

CORPORATE PARTICIPANTS**Greg Ebel***Duke Energy Corporation - VP, Investor & Shareholder Relations***Rick Priory***Duke Energy Corporation – CEO & Chairman***Robert Brace***Duke Energy Corporation – Executive VP & CFO***Rob Ladd***Duke Energy Corporation - President, Duke Energy North America***Fred Fowler***Duke Energy Corporation – President & COO***Ruth Shaw***Duke Energy Corporation - President, Duke Power***David Hauser***Duke Energy Corporation – Senior VP & Corporate Treasurer***CONFERENCE CALL PARTICIPANTS****Ashar Khan***Foresight Investment - Analyst***Dan Eggers***Credit Suisse First Boston - Analyst***Kit Konolige***Morgan Stanley - Analyst***Paul Patterson***Glen Rock Associates - Analyst***James Pringle***Giovine Capital Group. - Analyst***Maureen Howe***RBC Capital Markets – Analyst***Ali Agha***Burnham Securities – Analyst***Jay Dobson***Deutsche Bank - Analyst***Carol Coale***Prudential Securities - Analyst***PRESENTATION****Operator**

Good day, everyone and welcome to the Duke Energy third quarter earnings conference call. This call is being recorded.

At this time for opening remarks, I would like to turn the conference over to the Vice President of Investor and Shareholder Relations for Duke Energy, Mr. Greg Ebel. Mr. Ebel, please go ahead sir.

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

Good morning and thank you for joining us. With me today are Duke Energy's CEO Rick Priory, our COO Fred Fowler, CFO Robert Brace, Rob Ladd, who is President of Duke Energy North America and David Hauser, our corporate Treasurer. Today we will provide you with an overview of Duke Energy's third quarter results. This call is being webcast on our website at www.duke-energy.com and a copy of the slides is available for download in the investor section of our website. Before we begin, I'd like to review 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 the securities laws. Actual results may materially differ from those discussed in these forward-looking statements, and you should refer to the additional information contained in our SEC filings concerning factors that could cause those results to be different than contemplated in today's discussion.

In addition, today's discussion may include certain non-GAAP financial measures as defined under SEC Regulation G. In such an event, a reconciliation of those measures to the most directly comparable GAAP measures will be made available on our investor relations website at www.duke-energy.com/decorp/gaap.html. We will begin today's call with our prepared remarks and then open the lines to take your questions. I will now turn the call over to Mr. Priory.

Rick Priory - Duke Energy Corporation - CEO & Chairman & Chairman

Good morning. Thanks for being with us. Condolences to our friends in New York on the World Series outcome. The Yankees played hard!

I'm a big baseball fan, and many years ago had the chance to try out for the other New York team -- the Mets. I didn't win a spot on that team -- but I did win a lifelong zest for the thrill of competition!

I'm retiring this week from another wonderful game, and it's with mixed feelings that I host my last earnings conference call with you. I have taken great pride in reporting on the progress of Duke Energy -- even during the challenging times we've faced. I've done my best to address your tough questions with the degree of candor and detail that all of our investors deserve. This group isn't known for throwing softballs, but I've enjoyed the calls, one-on-ones and conferences!

Duke Energy is a great company that has been greatly challenged of late. I'm looking forward to watching its comeback season -- not from the pitcher's mound, but as a devoted fan and owner cheering from the bleachers.

I know this is the quarter you've been waiting to hear about -- so let's get right to it:

You were expecting to see a great third quarter from us -- and we were expecting to deliver one. We didn't get to where we had hoped to be, as you've seen from the financials we released this morning. Energy markets are a tough place to play right now. But throughout the third quarter, Duke Energy has worked hard to strengthen our business and resize it to market realities. We've made good headway -- and we have more work to do.

For the third quarter, we reported GAAP earnings of 5 cents per share, or \$49 million, in net income. Ongoing earnings per share for the quarter were 35 cents, excluding special items.

Duke Energy Gas Transmission, Duke Power, Field Services and Duke Energy International generally performed well, even in the face of challenging market dynamics, a weak economy and less than desirable weather conditions. Robert will run through the numbers with you shortly.

DENA continues to face challenges and adding to the problem of over-capacity in the industry, was adversely affected by mild weather and low regional spark spreads in the third quarter. Rob Ladd will drill through some of the specific aspects of the third quarter and the actions we're taking, as well as our outlook for the fourth quarter.

Lower than expected results at DENA will cause full-year EPS to fall below our previous guidance and your current expectations. Today we project full-year EPS to be in the range of \$1.20 to \$1.25 per share, excluding special items and the cumulative effect of accounting changes.

As you know, we have focused relentlessly on shoring up our balance sheet:

- For the year, we've generated gross proceeds of \$1.9 billion from the sale of non-strategic assets.
- We have reduced nearly \$1.7 billion of net debt and trust preferred securities for the first nine months, and by year-end we expect to meet our target of \$1.8 billion in debt reduction at Duke Energy.
- We have significantly reduced our capital spending to \$2.8 billion -- \$400 million lower than our original forecast of \$3.2 billion.
- Our liquidity position is strong, with \$1.8 billion in cash and cash equivalents on hand at September 30th.

We are dramatically reducing our cost structure in response to the industry downturn. This quarter we're implementing labor reductions and other expense reductions that will yield more than \$200 million in annual pre-tax savings, beginning in 2004. We're reducing our workforce further, by about 8 percent. The majority of those reductions will be complete by year-end, and you'll note that we took severance charges totaling \$105 million, or 8 cents a share, for the third quarter.

I want to point out that our rigorous cost management efforts began well before this latest round of cuts. We have steadily been pursuing savings and efficiencies across every line of our organization, and since fourth quarter 2002, we have implemented approximately \$400 million in total annualized cost reductions. We have significantly scaled back our total workforce, and when fully implemented, we expect employee reductions to total approximately 3,400. These reductions include 1,500 personnel

associated with our workforce reduction in 2002 and an additional 1,900 employees related to the cost reduction plan announced today.

We have taken disciplined action to reposition Duke Energy going forward. The work hasn't been fun or easy. But the best medicine isn't supposed to taste good – it's supposed to make you feel better. I do believe we're on the road to recovery, but market signals tell us it won't be a short road. As a company, we believe deeply in the value of our product and our obligation to serve employees, customers and shareholders. We'll adhere to the regimen of bitter medicine and tough decisions as long as it takes to restore the health of our company.

I know that my successor, Paul Anderson, is committed to that same course, and he'll do a great job in leading Duke Energy forward. Now I know you're eager to hear about our plans for 2004. Paul will be reviewing plans for 2004 over the next few months and I suspect he'll be in a position to share his thoughts with you in early 2004.

I am optimistic about next year. We do expect to see improvements generated from the cost reduction initiative I just mentioned, and from the continued reduction of debt on our balance sheet. We will continue to work tirelessly to wring all of the costs we can out of our operations. Of course given that Paul takes the helm on November 1st, to say more about 2004 at this time would be inappropriate. So we won't be giving you any specifics today regarding 2004.

I began with a baseball analogy, so I'll close that way as well: I am immensely proud to have worn the Duke Energy jersey for nearly 28 years, and to be a part of the best team in the energy league.

In a few moments we will address your questions, but I'll thank you in advance for your interest in Duke Energy – and for making my life interesting, quarter after quarter!

With that, let me turn things over to Robert...

Robert Brace - Duke Energy Corporation – Executive VP & CFO

Duke Energy reported earnings of 5 cents per share for the third quarter of 2003, which included 30 cents in special items which we will cover in more detail in just a minute. Earnings for the third quarter of 2002 were 27 cents per share and included charges for special items totaling 24 cents per share.

On the positive side. Most of our business segments delivered solid results for the quarter and the year to date. These businesses include both of our regulated operations – Franchised Electric and Natural Gas Transmission – and two of our unregulated businesses – Field Services and International Energy.

On the downside. Weather had a negative impact on power sales in our Franchised Electric business as well as DENA. Weather in the Carolinas, as measured in cooling degree days, was 16% below normal this quarter and 21% below actual cooling degree days for the third quarter last year. And mild summer weather across most of the U.S. reduced demand for power from our merchant generation fleet.

DENA continues to suffer from the over-supply of merchant generation and low spark spreads which have precluded many of our facilities from generating cost-effective power. For the most part, our Western facilities have been running as planned this summer while our facilities in the East have not run as much as expected. Our facilities in NEPOOL are called to dispatch more often than the other regions in the East.

During the quarter, DENA took a \$254 million charge for goodwill impairment primarily related to the reduced scope and scale of Duke Energy Trading & Marketing's business and the continued deterioration of market conditions affecting DENA's operations.

As a part of our cost reduction efforts across the company, Duke Energy incurred approximately \$105 million in severance costs during the quarter. And you can expect additional severance costs in the fourth quarter which could be about \$30 million. Annual cost savings related to the workforce reduction will be at least \$150 million. I'll go into more detail later on all of our expected cost savings.

Duke Energy reported higher interest expense in the quarter primarily as a result of the reclassification of the trust preferred securities of \$24 million from minority interest to interest expense,

lower capitalized interest of \$33 million as compared with last year's third quarter and a \$16 million write-off of capitalized debt costs resulting from a settlement with the South Carolina utility commission.

Lower income taxes resulted from a \$52 million tax benefit which was previously unavailable to the company. This benefit is associated with the goodwill impairment taken in the fourth quarter of 2002 related to our European trading business.

Taking into consideration the lackluster earnings from DENA's ongoing operations, we expect 2003 annual earnings per share for Duke Energy will fall short of our original guidance. As Rick mentioned, we now anticipate earnings per share to be in the range of \$1.20 to \$1.25 per share, before special items and cumulative effect of accounting changes.

Now let me turn to the special items that occurred during the quarter.

We recorded a number of special items in the quarter which totaled 30 cents per share.

Results for Franchised Electric were negatively affected by a settlement with the South Carolina Public Service Commission for \$30 million, or 2 cents per share. An additional \$16 million or 1 cent per share, non-cash charge to interest expense was also included in the settlement. Franchised Electric also recorded a severance charge of \$46 million, or 3 cents per share, during the quarter.

Gains on asset sales benefited results at Natural Gas Transmission by \$30 million, or 2 cents per share, and were partially offset by severance charges totaling \$18 million, or 1 cent per share.

The settlement with the CFTC lowered DENA's segment EBIT by \$17 million, or 2 cents per share. This amount is net of minority interest and is not deductible for income tax purposes.

Net losses on asset sales at DENA reduced EBIT by \$81 million in EBIT, or 5 cents per share.

And as I previously mentioned, the non-cash goodwill impairment at DENA totaled \$254 million, or 18 cents per share.

Severance costs for DENA, DEI and corporate-level employees totaled \$41 million, or 4 cents per share.

Duke Capital Partners wrote down assets held for sale by \$23 million, or 2 cents per share.

And lastly, the previously mentioned tax benefit associated with last December's goodwill write-off at DEI contributed \$52 million, or 6 cents per share.

For the third quarter 2003, Duke Energy reported consolidated earnings before interest and taxes of \$352 million.

During the third quarter, Franchised Electric increased its North Carolina Clean Air amortization expense by \$35 million for a total of \$53 million. We may also increase the amortization for the fourth quarter by a similar amount. Assuming we take this additional amortization expense, Franchised Electric's EBIT for the year will likely be between \$1.5 billion and \$1.6 billion.

Natural Gas Transmission continues to deliver solid results and expects to meet its annual EBIT target of \$1.2 billion despite foregone earnings associated with certain asset divestitures which occurred during the year.

Of our unregulated businesses, both Field Services and International Energy continued to deliver solid results in the third quarter.

Field Services realized strong margins from its processing business, especially on percent-of-proceeds contracts which increased nearly \$50 million over last year's third quarter. And Field Services continued to control operating costs during the quarter which were about \$20 million lower than last year.

Natural gas liquids prices continued to improve over the last year from 39 cents in the third quarter of 2002 to 49 cents in the third quarter this year. NGLs so far in the fourth quarter have averaged about 53 cents per gallon and we continue to see improvements in the frac spread as well. The average frac spread was 82 cents per MMBtu in the third quarter and we've seen strengthening of the average frac spread in the region of \$1.50 in October.

Also during the quarter, Field Services made an \$87 million cash payment to Duke Energy related to the settlement of an intercompany obligation. This payment demonstrates the strong cash flow position at Field Services.

Field Services continues to post successes in adding minimum fee clauses to its keep-whole contracts in response to weak frac spread pricing environments.

International Energy's ongoing operations produced favorable results for the quarter. Positive results from the Latin American and European operations offset foregone earnings associated with the sale of PJP earlier in the year and a \$3 million severance charge during the quarter. Third quarter 2003 results also included a \$7 million charge for environmental reserves related to prior periods. Last year's quarterly results included \$91 million in charges for impairments and write-downs.

Field Services and International Energy remain on track to reach their segment EBIT goal for the year of \$200 million and \$250 million, respectively.

Unfortunately, segment EBIT results from DENA's merchant generation portfolio substantially offset the good results from our other businesses. We'll cover the results at DENA in more detail shortly.

The company continues to make solid progress on its goals related to asset sales, debt reduction and controlling costs.

Through the first nine months of 2003, we reduced our overall net debt and trust preferred position by almost \$1.7 billion at Duke Energy. This figure includes a year-to-date increase in cash of \$894 million.

Year-to-date reductions in long-term debt, trust preferred securities and the net pay down of short-term debt reduced debt by \$3.3 billion. Total long-term debt issued over the last nine months totaled \$2.8 billion. Debt associated with the sales of Empire Pipeline and PJP also contributed to the reduction in debt for \$317 million.

I'd also like to point out that at the end of last week we completed the redemption of \$500 million in bonds which resulted in the

reduction of long-term debt with a reduction in cash. We have also reduced commercial paper by approximately \$130 million since the end of September. Additional debt reductions in the fourth quarter will include approximately \$300 million in maturities due primarily at Duke Capital and Westcoast Energy.

In order to fully reconcile to our net debt position on the balance sheet as of the end of the third quarter, we must include changes to our foreign debt balances that result from foreign currency fluctuations. Over the last nine months, foreign currencies – primarily the Canadian dollar – improved against the US dollar and as such the debt balances were adjusted to reflect the currency translation to US dollars. These translation adjustments added about \$775 million to our debt compared to year end 2002. However, the local currency obligations remain unchanged and our Canadian operations generate sufficient cash flow to pay the Canadian debt as it matures.

At Duke Capital, net debt has been reduced by \$3 billion excluding the impact of currency changes.

On the subject of capex, we've tightened the belt another notch and now expect our annual capital expenditures to be about \$2.8 billion. This is a \$400 million reduction from our original forecast of \$3.2 billion. Most of the business units trimmed their capex plans to reach this goal.

And for the first nine months of 2003 we have announced or closed asset sales in excess of \$1.9 billion in gross proceeds.

We continue to find attractive opportunities to divest of certain non-core, non-strategic assets. With the announcement of the sale of Pacific Northern Gas in British Columbia we have announced a total of \$1.9 billion in asset sales and closed on more than \$1.6 billion through the third quarter. As of today, we've closed on \$1.8 billion of asset sales – this is three times our original target for 2003.

We may have additional sales in the fourth quarter but I would expect these to be relatively small transactions. For example, you may be aware that we have been looking at exiting our European gas trading business. I would expect we'd be able to make some announcement on this transaction shortly.

The after-tax proceeds associated with these sales are approximately \$1.65 billion.

For 2003, the impact of foregone EBIT is expected to be in the neighborhood of \$150 million. The annualized impact on EBIT will be approximately \$235 million.

Next I'd like to briefly review Duke Energy's liquidity position.

We reduced our total credit capacity from \$4.7 billion at the end of the second quarter to \$3.5 billion at the end of the third quarter. Due to the lower utilization of our commercial paper programs, we reduced our credit facilities at both Duke Energy and Duke Capital – more specifically, we are maintaining the multi-year credit facilities and let both of the 364-day facilities at Duke Energy and Duke Capital expire in August.

And our outstanding balances against these facilities have gone down slightly – approximately \$200 million – to \$1.4 billion at the end of the quarter.

At September 30, we had unused capacity of \$2.1 billion and cash and cash equivalents on hand totaling \$1.8 billion.

As of October 27th, the outstanding commercial paper balance at Duke Energy was \$150 million and \$178 million at Duke Capital.

At Duke Energy North America, total gross margin realized in the first nine months of 2003 amounted to \$513 million. Low-risk gross margin totaled approximately \$448 million for the year to date. "Other Sources" of gross margin did not produce favorable results during the quarter due to mild summer weather and low power prices. For the year to date, Other Sources of gross margin totaled \$65 million.

We expect to realize about \$149 million in low-risk gross margin in the fourth quarter. This will bring us to the total \$600 million we originally expected for the year from our hedged generation sales, ancillary services and must-run revenues.

Offsetting total gross margin were operating expenses totaling \$508 million for depreciation, operating and maintenance, G&A and minority interest expenses.

Total operating expenses for 2003 are now expected to be about \$732 million and clearly demonstrate the continued focus on reducing costs across the DENA organization.

Obviously given these third quarter results, \$200 million in EBIT, before special items, is well out of reach for DENA this year. We now expect annual ongoing results to be a loss of \$70 million, excluding special items.

Now I'd like to turn the call over to Rob Ladd who will review DENA's results for the third quarter and his expectations for the fourth quarter.

Rob Ladd - Duke Energy Corporation - President, Duke Energy North America

Thank you, Robert. Good morning to everyone.

I will walk you through the third quarter results for Duke Energy North America, which includes our 60% interest in Duke Energy Trading & Marketing.

The reported EBIT for the third quarter was a loss of \$411 million which includes the impact from the special items that Robert covered earlier -- goodwill impairment of \$254 million, net losses on pending asset sales and assets held for sale of \$81 million, the CFTC settlement of \$17 million and \$5 million of severance costs.

EBIT before special items was a loss of \$54 million. There were a number of causes for this loss which are highlighted on the next slide.

This slide shows some of the more significant factors which caused our actual results to be lower than those we anticipated earlier in the year.

First, we incurred a \$50 million loss due to negative MTM movements and credit reserves associated with a few power tolls in DETM. Approximately half of the loss was as a result of the Northwestern Energy bankruptcy.

Second, due to a mild summer in most of the country, we experienced lower production and lower spark spreads. We estimate that impacted gross margin by \$40 to \$60 million.

Third, we have been reducing scale and scope of DETM and DENA which has impacted our gas transportation and storage business. We estimate an additional \$20 to \$30 million impact on profitability for the quarter.

When you combine the impact of these three items, our EBIT for the quarter was adversely affected by over \$100 million.

Let me move to the plant production levels and spark spreads.

In the quarter, our generation fleet produced 9.1 million MW hours versus an original estimate of 10.9 million MW hours, or a 1.8 million MW hour shortfall.

The average spark spread, including the benefit of hedges, was approximately \$18.46 per MW hour versus an original estimate of approximately \$20.82 or a \$2.36 shortfall. For the balance of 2003 we expect continued challenged market conditions.

For the fourth quarter, we are estimating an ongoing EBIT loss of \$75 million which will bring the full year EBIT loss to approximately \$70 million before special items.

Given this negative outlook, we have taken additional steps to aggressively take more costs out of the business. These are beyond those already achieved so far this year.

Also, effective November 1st, we are merging our Energy Marketing and Energy Management businesses together and forming integrated customer focused regional teams. We believe that the merger of our marketing and trading personnel, together with a continued focus on the customer, will improve profitability and reduce our long-term earnings volatility.

Given the mild weather and lower sparks in the 3rd quarter, you won't be surprised to hear that we have not improved our low risk gross margin for 2004. Low risk gross margin for 2004 is in the low \$300 million range. However, you should be aware of our progress in signing longer term power toll deals. As we have indicated previously, securing such tolling deals has become an increasing focus for our DENA marketing team over the past 12-18 months. In that period we have secured more than \$400 million of gross margin associated with such customer transactions. This gross margin will be realized over the next 8-10 years. These

transactions do not require collateral and the gas supply cost is the responsibility of the customer. While this segment of our business takes time to grow, we think the margin from such tolls will be an increasingly important part, and a very low risk element, of our margin capture at DENA.

Now I'll turn the call back to Robert.

Robert Brace - Duke Energy Corporation – Executive VP & CFO

In an effort to match operating and administrative costs to the realities of the challenging market conditions, Duke Energy has embarked upon a substantial cost reduction plan to reduce costs for both labor and operations.

On the labor side, with the cost cutting plan we announced today we expect to further reduce our total corporate headcount by 8% or approximately 1,900 employees. These employee reductions are being taken across all business lines and also at the corporate levels. We expect these reductions to be substantially completed by the end of the year.

Annual pre-tax savings related to labor costs are expected to be greater than \$150 million.

During the third quarter, Duke Energy made a cash contribution to the pension plan of \$181 million.

We are also reducing costs related to procurement and supply chain management, mostly through renegotiation of contract terms. And we are reducing our reliance on IT contractors and lowering our infrastructure costs.

Annual pre-tax savings related to pension expense, procurement and IT are expected to be at least \$50 million.

In summary, the third quarter did not provide the earnings we anticipated primarily due to mild summer weather and low spark spreads. Due to the loss in earnings at Duke Energy North America, our expectations for earnings for the full year 2003 will now be in the range of \$1.20 to \$1.25 per share, excluding special items and the cumulative effect of a change in accounting principles.

While we will fall short of our earnings expectations, we have successfully met and exceeded our goals on asset sales and capital expenditures for 2003. We are also on pace to reduce total debt and trust preferred securities by \$1.8 billion by the end of the year.

And today, we announced a cost reduction plan that will result in at least \$200 million in annual pre-tax savings for the company.

We remain committed to the long-term financial strength and future success of Duke Energy. We've taken difficult steps to address the challenges across our businesses with the anticipation of improving market conditions and a return to solid earnings growth in the future.

Over the next couple of months we will be reviewing our 2004 plans with Paul Anderson and we look forward to speaking to you about those plans early in the New Year.

Well, let me thank you for your time, interest and investment in Duke Energy.

I will wrap up by reiterating that while the quarter, from an earnings perspective, did not come in as we had expected we are very pleased and bolstered by the progress we have made on net debt reduction - reaching some \$1.7B at Duke Energy and in excess of that at Duke Capital.

We are extremely pleased by our progress on the asset divestiture plan where we have now exceeded our target by more than 3 times.

And of course, the cost reduction initiative that we discussed with you today which will provide some \$200 million in pre-tax benefits to the company in 2004.

With that, we look forward to following up with you to answer any questions you may have over the coming days, and I and the rest of the investor relations team are available to take your calls.

QUESTION AND ANSWER

Operator

Thank you very much, gentlemen. Our question and answer session will be conducted electronically. If you would like to ask a question, press the star key followed by the digit "1" on your touch-tone telephone. If you are joining us on a speakerphone, please be sure to use your mute function so your signal may reach our equipment. Once again that is star, "1" to ask a question. We will pause to assemble our roster.

And our first question will come from Ashar Khan with Foresight Investment.

Ashar Khan - Foresight Investment - Analyst

Good morning gentlemen. Robert, if I can just do some comparisons of what I heard, just want some confirmation of data. You mentioned that reductions to work force and O&M savings would be a positive \$200 million on a pre-tax basis in 2004 versus 2003.

And then that the loss of EBIT in relationship to the businesses that have been sold to date on an analyzed basis would mean a further loss of EBIT of \$235 million, if I heard it, but on an incremental basis, it's only \$85 million 2004 versus 2003?

Rick Priory - Duke Energy Corporation - CEO & Chairman

That's correct.

Ashar Khan - Foresight Investment - Analyst

OK. And now in relationship to funding your pensions this quarter, you had, if I remember from our June meeting or end of May meeting, you had some pension contributions in '04 and '05, so those pension contributions are no longer required.

Rick Priory - Duke Energy Corporation - CEO & Chairman

That is correct.

Ashar Khan - Foresight Investment - Analyst

And as you are lowering your Capex budgets for this year, would that imply similar reductions in Capex budgets going forward?

Rick Priory - Duke Energy Corporation - CEO & Chairman

We have given previous guidance on the '04 anticipated capital, and there have been considerable cuts, frankly and cost reductions that will affect that and reduce that for '04.

Ashar Khan - Foresight Investment - Analyst

And then, if I can just -- if I do my numbers in terms of going to DENA, to be able to meet the projections for the \$75 million EBIT loss now projected for the year, if I'm right, you still have to earn gross margin in the range of about \$150 million or so, for the fourth quarter.

And I was just trying to get some -- a little bit more feedback as to what makes you, in reference to the results announced in the third quarter, what makes you comfortable in achieving that margin?

Rick Priory - Duke Energy Corporation - CEO & Chairman

Rob will address that.

Rob Ladd - Duke Energy Corporation - President, Duke Energy North America

Yes. That number is really just our low-risk margin that we have budgeted for the balance of the year.

Ashar Khan - Foresight Investment - Analyst

Yes, but I think you achieved that low-risk margin this time also, but you had market-to-market low gross margin losses of \$60 million in the third quarter, which killed some of that off, so are you expecting no market-to-market losses in the fourth quarter?

Rob Ladd - Duke Energy Corporation - President, Duke Energy North America

Yes, at this point in time, we're not expecting any, but obviously, if we had a movement that would affect it, but none anticipated at this point.

Ashar Khan - Foresight Investment - Analyst

OK, thank you very much.

Operator

Our next question will come from Dan Eggers with Credit Suisse First Boston.

Dan Eggers - Credit Suisse First Boston - Analyst

Good morning.

Rick Priory - Duke Energy Corporation - CEO & Chairman

Good morning, Dan.

Dan Eggers - Credit Suisse First Boston - Analyst

Rob, I hate to come back at you so quickly, but looking at your hedge position for the fourth quarter, you guys are over-committed, is that correct, at 142% in hedged positions?

Robert Ladd - Duke Energy North America, President

Yes, as September 30th, that would be accurate. As you know, these vary by quarter over the year. We're currently substantially less than that, as we go into the quarter and we're now almost at November 1st.

Dan Eggers - Credit Suisse First Boston - Analyst

So you're even or below even and you're not in a long electricity position at this point?

Robert Ladd - Duke Energy North America, President

I'm not saying that. We're lower than the 142%.

Dan Eggers - Credit Suisse First Boston - Analyst

OK. You guys tagged on incremental hedges for '04, '05 both on a hedge position and then you brought up the price a little bit in '05. Can you give us some color on what kinds of spreads you guys are locking in? Are these transactions cash flow positive at this point in time? And would they flow down to EBIT positive, for to you think through what your commitments are?

Robert Ladd - Duke Energy North America - President

Yes, all of the sparks that we locked in have been positive, certainly relative to capital. It's part of what I mentioned earlier about some of these longer-term tolls. We're able to capture more than just what the market would indicate.

Dan Eggers - Credit Suisse First Boston - Analyst

OK, very well. And if we can just shift over, right enough to run us through what you're seeing internationally. You know you guys picked up some better contracts in Brazil earlier, and there's certainly been a lot of talk about Australia, but if you could give us a rundown of the just operation of what you're seeing kind of on the market or region basis.

Fred Fowler - Duke Energy Corporation - President & COO

Yes. I will do that. As you know, we have pretty significantly reduced our trading operations in Europe so we have that situation stabilized and doing fine. We are continuing to look at what our options are on that business. If you look at Australia, you really have most of the businesses there doing OK.

The one that's really hurting us is the Tasmanian pipe line, and we continue to have very low through-put on that system, but the balance of those businesses are doing fine. They're primarily fairly contracted businesses. In Brazil, we've had a good year in Brazil. Although, there is currently a lot of uncertainty with the new government that's come in.

The fact that the Energy Minister is looking at kind of a new regime for the big utility industry there. I think it's too early to know where that's going to end up. We're very actively involved in that process. Probably the biggest vulnerability we have in Brazil, is that the market continues to be fairly long at this point for two reasons.

Number one, because of the rationing they went through. People have kind of stayed on that plan even though the rationing has ended. The second thing is they've had a lot of wet weather, so the reservoirs are pretty full, so you have a lot of hydropower capability.

The other thing that was done, there was a regime that was set up that really disadvantaged the contracting process this year – the independent power producers, and were heavily in favor of the state. There's been a big uproar over that. We're obviously working on that. It looks like one of those things that will go down to the wire.

In the meantime, we have another 25% of our capacity that rolls off from the original contracts this year. I think as you recall, 25% rolls off a year between 2003 and 2006. No doubt that we're at a disadvantage to the state-owned utilities on renewing contracts. So we've had a very aggressive marketing program out to new customers, industrials primarily.

Again, I think when it's all said and done, I think we will get that 25% re-contracted, and I do think it will be at prices at or near the roll off prices. The balance of South America is fairly stable at this point and doing OK.

Dan Eggers - Credit Suisse First Boston - Analyst

Great, thank you guys. One more, and I will let you go. What was the FX impact this quarter?

Robert Brace - Duke Energy Corporation - Executive VP & CFO

The FX impact this quarter wasn't terribly significant, a few tens of millions.

Dan Eggers - Credit Suisse First Boston - Analyst

OK, thank you.

Operator

Moving on to Kit Konolige with Morgan Stanley.

Kit Konolige - Morgan Stanley - Analyst

Thanks. Good morning. Rick, what can I say? I commemorate your last conference call.

Rick Priory - Duke Energy Corporation - CEO & Chairman

That's kind of you. Does that mean you're going to throw softball?

Kit Konolige - Morgan Stanley - Analyst

Well, you know, you talked about how much you appreciated the hard questions.

Rick Priory - Duke Energy Corporation - CEO & Chairman

I never expect a softball. Fire away.

Kit Konolige - Morgan Stanley - Analyst

I don't want to hurt your feelings that way.

Rick Priory - Duke Energy Corporation - CEO & Chairman

Thank you.

Kit Konolige - Morgan Stanley - Analyst

Just a couple of somewhat related questions, trying to think through a little bit. Impacts of things you're doing now into 2004,

so as I understand what you have described so far EBIT for DENA for this year is going to be something in the \$600 million range?

Rick Priory - Duke Energy Corporation - CEO & Chairman

For this year? No.

Kit Konolige - Morgan Stanley - Analyst

I'm sorry, gross margin.

Rick Priory - Duke Energy Corporation - CEO & Chairman

That's correct.

Kit Konolige - Morgan Stanley - Analyst

Gross Margin and then you say low \$300 million range of low-risk gross margin for 2004.

Rick Priory - Duke Energy Corporation - CEO & Chairman

That's correct.

Kit Konolige - Morgan Stanley - Analyst

Now, of the costs, can you walk through a little bit the cost cuts that you have described so far. And in particular, I'm interested in what is the bottom line impact of the cost cuts going to be in 2004 compared to what we're already seeing in 2003.

Rick Priory - Duke Energy Corporation - CEO & Chairman

Yes, you're going to see the 2003 flow through to 2004. In the case of 2004, the incremental cost cuts are about \$200 million, a little bit in excess of \$200 million. About \$150 million of that will come through reductions in labor expenses and about \$50 million or so will come through in the category of reduced expenses in a variety of different areas.

As you know, we're reducing debt, as well, and we will see some of it flow through in that category. We made some advance pension funding decisions that would help to flow through, as well, so that's the categorization of them. The objective would be to have the full amount, or something in excess of that full amount, flowing through really beginning of January 1.

Kit Konolige - Morgan Stanley - Analyst

When you're talking about cost cuttings and labor and other totaling \$200 million, lower costs in 2004 versus 2003, then you would be saying in addition to that, you have lower debt and you have a positive variance on pensions.

Rick Priory - Duke Energy Corporation - CEO & Chairman

Yes, that's correct.

Kit Konolige - Morgan Stanley - Analyst

OK. Also, I noticed that the --can you describe a little bit your thinking on the acceleration of amortizing the clean air obligation in North Carolina?

Rick Priory - Duke Energy Corporation - CEO & Chairman

Yes, clearly, in this particular case, we had very cool weather in the last quarter of 2002, and then the first quarter of 2003, which is in our rolling 12-months regulated return, we had exceptionally good bulk power marketing revenues that came through as a result of the high gas prices, keeping elevated prices in the east and our selling coal fired and nuclear fired excess generation into that market.

For those two quarters, we experienced considerable inflows and as a consequence, it gave us a chance to sort of accelerate, if you will, the payment for the clean air expenditures that we're going to have in the state of North Carolina, so we took that opportunity to really expense some of it out.

Kit Konolige - Morgan Stanley - Analyst

Final question would be on operating cash flow for the year. I think you have talked about \$4 billion as the target. It looks like about \$2.9 billion through three quarters.

Rick Priory - Duke Energy Corporation - CEO & Chairman

We are right now, leafing through the papers, to get that number. Hold one second. I'm looking at the treasurer and he's looking at the controller and they're both saying do you have that number.

Robert Brace - Duke Energy Corporation - Executive VP & CFO

You're right, on the nine-month cash flows, you're right, \$2.9 billion dollars. I don't have the full year forecast for the cash from operations line on the like for like basis, what we are able to confirm is that the pay-down debt that we told you before will happen at \$1.8 billion and even more at Duke Capital.

Rick Priory - Duke Energy Corporation - CEO & Chairman

We just don't have that number with us. The \$2.9 billion is correct. As to we are into the fourth quarter, we simply do not have the numbers. We sit here despite the 32 feet of paper that we have available to us.

Kit Konolige - Morgan Stanley - Analyst

That's fine. We can circle back. I will leave you there. I hope those weren't two softball questions.

Rick Priory - Duke Energy Corporation - CEO & Chairman

Thanks Kit, I enjoyed working with you.

Operator

Before the next question, to let everyone know, if you find your question has been answered, you may remove your self from the queue by pressing the pound key. We'll now hear from Paul Patterson with Glen Rock Associates.

Paul Patterson - Glen Rock Associates - Analyst

Hello, can you hear me?

Rick Priory - Duke Energy Corporation - CEO & Chairman

Hello Paul yes I can hear you clearly.

Paul Patterson - Glen Rock Associates - Analyst

I wanted to ask you about the \$200 million in cost savings and where that might show up. Specifically with what it's going be in the franchise electric and considering your earned ROEs surveillance reports that have been coming out of both jurisdictions, North and South Carolina, and you're allowed ROEs, you know, where you stand there, are you guys thinking of getting a regulatory deal of some sort, in which these ROE surveillances won't be as important?

Rick Priory - Duke Energy Corporation - CEO & Chairman

No, let me just say it again, as I described to Kit earlier, the regulatory surveillance issue comes because of a terrific fourth quarter in '02 and then likewise followed by a big first quarter of '03, and to the extent that those quarters keep repeating themselves, well, that would be wonderful, and we just have to deal with that

outcome, and I'm not so certain we will see those kinds of extraordinary quarters occurring one after another.

And yes, some of the cost is coming out of the electric company. There's no question about that.

Paul Patterson - Glen Rock Associates - Analyst

So even with the ice storm, you expect to be earning under you're allowed ROE, I mean backing up the ice storm and everything that you guys had. I mean once I pick out of the ice storm. What I'm saying is that going forward, with these cost cuts and everything, we shouldn't expect you guys to earn --you're ROEs at the utilities should fall to around the allowed ROE?

Rick Priory - Duke Energy Corporation - CEO & Chairman

Well, I think our plan --we said \$1.5 to \$1.6 billion or so. We don't fix a pattern with a ROE that fits within the regulatory frame work. So I think the answer to your question is you know, we think that's fine at this point in time. To the extent that something wonderful happens, we'll simply deal with that as that occurs.

Paul Patterson - Glen Rock Associates - Analyst

OK and then second question I have for you, Rick, is in terms of the cost cutting and everything, clearly, you guys saw some problems and what have you, and I don't know how else to ask this, but why did you guys come to the conclusion in the third quarter that you know, you had to make this extra push. What was the sort of thinking there? I mean in other words, why didn't you do it earlier if it was that easily achievable what have you -- you might have.

Rick Priory - Duke Energy Corporation - CEO & Chairman

Well Paul, we made major moves in fourth quarter of '02 and the early first quarter of '03, which was two quarters ago. That amounted to nearly \$200 million in substantial reductions. We have executed those. Those cost savings are flowing through.

As you know, we didn't know for sure where we were with regard to DENA when we hit the third quarter, you know that DENA did not nor did any other merchant plants were not able to deliver a decent third quarter when we began to sense that, that third quarter was a question mark, we simply decided to take the next step and drive out additional costs, resize down the business further from where we originally anticipated, so simply make sure that when we get to the bottom of the cycle here, we can get down to a place where we can remain healthy and just ride out the bottom of the cycle, however long it may be, and so that's the thinking that went into it.

Fred Fowler - Duke Energy Corporation - President & COO

This is Fred, and that's been one of my major efforts this year, so I would like to make a comment. You know, one of the things that you have to do in this process is you have to figure out how do I get the work done? You know, you do one of two things. How do I do it in a way that I get the same amount of work done with less head count?

And secondly, what are the things that I no longer really have to do? So it's not a process of simply that you can just go in and cut heads. You got to have to think of how am I going to reconfigure the workload, as well, so it typically happens more in stages than just saying, hey, all at once, I can come in and cut or reduce work force by 4,000 people.

Paul Patterson - Glen Rock Associates - Analyst

So in other words, I guess it was an interim process where you guys kept on finding additional cost cutting that you can do without substantially harming the business? Is that the right way to understand it?

Rick Priory - Duke Energy Corporation - CEO & Chairman

I think you're right on the mark, and we have a history of doing this. That's how we got from running an electric company with 25,000 people down to 10,000 people.

Paul Patterson - Glen Rock Associates - Analyst

OK Then finally, gas risk, gas risk exposure for that 98% expected hedge production for '04 and the estimated production for the total year of '03, if you can give that to me.

Rob Ladd - Duke Energy Corporation - President, Duke Energy North America

Yes this is Rob, Paul. We're substantially hedged in '04 and the same would apply to the balance of '03.

Paul Patterson - Glen Rock Associates - Analyst

OK. Excellent. Listen, thank you very much, and good luck to you, Rick.

Rick Priory - Duke Energy Corporation - CEO & Chairman

Thanks, Paul.

Paul Patterson - Glen Rock Associates - Analyst

In your future endeavors.

Rick Priory - Duke Energy Corporation - CEO & Chairman

I have enjoyed working with you.

Paul Patterson - Glen Rock Associates - Analyst

Thank you

Operator

And we will now hear from James Pringle with Giovine Capital Group.

James Pringle - Giovine Capital Group - Analyst

Can you let us know what your dividend plan is for next year, and if you know it can be a little bit more specific than the board's going to review it?

Rick Priory - Duke Energy Corporation - CEO & Chairman

James, what kind of -this is a terrible position to put me in. I have got a successor coming along by the name of Paul Anderson. You know how I feel about the dividend. Paul has spoken publicly about how he feels about the dividend. He has to review the plans that we have currently in hand. We have a series of alternative plans. He is going to pick, I presume, as any good CEO would, the plan that makes the most sense for the company going forward. It's going to take him a couple of months to be able to do that. Until he can do that and then sit down with the Board and make the final choice on the business plan, we just aren't in a position to say anything about the dividend, James.

James Pringle - Giovine Capital Group - Analyst

But just as you stated earlier, he has not been as vocal about supporting the current level dividend is that what you're inferring?

Rick Priory - Duke Energy Corporation - CEO & Chairman

I'm not inferring that at all. The information that I heard from Paul reported by the news agencies went something like this. In fact, I have a quote here. The quote is, "Dividends are important, and you should do everything you can to avoid cutting dividends. Philosophically, I'm a supporter of dividends." He went on to say,

“When I took the job at BHP, everyone said the first thing I would do is cut the dividend. I never cut the dividend at BHP.” Now do you think that's leaning towards cutting the dividend, I guess you're free to think that opinion, but I would tend to lean the other way.

James Pringle – *Giovine Capital Group - Analyst*

All right. Thank you very much.

Rick Priory - *Duke Energy Corporation - CEO & Chairman*

Thanks, James.

Operator

And We'll now hear from Maureen Howe with RBC Capital Markets.

Maureen Howe - *RBC Capital Markets - Analyst*

Good morning. I have a question about the normalizing adjustment associated with South Carolina. I can appreciate that it may not all be attributable that the charge, the \$30 million charge to this quarter, but isn't it appropriate that that should be included in recurring earnings for the year since it, in fact, was a rate reduction?

Ruth Shaw - *Duke Energy Corporation - President, Duke Power*

This is Ruth Shaw, and I'm president of Duke Power and that is specific in the order from South Carolina a “one-time rate decrement” which has been was fully taken in September.

Maureen Howe - *RBC Capital Markets - Analyst*

So, but your rates define an understanding in decrement, and maybe I don't, were actually reduced?

Ruth Shaw - *Duke Energy Corporation - President, Duke Power*

That is a one-time rate decrement for a twelve-month period at which point rates return to the previously approved level.

Rick Priory - *Duke Energy Corporation - CEO & Chairman*

So The fundamental rates remain the same, there's a decrement that subtracts the net rate for 12-month period and then the original rates are reinstated.

Maureen Howe - *RBC Capital Markets - Analyst*

But the one-time reduction brings you back down presumably and presume that's how they did the calculation, to your allowed return?

Ruth Shaw - *Duke Energy Corporation - President, Duke Power*

Again, I think there's some misunderstanding that the quote, unquote, “allowed return” represents a cap, which it does not. It represents a target level. We've earned below that in a number of quarters, and in fact, we earned below it in far more quarters than we have earned above it. The decrement on that 12 month, actually 13-month rolling average will certainly keep us well within that range for that period, and as Rick said earlier, we anticipate at the earnings levels we expect to stay in the range of our allowed returns.

Maureen Howe - *RBC Capital Markets - Analyst*

OK, so I'm still challenged to see why it's, you know, a nonrecurring item.

Rick Priory - *Duke Energy Corporation - CEO & Chairman*

It's Rick, Can I take a shot? As I told you, that was a non--what may well be a nonrecurring good news story in the fourth quarter of 2002 and what we would believe to be potentially a nonrecurring good news story in the first quarter of 2003, and so the commission elected to put on a decrement for 12 Months to wash out that blip, and there's no indication necessarily that we will continue to have wonderful blips like that and there's no indication that even if we did, they would necessarily take the same approach. So I don't think there's anything recurring about that.

Maureen Howe - *RBC Capital Markets - Analyst*

OK, I guess one could take out the positive blip in the first quarter to offset the negative blip that they gave you in the third, which, expect is that how the commission looked at it?

Rick Priory - *Duke Energy Corporation - CEO & Chairman*

I'm not really following you.

Maureen Howe - *RBC Capital Markets - Analyst*

That's fine. Thank you very much.

Rick Priory - Duke Energy Corporation - CEO & Chairman

Thank you.

Operator

We'll now hear from Carol Coale, Prudential.

Rick Priory - Duke Energy Corporation - CEO & Chairman

Hello Carol.

Carol Coale - Prudential Securities - Analyst

Hello. Good morning.

Rick Priory - Duke Energy Corporation - CEO & Chairman

Good morning.

Carol Coale - Prudential Securities - Analyst

Most of my questions were answered, but I have one left. If you could please give us a little bit more clarification on the cash payment that field services made to Duke Energy, the \$87 million. It was related to a settlement, and I wasn't really following if this was or what this cash payment was.

David Hauser - Duke Energy Corporation - Senior VP & Corporate Treasurer

Carol, this is David. When we constructed the field services partnership with Conoco Phillips, we set up a preferred stock essentially that is part of the capitalization of that entity, and this was nearly a repayment of a piece of that preferred stock and our share was the \$87.5 million.

Carol Coale - Prudential Securities - Analyst

So this was a one-time event. So shouldn't we treat that as a nonrecurring item in field services, or did it not affect income?

David Hauser - Duke Energy Corporation - Senior VP & Corporate Treasurer

Well, yes, that's cash. That is not income.

Carol Coale - Prudential Securities - Analyst

OK. I appreciate that, and everything else was answered, and just to be a little more specific to an earlier question about your hedges and your gas price risk, I believe, that Mr. Anderson had made a public statement about you being short gas and being exposed to rising prices, and I take it from your answer to an earlier question that you have sold that gas forward and locked in a spread and so you're no longer at risk?

Rob Ladd - Duke Energy Corporation - President, Duke Energy North America

Yes, Carol this is Rob Ladd, as I indicated, we're substantially hedged relative to gas, and although, as you know from previous -- I believe previous discussions that we typically do not buy all of the gas for the production that we expect. We do as we get closer to that period of time, but we do not have all of the gas purchase for the forward periods.

Carol Coale - Prudential Securities - Analyst

OK. Thank you and good luck, Rick.

Rick Priory - Duke Energy Corporation - CEO & Chairman

Thank you, Carol.

Operator

Moving on to Ali Agha with Burnham Securities

Ali Agha - Burnham Securities - Analyst

Thank you, a couple of questions. First on DENA, could you remind us what is the total capital investment right now in DENA from Duke, and how much of that is goodwill?

Robert Brace - Duke Energy Corporation - Executive VP & CFO

The total capital employed at DENA is approximately \$8 billion, and there's no goodwill.

Ali Agha - Burnham Securities - Analyst

No goodwill.

Robert Brace - Duke Energy Corporation - Executive VP & CFO

No remaining goodwill.

Ali Agha – Burnham Securities - Analyst

Second question, when you look at the 2004 numbers right now for DENA, looking at the math and the table that you put out there, you are assuming basically that you produced just about as much as you have hedged right now. Does that imply that there are some facilities that are not running at all and there are costs associated with those?

Rob Ladd - Duke Energy Corporation - President, Duke Energy North America

This is Rob again. I think it would be fair to say that our peaking plants next year will run nominally at this point, if at all, so it depends on those plans with combined cycles in certain parts of country expected to produce quite a bit, but others not depending on what region they're in and with the other cycles, it's nominal.

Ali Agha – Burnham Securities - Analyst

Rob, just to get a sense, what kinds of O&M costs do you incur on those speakers?

Rob Ladd - Duke Energy Corporation - President, Duke Energy North America

Well, it's fairly modest, but it does involve, we do have property tax and insurance whether they're operating or not, and then, of course, we have the depreciation charge, as well.

Ali Agha – Burnham Securities - Analyst

Right. So how much is that run annually?

Rob Ladd - Duke Energy Corporation - President, Duke Energy North America

Run annually?

Ali Agha – Burnham Securities - Analyst

Yes.

Rob Ladd - Duke Energy Corporation - President, Duke Energy North America

I don't think I can give you the exact number, but I will follow up with you.

Ali Agha – Burnham Securities - Analyst

OK, and last question, as it relates to the DENA in 2004 right now, there has been anecdotal evidence that we're heading from other merchant producers that there is a high level of activity going on right now in terms of potentially looking forward to medium and long-term contracts. You mentioned you haven't seen much at all in the third quarter, could you comment on what you are seeing in the market out there vis-à-vis contractual opportunities?

Rob Ladd - Duke Energy Corporation - President, Duke Energy North America

Sorry, I must have misspoken; I meant to indicate that we are seeing a number of opportunities in the tolling area out over time. The number I mentioned before was about \$400 million of gross margin over 8 to 10 year period. We have had the opportunity thus far in 2003 to lock in about \$65 million of gross margin, again over a number of years period of time. We are seeing those opportunities. They really vary by region. In the west, they can be attractive given the spark spreads there, but in other parts of the country, which are somewhat depressed, the opportunity isn't as great, so frankly, we have been selective. We don't want to lock into low sparks at this period of time.

Ali Agha – Burnham Securities - Analyst

Thanks.

Operator

We'll now hear from Jay Dobson with Deutsche Bank.

Rick Priory - Duke Energy Corporation - CEO & Chairman

Hello Jay.

Jay Dobson - Deutsche Bank - Analyst

Hello, how are you, Rick?

Rick Priory - Duke Energy Corporation - CEO & Chairman

Good.

Jay Dobson - Deutsche Bank - Analyst

Two questions, if I can. On the CAPEX cuts, can you detail where the \$400 million came from and just give us a sense if there's sort

of any additional we can expect going forward. I know we're limping toward the tail end of 2003 here, so I guess it is sort of looking out toward 2004.

And then second, I was wondering if Robert could detail for us, in the \$1.20 to \$1.25 EPS, I assume that continues to include the asset gains booked in the second quarter, so if we can sort of look at maybe what '03 sort of recurring earnings will be under your forecast looking out into '04 or as a base for '04.

Rick Priory - Duke Energy Corporation - CEO & Chairman

The \$1.20, \$1.25 has all gains and losses netted out of it. It's an ongoing number.

Jay Dobson - Deutsche Bank - Analyst

Completely clean of everything booked earlier this year?

Rick Priory - Duke Energy Corporation - CEO & Chairman

Stripped clean of anything earlier booked this year. Basically when you look at the CAPEX coming up that last increment of CAPEX was another couple of hundred million dollars. We see little bit of it coming out of franchise electric but a good bit out of gas transmission a bit out of Crescent Resources and a good bit out of others as well.

So, franchise electric primarily was driving the latest increment of \$200 million the earlier increment of \$200 million. I just don't have that information exactly what that distribution was.

Jay Dobson - Deutsche Bank - Analyst

It was more across the board?

Fred Fowler - Duke Energy Corporation - President & COO

That also heavily weighted for franchise electric and gas transmission because that is a big gap in our correlation.

Jay Dobson - Deutsche Bank - Analyst

Was that? Does it get it pre, Fred?

Fred Fowler - Duke Energy Corporation - President & COO

Yes, exactly I have on the \$400 million. Just wonder looking forward and the ability to take that down even further. Well, we know we have given some guidance back I think in the early part

of the year with regard to anticipated capital and you know we were asking for guidance just probably reasonably on tracks with the exception that we have made some with the short cut. So, approximately it will be lower than.

Jay Dobson - Deutsche Bank - Analyst

OK, great thank you.

Rick Priory - Duke Energy Corporation - CEO & Chairman

Thanks James

Operator

And unfortunately that is all the time that we have today for questions. I will turn the conference back to Mr. Ebel for any closing additional remarks.

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

Well, let me thank you for your time, and interest in Duke Energy.

I will wrap up by reiterating that while the quarter, from an earnings perspective, did not come in as we had expected we are very pleased and bolstered by the progress we have made on net debt reduction - reaching some \$1.7B at Duke Energy and in excess of that at Duke Capital.

We are extremely pleased by our progress on the asset divestiture plan where we have now exceeded our target by more than 3 times.

And, of course, the cost reduction initiative that we discussed with you today which will provide some \$200M in pre-tax benefits to the company in 2004.

With that, we look forward to following up with you to answer any questions you may have over the coming days, and I and the rest of the investor relations team are available to take your call.

Operator

That does conclude today's conference. On behalf of Duke Energy and Premier Conference we will thank you for your participation.