2020.

Due to the long lead times required to build baseload plants, we cannot wait until our older coal-fired units in Indiana are closed to begin replacing them. We are building the next generation of power plants now to provide reliable energy to our customers for the next 50 years or more.

From an environmental standpoint, Edwardsport is expected to produce 10 times the power of the existing plants with less environmental impact. When completed in 2012, Indiana will have one of the cleanest coal plants ever built and, most importantly, it will meet the long-term growth needs of our customers in the state.

The new 618 MW plant will replace the existing Edwardsport units that date back to the 1940s. It will use coal, an abundant natural resource in the state, which supports local Indiana jobs. We believe Edwardsport is a sound investment in Indiana's energy future.

Next, turning to slide seven, I will update you on our progress in Ohio. You all are aware of the challenges we have experienced there and some of the shorter-term and longer-term strategies we generated in response. For example, the rapid deployment of our competitive retail supplier, Duke Energy Retail, and the recent filing of our market rate offer.

First, let me update you on customer switching, which began in 2009 and began to stabilize in the third quarter of 2010. By year-end, customer switching was running about 65%, only a slight increase from 64% in late September. For the year we recognized about \$0.06 negative earnings impact of net switching year over year.

In response to this competitive pressure Duke Energy Retail has quickly and effectively pursued customers, both inside Duke Energy Ohio's service territory and in other utility service territories within Ohio. We have been pleased with the performance of our retail arm. It has acquired approximately 60% of our total Ohio switched load.

As we think about Ohio in the long term, our generating assets currently serve an essentially regulated function in that they must stand ready to serve our retail customers. However, under the current ESP

structure, we are not adequately compensated for this obligation. In November we proposed a market rate offer to the Ohio Commission which would eliminate some of the asymmetrical risk we now experience under the ESP framework.

Our MRO is designed, first, to give us flexibility to deliver competitive and fair rates to customers; secondly, to provide mechanisms that give us opportunities to earn more adequate returns on our investments in Ohio; and lastly, to provide more long-term clarity for Ohio generation business. We weighed all the options and believe the MRO is the best solution under the current rules. The filing, which is subject to approval of the Public Utilities Commission of Ohio, meets the Senate Bill 221 requirements and positions our generation for the long term.

The statute in Ohio requires the Commission to issue an order on our MRO filing by late February. In the coming weeks we also expect to file a request for approval to transfer the Ohio coal-generating assets to an affiliate of Duke Energy Ohio, providing us more flexibility in the future for our generation.

In essence, we believe the regulatory framework in Ohio is broken. Without provisions in place to assure a competitive and fair return on our investments, it is difficult for us to justify future power plant investments in the state of Ohio. This is not good for Duke Energy or for Ohio. We will continue exploring options to maximize the returns from this business.

On slide eight you will see our 2011 earnings outlook. Assuming normal weather and modest load growth, we expect our 2011 adjusted diluted earnings per share will fall within a range of \$1.35 to \$1.40. This is consistent with our long-term projected growth rate of 4% to 6%, based on 2009 adjusted earnings.

Our growth is anchored by the investments we are making in the regulated business as we continue to modernize our fleet. We also maintain our focus on cost control and strong operational performance.

Now I will turn it over to Lynn for an in-depth look at our financial results in 2002 (sic) as well as our earnings guidance for 2011.

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

Thank you, Jim. Today I will give you a brief overview of our 2010 results then I will discuss our outlook for 2011.

As Jim reported, our adjusted EPS for 2010 was \$1.43, a 17% increase from adjusted EPS of \$1.22 in 2009. This growth was supported by weather, higher rates in the Carolinas, and strong operational performance of our fleet and grid. We experienced favorable weather in both the summer and winter seasons. For the year, our cooling degree days in the Carolinas and Midwest were more than 30% higher than normal and our heating degree days were also favorable to normal by 16% in the Carolinas and 7% in the Midwest. Because of higher generating volumes from our fleet, our O&M costs, net of deferrals and cost recovery riders, were slightly higher than 2009.

We worked diligently during the year to control costs at a level consistent with the prior year. However, the increased costs of plant outages and operating costs of Duke Energy Retail made this objective challenging.

We continue to grow the quarterly dividend from \$0.24 to \$0.245 per share. At the same time, we maintained the strength of our balance sheet and our credit ratings, which were affirmed by both Moody's and S&P in January 2011. More detailed information on the earnings drivers for each of our segments for both the quarter and the year is included in the appendix to this presentation.

The table on slide nine shows the 2010 full-year results for each of our business segments compared to our projected segment EBIT. As shown, each of our three business segments exceeded our original projections.

The strong results of Franchised Electric and Gas compared to plan were principally driven by favorable weather. Our regulated businesses also experienced weather-normalized customer load growth compared to our original expectation of flat load growth for the year. Our weather-normalized customer load increased approximately 2% in 2010, principally driven by a 7% increase in our industrial customer class. Our residential and commercial customer classes were flat for the year.

Even though we have seen some improvement from the 2009 decline in our total customer load, we have not yet returned to 2007 pre-recessionary levels. In fact, we do not project returning to those levels until about 2015.

Commercial Power's results for the year were down about \$100 million compared to the prior year largely due to customer switching in Ohio. However, these results exceeded our original segment projections by more than \$80 million or around 25%. Commercial Power mitigated some of the customer switching pressures in Ohio by effectively deploying Duke Energy Retail, our competitive arm, allowing us to recapture some of the margins lost from switching.

Our 3,600 MW Midwest gas-fired generation fleet also performed well with record volumes and higher margins due principally to favorable weather. Overall, our strong results for the year gave us the ability to make a discretionary \$40 million contribution to the Duke Energy Foundation in the fourth quarter in support of our local communities. This contribution was in addition to \$15 million we had made earlier in the year.

Our adjusted effective tax rate for 2010 was approximately 33%, slightly higher than our projections for the year. This increase was primarily driven by the recently enacted extension of bonus depreciation, which eliminated the manufacturing tax deduction.

In 2011 our focus remains on increasing earnings, growing the dividend, successfully managing our upcoming rate cases, and maintaining a strong balance sheet. Slide 10 shows our key assumptions for 2011 earnings drivers.

As we pointed out, our 2010 adjusted diluted earnings per share of \$1.43 was impacted by favorable weather. Excluding weather, our adjusted results would have been around \$1.30. Remember that our budgets assume that weather will be average or normal.

This slide contains the estimated earnings per share impacts of our segment EBIT projections based upon the midpoint of our \$1.35 to \$1.40 guidance range. Taking \$1.30 as the normalized starting point we expect USFE&G to contribute an incremental \$0.14 toward our 2011 EPS guidance. The first and single largest driver of this growth is expected to come from incremental earnings associated with our capital spending program.

The second driver of FE&G's year-over-year growth is the expected economic expansion. As the economy continues its upward momentum we expect higher volumes in 2011 of about 1%, reflecting modest growth in all customer classes but continuing to be anchored by industrial growth. 2011 is expected to be the second consecutive year of increases in our weather-normalized load.

Our industrial customers tell us they expect growth to continue into 2011 but at a modest level. Specifically, the automotive industry is expecting to continue the recovery that began in 2010. According to recent projections by JD Power, domestic auto sales in 2011 are expected to increase over 2010 levels by approximately 10%.

Our remaining industrial classes are expecting more modest increases. Our industrial load grew at 7% in 2010 over 2009 and we expect an additional 2% increase in 2011.

In 2010, the average number of residential customers increased by about 0.5% over the prior year. Due to continued high unemployment and a difficult housing market, we project residential growth in 2011 will be slightly less than 1% on a weather-normalized basis.

In the commercial sector, office vacancy rates in our principal metropolitan areas remain high, at about 20%. While vacancy rates did stabilize during 2010, we don't expect substantial growth in the commercial sector until vacancy rates decrease and retail sales strengthen. Similar to the residential class, we expect the commercial sector to grow less than 1% in 2011.

Our final FE&G driver for 2011 is increased operating costs due to the Buck plant coming online, an additional planned nuclear outage, increased employee benefit costs, and normal inflationary impacts. These cost increases will be somewhat mitigated by cost reductions from our voluntary separation plan and office consolidation efforts.

Moving to our Commercial Power segment, we expect a negative impact of around \$0.09. Approximately \$0.05 to \$0.06 of this change is expected to come from annualizing the impact of the level of switching in 2010. We do not expect a significant change in switching levels in 2011.

The balance of the year-over-year change in Commercial Power is primarily due to lower expected results from the Midwest gas assets because of lower PJM capacity revenues and lower projected volumes based on more normal weather.

Moving now to our International segment, we expect an approximate \$0.03 increase largely due to higher prices in Brazil.

Finally, the last two drivers are interest and taxes. For 2011 we expect interest expense to be approximately \$100 million higher, due to increased debt balances and higher anticipated interest rates. Our adjusted effective tax rate is projected to be approximately 32% in 2011.

Before I discuss our capital expenditures let me mention our expected operating costs for 2011. Our total company O&M, net of deferrals and cost recovery riders, is projected to grow between 3% and 4% in 2011 compared to \$3.4 billion in 2010. Since 2007 our costs have increased an average annual rate of approximately 2%. We are pleased with our efforts to control our costs and we will remain focused as we anticipate additional cost pressures over the next several years from new plant additions.

Next I will walk you through our capital expenditure projections. As you can see on slide 11, we expect to spend \$4.5 billion to \$5 billion in 2011, which is consistent with the \$4.9 billion spent in 2010 and includes approximately \$1.4 billion for continuation of our system modernization projects. As illustrated on slide 11, we project annual spending of about \$3.5 billion to \$4.3 billion per year for 2012 and 2013, reflecting the wind down in capital spending associated with our modernization program.

Over this period we also anticipate that environmental spending will increase. As you know, the potential compliance costs are subject to considerable uncertainty and will be dependent on finalization of the rules. Environmental regulations pending by the EPA could require us to install additional environmental controls and could result in the retirement of additional, older coal-fired units.

Our system modernization efforts and related committed retirements have positioned us well for these compliance requirements. However, under certain scenarios our capital expenditures for these environmental rules could total approximately \$5 billion over the next 10 years.

While very little environmental capital is expected to be spent in 2011, for planning purposes we have included approximately \$250 million in 2012 and \$500 million in 2013. This level of environmental capital is based upon a reasonable estimate of potential remediation needed for compliance with our current understanding of these anticipated rules. Our expectations primarily involve costs to update some of our current emission controls, mostly in the Carolinas and Indiana.

We expect significant rate-based growth in our regulated utilities as we finalize our modernization projects and look to recover our investments in customer rates. Depending on the timing of rate case activity, our system-wide rate base of approximately \$22 billion has the potential to grow to around \$28 billion by the end of 2013, principally in the Carolinas. Rate base beyond 2013 will be driven by future environmental expenditures and any new nuclear and natural gas generation investments.

Finally, we continue to maintain a level of discretionary growth capital in both our regulated and commercial businesses. These discretionary levels represent capital that has not yet been designated to specific growth projects, such as new renewable investments, smart grid development, or opportunities in our international business. If we do not find projects that meet our return expectations we will not invest this discretionary capital.

Before we move on I would like to update you on our progress in exploring new nuclear development opportunities. In 2013 we anticipate receipt of our commercial operating license for the Lee nuclear station in South Carolina, targeting a potential in-service date in the early 2020s. Last week we finalized an agreement with Jacksonville Electric Authority giving them an option to acquire up to 20% of the Lee station, a demonstration of interest in new nuclear generation in our region.

This agreement is consistent with our measured approach to reduce risk. We continue to pursue legislative frameworks in North Carolina, such as cash CWIP, which is a must-have for us to move forward with new nuclear plant investments. The modest amount of nuclear capital included in the 2011 to 2013 time horizon reflects capital required to continue pursuit of our commercial operating license for Lee.

Consistent with the level of our CapEx in the regulated business we plan to file rate cases in the next few years. Slide 12 reflects our anticipated rate case activity between now and 2013. In 2011 we plan to file in North and South Carolina to update our rates for additional capital investments made since our last rate case filings in 2009.

We are evaluating the potential for filing rate cases in Ohio and Kentucky during 2011. The recently enacted bonus depreciation rules, which I will discuss further in a moment, may diminish the immediate need for these rate cases. We will make that decision later this year.

We also expect to file rate cases in 2012 as we complete our baseload generation facilities. The timing of our filings in Indiana will depend on the outcome of our Edwardsport proceedings.

Slide 13 shows our anticipated operating and investing cash flows for 2011 as well as our anticipated sources of financing. Our estimated 2011 CapEx of around \$5 billion and the approximate \$1.3 billion required to fund the annual dividend are expected to exceed our cash sources. This deficit will be met by new debt issuances of around \$2.2 billion.

Scheduled 2011 debt maturities are relatively low and most of our required funding will be satisfied through utility company and holding company financings. We will also evaluate prefunding of 2012 maturities if market conditions are favorable.

During 2010, we raised approximately \$285 million from our internal equity plans. Because of the strong cash flows in 2010 and the strength of the balance sheet, we do not expect to issue equity through 2013

based upon our current business plans. We are also expecting significant cash flows over time for bonus depreciation, so let me spend a few minutes on bonus depreciation and pension funding, two important discussion topics during this earnings season.

First, bonus depreciation. Many of our current capital expenditure projects, including system modernization and renewable investments, qualify for bonus depreciation. Our best estimate is that over time we could generate cumulative cash benefits between \$1.5 billion and \$3 billion from these provisions. This is a broad range and reflects uncertainty over how the bonus depreciation rules will be applied.

We are waiting for clarification from the US Department of Treasury to determine which projects will qualify for 50% or for 100% bonus depreciation deductions. As we learn more we will refine our estimates and share them with you. Of course, the timing of these cash benefits will depend on future taxable income.

Even though bonus depreciation related to our regulated projects reduces rate base, the cash benefits will decrease our need for financings over time and help to mitigate future customer rate increases.

Now I will turn to pension funding. We expect to make contributions to our pension plans of \$200 million in 2011. In 2010 we contributed \$400 million. We project our plans to be fully funded based upon Pension Protection Act requirements.

In closing, I am very pleased with how we delivered financially during 2010 and we are well positioned to achieve our targeted, long-term, adjusted diluted earnings growth of 4% to 6% and our targeted dividend payout ratio of 65% to 70%. Now I will turn it back over to Jim.

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

Thank you, Lynn. Before I give you all a brief overview of our focus for the upcoming year, let me update you on our pending merger with Progress Energy which we announced on January 10. We are targeting a closing date by year-end.

This combination creates a utility unprecedented in size and scale, but size is not the only consideration. This transaction gives us the ability to more effectively manage the challenges we face today and the transformation now occurring in our industry. This will result in benefits for all our stakeholders, our customers, investors, employees, and the communities we serve.

Specifically, customers in the Carolinas will benefit from fuel and joint dispatch savings day one. All of our customers will benefit over time from cost efficiencies as a consequence of the combination. Our investors will benefit from earnings accretion in year one and the strength of the combined balance sheet and dividend policy.

Slide 15 contains a merger scorecard we will use throughout the year to provide you with updates on the status of our various filings and approvals. We expect to file our initial S-4 with the SEC in March after the Form 10-K is filed. Meetings to conduct shareholder approvals of the merger will be scheduled later in the year after we receive clearance from the SEC on the S-4.

We are also finalizing various state and federal regulatory filings related to the merger and expect to file most of these beginning in mid-March. In addition to state regulatory filings in the Carolinas, we anticipate filing with the Kentucky Commission for Merger Approval.

Our merger teams have begun initial integration planning. To achieve earnings accretion in 2012 we must aggressively and relentlessly identify and pursue cost savings opportunities this year. Clearly, completion of the merger and integration planning with Progress Energy will be top priorities for us in 2011. During this process we will fully recognize the need to stay focused on running the business and delivering for investors, customers, and communities. To do so, we'll maintain exceptional operational performance and efficient cost management.

We delivered on our financial commitments in 2010. We grew our adjusted diluted earnings per share, we increased the dividend, and we maintained the strength of our balance sheet. We plan to continue this momentum and remain focused on our financial and operational performance during 2011.

In our regulated business in 2011 we will file rate cases in up to four of our jurisdictions driving for constructive regulatory outcomes. We will maintain focus on our long-term legislative agenda to effectively reduce the gap between our allowed and earned returns over time. In the short term we are pursuing cash CWIP provisions for new nuclear investments in North Carolina.

Our major construction projects are nearing completion with the first of these projects, the 620 MW Buck combined cycle gas unit expected to come online in 2011. In Indiana, we are managing costs related to Edwardsport and working towards a constructive outcome with the cost increase proceedings.

In our commercial businesses, our attention will be on successfully reaching a workable and constructive outcome with the Ohio Commission on our standard service offer, which would establish generation rates for 2012 and beyond. And Duke Energy Retail will continue to pursue customers and protect margins in Ohio.

We will look for the right opportunities to grow our renewable energy business and our international operations. Finally, we will continue to support the communities in which we operate, helping to drive economic development during these challenging times.

2010 was a very successful year. As we look forward to our merger opportunity, our modernization projects, and our commitment to both customer service and shareholder value, Duke Energy is poised to deliver superior, long-term performance in 2011 and the years beyond. With that let's open up the phone lines for your questions.

## QUESTION AND ANSWER

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### Operator

(Operator Instructions) Dan Eggers, Credit Suisse.

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### Dan Eggers - Credit Suisse - Analyst

Good morning. Jim, one of your other brethren in Ohio has been talking about the idea of potentially reevaluating SP 221 from a legislative perspective later this year. I don't know if you have any thoughts on that issue and if that could potentially reshape how you guys are thinking about pursuing the MRO option.

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

I think it is clear to us that the regulatory model in Ohio is broken. We need to find a way to revise it and to structure it in a way that is fair to both our customers and our investors. As I mentioned earlier, there is asymmetrical risk in Ohio today with respect to the impact it has on our investments and generation there. So I believe the time has come or is coming to make a change in the regulatory regime in Ohio.

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**Dan Eggers - Credit Suisse - Analyst**

And you still believe that the MRO route is the best option or it's just the best option available given the construct of SB 221?

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

I would consider it the best option available given the Commission's position on the ability to get a non-bypassable charge that allows us to earn a fair return on the generation that we are required to stand by and provide, if and when customers come back. In a sense, Dan, customers in Ohio have a free option and, as you know, in commercial markets there are no free options. So we need to get the rules right so that we have an opportunity to earn a fair return on our generation.

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**Dan Eggers - Credit Suisse - Analyst**

Okay. And then I guess there was a call recently and some talk potentially about reevaluating Edwardsport to the sense of just turning it into a CCGT and stopping the full coal-gasification process. Can you share your thoughts on that alternative and kind of the economics of that versus completing the project as designed?

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

Well, I think the call you may be referencing we weren't involved in. I think that was by the Sierra Club.

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**Dan Eggers - Credit Suisse - Analyst**

Correct.

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

And the fact of the matter is we have done detailed analysis of a variety of options from shutting it down, to basically continuing it, versus converting it into a combined cycle plant. And based on our analysis, the best answer for customers is to complete the plant and we are on that track. We have done updated IRPs and virtually every one of them continue to say we need the capacity and that this is the best option for customers going forward.

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**Dan Eggers - Credit Suisse - Analyst**

Okay. And just one last question just on the industrial demand outlook for 2011, the 2% growth. It seems like a lot of that 2% growth has already occurred just in the momentum of how 2010 played through.

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How would you handicap the likelihood of demand looking better than where you guys are for the year? And are you getting indications from your customers that would suggest 2% is the right number or is this more in the range of being conservative today?

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

You know, Dan, it will be interesting. I think we will have more to say on that at the end of the first and second quarter. We think it's a reasonable estimate based on what we believe is happening in our territory as well as the discussion with our industrial customers, but more to come.

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**Dan Eggers - Credit Suisse - Analyst**

Okay. Thank you, guys.

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**Operator**

Jonathan Arnold, Deutsche Bank.

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**Jonathan Arnold - Deutsche Bank - Analyst**

Hi, good morning. A couple of questions. My first was in the third quarter you had numbers that implied about \$0.13 above normal for weather through the third quarter and then another \$0.03 or so in the fourth quarter. But your annual factor show that as \$0.13 but talk about it being net of mechanism. Can you just explain how that works?

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

Jonathan, what we did on the slide, I guess slide 10, is we actually netted the weather impact with the impact of incentive -- short-term and incentive payments that put us from target to maximum, because as we look forward we, of course, would plan that our incentives would be paid at a target level. So that difference between the \$0.16 of weather that you are referencing and the \$0.13 is the incentive.

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**Jonathan Arnold - Deutsche Bank - Analyst**

Then the incentives are related to weather sales or these are --?

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

Well, related to the fact that we went to maximum on our incentive payout and that was largely driven by weather.

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**Jonathan Arnold - Deutsche Bank - Analyst**

Oh, these are employee incentives? Sorry for not putting those together.

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And then how have you treated weather in 2011? Because you obviously have had this very strong start to the first quarter I would guess.

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

You are reflecting on that Northeastern weather, Jonathan?

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**Jonathan Arnold - Deutsche Bank - Analyst**

Something like that.

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

We have had a little bit of that down here.

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

We always plan for normal weather, which I think is the only thing to plan for, and so that is the planning assumption going into the year. And we will update on how that looks as we progress.

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**Jonathan Arnold - Deutsche Bank - Analyst**

So the guidance is weather normal for the year?

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

It is, yes.

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**Jonathan Arnold - Deutsche Bank - Analyst**

Okay, thank you.

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

And Jonathan, the other important point is, as you remember, last year we started out at a \$1.25 and \$1.30 and as the weather kept improving and we were holding our costs down we increased our guidance, twice actually, and ultimately to the \$1.45. We will probably do the same thing if we are blessed to have the same weather this year as we did last year.

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**Jonathan Arnold - Deutsche Bank - Analyst**

Okay, thank you for that. On a related guidance topic I was wondering if you could provide some more granularity around the \$0.14 growth you expect out of the utilities, because you say that net that costs are

likely to be higher. On my math 1% sales growth maybe adds \$0.02 or \$0.03 at best of a \$10-ish billion revenue number.

So that kind of -- and you did say that the modernization program would be the largest piece of this. And it seems to imply a couple hundred million or more of EBIT coming out of the program. So can you talk through what specifically are the mechanisms that provide those revenues in 2011?

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

Yes, and Jonathan you need to think about a couple of things. Allowance for funds would be a part of that as one of the ways we recognize earnings for capital investment that is not yet in rates. Then we also have riders for Edwardsport, we have CWIP cash coming in to the picture in 2011 for Cliffside. So it's Cliffside, it's Edwardsport, it's Buck and Dan River.

We also have investments in our nuclear fleet. We have smart grid. We have energy efficiency. It's all of the programs that generate rider or allowance for funds revenue.

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**Jonathan Arnold - Deutsche Bank - Analyst**

And the -- I read the slide that the AFUDC might have been in the other category, but --.

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

It is not. It's listed as other information but it's actually reflected in FE&G.

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**Jonathan Arnold - Deutsche Bank - Analyst**

That is helpful, thank you then. Just finally, I didn't hear you specifically reiterate but I am wondering if you are reiterating the 4% to 6% growth target post merger off the 2011 base.

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

Yes, that is our long-term growth aspiration, Jonathan, and we would be using 2011 as the base for the new company.

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**Jonathan Arnold - Deutsche Bank - Analyst**

Long-term meaning?

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

What do you think long-term should mean?

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**Jonathan Arnold - Deutsche Bank - Analyst**

I am not saying it.

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

That is a really good point. Jonathan, I make the point of long term because it will vary from year to year as we have rate increases coming into effect, etc. And I know there is a lot of interest in us giving more specifics around 2012.

We are not prepared to give more specifics around 2012 because all the activities that we have to accomplish here in 2011 including rate cases, MRO, closing of the merger, etc. But 4% to 6% is a very good planning assumption for us as we look forward.

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**Jonathan Arnold - Deutsche Bank - Analyst**

Thank you for that. Thank you, Lynn. Thank you, Jim.

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

Thank you.

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**Operator**

[Leslie Rich], JPMorgan.

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**Leslie Rich - JPMorgan - Analyst**

Thank you. I wondered if you could just touch on the International segment for a minute. You have an EBIT projection growing 13% and wondered if you could talk about the drivers of that.

I know you mentioned increased pricing in Brazil; is that driven by an inflation adjustment? And looking forward what is your PPA status and sort of the earnings growth potential there? Because I see you are not really investing all that much capital in that area.

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

Good questions, Leslie. We have actually some repricing in Brazil impacting 2011 where we run a very contracted business in Brazil but have the opportunity to update prices over time. And so the single largest driver year-over-year is updating pricing in Brazil.

We do expect our national methanol entity to continue to contribute about 20% of the earnings. That would be the other point that I would make.

In terms of capital growth, we continue to designate capital. We have a few projects underway in our International business, one of which -- or a couple of which we would expect to come online in 2011. But that capital growth will really depend upon our ability to find projects that meet our risk appetite and return expectations.

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**Leslie Rich - JPMorgan - Analyst**

So is that recontracting in Brazil sort of a one-time thing or that is an annual repricing?

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

There will be an annual feel to it, Leslie, because we have contracting ranges or tenors between five and seven years in Brazil, some of them longer than that. And we will have the benefit of inflation pricing on those contracts. Inflation starts to take off in Brazil we have inflation protection.

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**Leslie Rich - JPMorgan - Analyst**

And then separately, if you could just discuss the strategic rationale between -- for filing to separate your Ohio generation into an affiliate?

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

I think, Leslie, the thought here is it gives us flexibility. It's consistent with the MRO because the way the MRO works over time you are moving toward -- you start with a blend of your existing generation and market and over time it becomes increasing market. So at the end of the MRO period your generation is free from being committed to the load.

And so it's very important for us to move it out from under the regulated utilities so we have the flexibility to make decisions about what to do with those assets going forward.

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**Leslie Rich - JPMorgan - Analyst**

Okay, thank you.

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**Operator**

Brian Chin, Citigroup.

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**Brian Chin - Citigroup - Analyst**

Good morning. Jumping off a little bit on Leslie's last question, when you mentioned, Jim, that the transferring of the coal-generating assets gives you a little bit more flexibility I could take that one of two ways.

I could think of it in terms of flexibility to manage your customer load; you don't have that pull of requirement. But then I could also think of it as flexibility strategically to potentially separate out that generation fleet into a more merchant affiliate and do something more strategically with that business.

So when you think about flexibility, the term flexibility, are you thinking about it in both senses of the word? Are you thinking about it more in one type or another? Can you just give a little bit more clarity on what you mean by that flexibility?

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

Sure. Brian, a good question. Let me start out by making the point, if we had a bias we would prefer to have our assets dedicated to the Ohio load and earn a fair return on that investment, like a 10%, 10.5%, or 11% return on equity. That is our first choice and we have been clear with the Commission that was our first choice.

But if they are not going to allow us to earn that type of return, then we don't want the assets dedicated, first, and that is why we selected MRO. And second, we want to get them out because the flexibility we are seeking is primarily at that point to make a decision with respect to whether we want to be in the merchant business or we want to sell the assets. I would tell you my bias today is not to be in the merchant business, particularly in PJM.

But again, the timing, the decision about that will be something that will come in the future. The timing of the decision will be driven by the movement in the market and eventually the price of power in PJM is going to rise. Even if gas prices are flat, over time demand will come back as the economy recovers.

And secondly, and this is a fact that has been hard to quantify for many, as you could see a retirement of the old coal plants as a consequence of these stricter, newer regulations on coal plants that that is going to translate into upward pressure on the price for power in PJM. So we don't have -- our bias is to dedicate, to kind of summarize this, at a regulated return, but absent that is to free it and at the appropriate time make a decision.

And our bias at the current time is not to be a merchant player and pursue that strategy but to exit it. That is our current bias, but we won't make that decision until we have clearer facts in future periods.

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**Brian Chin - Citigroup - Analyst**

Okay, very helpful. Then one separate question on your guidance. On slide 19 you make the point that you are looking at annualized impact of 2010 switching levels in Ohio. Am I to assume from that phrase that you are assuming that you are only getting the annualized impact of the 2010 switching levels, but you are not assuming any further switching since the switching appears to have leveled out in your 2011 numbers?

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

Brian, we have a modest amount of increased switching, but the majority of that driver is annualization of what we experienced in 2010. And it's because we have seen stabilization.

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**Brian Chin - Citigroup - Analyst**

Okay. And then lastly, on the stabilization what do you think has caused that to levelize out at such a flat rate?

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

I think it's a reflection of the way switching occurred, Brian. So the more savvy energy users, the industrials and the commercial customers, switched first and now we are into the residential class. And, frankly, we have not seen a lot of government aggregation and our residential customers have proved to be sticky. We will use that technical term.

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**Brian Chin - Citigroup - Analyst**

Great, very helpful. Thank you.

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**Operator**

Steve Fleishman, Bank of America.

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**Steve Fleishman - BofA Merrill Lynch - Analyst**

Hi, good morning. On the -- just a quick question on the bonus depreciation in the 2011 cash flow forecast that you have included your current estimate.

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

Yes.

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**Steve Fleishman - BofA Merrill Lynch - Analyst**

In the deferred taxes, okay. When you talk about rate base, I think you said growing from \$22 billion to \$28 million, are you encompassing the impact of the deferred taxes and that from bonus depreciation?

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

We are.

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**Steve Fleishman - BofA Merrill Lynch - Analyst**

Okay, so that is a good net number of all this?

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

Yes. And Steve, what I would say is the low end of the range would be included in that rate base adjustment. So when I talked about cash flow benefits of the \$1.5 billion to \$3 billion we used the low end of the range for an estimate of rate base.

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**Steve Fleishman - BofA Merrill Lynch - Analyst**

I am sorry, I am not sure what you mean by that.

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

So let me try again. So we have a range of expectation of what can happen on bonus depreciation, if things qualify at a level of 50% or things qualify at a level of 100%. And there would be an associated impact to deferred income taxes at those two levels.

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**Steve Fleishman - BofA Merrill Lynch - Analyst**

Okay, got you. So you are using the low end when you talk about the rate base forecast?

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

That is correct.

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**Steve Fleishman - BofA Merrill Lynch - Analyst**

Got you. Okay, thank you.

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**Operator**

Greg Gordon, Morgan Stanley.

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**Greg Gordon - Morgan Stanley - Analyst**

Thanks, good morning. Two questions, one sort of in the weeds and a little bit follow on to the prior question. It looks like you have also tweaked your CapEx budget a bit, at least relative to the last specific disclosure. The 2012 CapEx range looks like it is \$300 million lower on the low end and \$500 million or \$600 million lower on the high end than you last disclosed.

Should I presume that that is because -- I remember you saying that you had sort of a placeholder for discretionary CapEx in there. Should I presume that that is now gone or is it a lot more puts and takes that go into that?

And then the second question is I presume that is also factored into your rate base growth update?

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

The answer to the question is, Greg, we do refine CapEx as we get closer in and as 2011 and 2012 develop we get more specific on the way we are thinking about it. We have made some adjustments on discretionary. We have also reflected environmental for the first time.

So it's a combination of being closer in and more refined in our estimates. And the revised estimates are what are implied in the rate base numbers we just talked about.

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**Greg Gordon - Morgan Stanley - Analyst**

Great. And on the second question relates to the growth rate aspiration. I presume that the growth rate aspiration is predicated on the assumption that the merger does in fact close and sort of you are looking at the opportunities for the Company pro forma post 2011 as opposed to stand-alone post 2011. Would you support that growth rate?

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

Greg, it's a good question. What I would say is that the merger really positions us more solidly within the growth range of 4% to 6%.

As you know, we have got some weakness in Ohio. We have repricing that is going to happen as a result of the MRO in 2012, so on a stand-alone basis we would have been trending in the lower end of that range. So the merger gives us an opportunity to have greater confidence and position us more solidly within the range.

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**Greg Gordon - Morgan Stanley - Analyst**

Thank you.

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

Thank you.

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**Operator**

Michael Lapidès, Goldman Sachs.

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**Michael Lapidès - Goldman Sachs - Analyst**

Congrats on a great quarter and a great year. I am looking at slide 24 and it's the estimated and actual ROEs at your various regulated businesses. They only -- I guess historically Duke had been an industry leader in terms of actually earning at or even in some cases better than the authorized ROE levels. But it looks like your 2011 outlook is kind of showing that you expect to under earn in a number of the jurisdictions, almost a little bit of a mean reversion towards what kind of most of your peers actually do in the industry.

Just curious, is lag becoming more of a long-term challenge than it historically had been for Duke? And what are the items or steps you guys can take to help mitigate lag?

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**Lynn Good - Duke Energy Corporation - Group Executive & CFO**

I will take a shot and I am sure Jim has some comments as well. I think 2011 is an interesting year, Michael, in that we have no new rate cases coming in. And so we will have inflation impacts, we also have a slower load growth assumption than we might have had several years ago that would contribute to lower returns.

But we believe over time as we put these rate cases into effect and as we continue to work on legislative initiatives in our jurisdictions that we have an aspiration of closing that gap. We have targeted to be within 75 basis points in the Carolinas and I think we will be pretty close to that. So I think it's a combination of factors that are affecting us.

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

No, I think that is correct. Of course, we probably have the largest building program in the country. I mean we are building two advanced coal plants, we are building two combined cycle plants, and the combination of all that -- and it gives us AFUDC which helps in terms of closing the gap. But at the end of the day what we recognize we need for a variety of reasons is to move toward formula rates.

This is a good answer for investors, it's a good answer for consumers, because, as I mentioned a few moments ago, we are in a period of rising prices over the next several decades. Formula rates allows us to smooth out those cost increases.

In the interim what we would do, because it takes awhile to get legislative changes, we are looking for riders for instance. Environmental riders would be very important to achieve in the states we operate in. In fact, we have those riders in Indiana and Kentucky today as we spend more money on retrofits or meeting more stringent environmental requirements.

So I think it's a combination long term of riders and trackers around specific items and morphing over time into formula rates. That would be the vision and certainly that would be the aspiration we have going forward.

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**Michael Lapedes - Goldman Sachs - Analyst**

Okay, thank you.

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

Thank you.

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**Operator**

That concludes the question-and-answer session today. At this time, Mr. Stephen De May, I would like to turn the conference over to you for any additional or closing remarks.

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**Stephen De May - Duke Energy Corporation - SVP, IR & Treasury**

Thank you and thank you, everyone, for joining us today. As always, the Investor Relations team is available for your follow-up questions. Thank you and have a good day.

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**Operator**

That concludes today's conference. Thank you for your participation.

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