

**CORPORATE PARTICIPANTS****Richard Priory***Duke Energy Corporation - Chairman and CEO***Fred Fowler***Duke Energy Corporation - President and COO***Robert Brace***Duke Energy Corporation - Executive Vice President and CFO***David Hauser***Duke Energy Corporation - Senior Vice President and Treasurer***Greg Ebel***Duke Energy Corporation - Vice President of Investor and Shareholder Relations***CONFERENCE CALL PARTICIPANTS****Paul Patterson***Glen Rock Associates***Jason West***Deutsche Bank***Carol Coale***Prudential Securities***Zach Schreiber***Duquesne Capital***Peter Quinn***Goldman Sachs***Brian Chin***Salomon Smith Barney***Hugh Wynne***Sanford Bernstein***John Olson***Sanders Morris Harris***PRESENTATION****Operator**

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

**Greg Ebel - Duke Energy Corporation - Vice President of Investor and Shareholder Relations**

Good morning and thank you for joining us. With me today are Rick Priory, the Chairman and CEO of Duke Energy, Fred Fowler, President and COO, Robert Brace, Executive Vice President and CFO, and David Hauser, Senior Vice President and Treasurer. We are here to provide you with an overview of Duke Energy's earnings for the first quarter. Today's call is being webcast on our website at [www.duke-energy.com](http://www.duke-energy.com) and a copy of the slides will be available for download in the investor section of our web site. Before we begin, I'd like to review our Safe Harbor Statement:

Some of the things we will discuss in today's call on 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 presentation 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](http://www.duke-energy.com/decorp/gaap.html).

We will begin today's call with some prepared remarks by Rick Priory and Robert Brace and then open the lines to take your questions.

**Richard Priory - Duke Energy Corporation - Chairman and CEO**

Good morning. It's a pleasure to be with you to report on our earnings for the quarter and the solid progress we're making on our 2003 business plan. You've heard us talk about relying on our strongest business segments, reducing our exposure to the

merchant energy marketplace, and taking the decisive steps necessary to work through the current downturn.

I'm sure that this first slide is familiar to most of you. These are the six strategic directives that we are keenly focused on this year. I'll drill through them and give you an update of our progress through first quarter.

#### **Focus on positive net cash generation.**

A key financial goal for 2003 was to generate \$600 million in non-strategic asset sales. To date, we have announced or completed the sale of approximately \$1.1 billion in gross proceeds from asset sales – and we expect to achieve \$1.5 billion in sales by year-end.

We have taken a very deliberate approach to our divestitures, to ensure we emerge with the right set of assets going forward. These sales, including the Empire and Alliance pipelines, our interest in American Ref-Fuel, and our remaining units in Northern Border Limited Partnership – were all positive financial transactions that have not reduced our competitive or strategic position.

We've reduced our capital spending to \$3 billion for 2003 -- down from an originally planned \$6-8 billion.

For the first quarter, operating cash flow was almost \$1.4 billion, compared to \$820 million in first quarter 2002. This year, we expect operating cash flow and divestitures to more than adequately fund both capital expenditures and our dividend.

We plan to lower our debt by approximately \$1.8 billion this year – setting us well along the path toward achieving total debt reduction of about \$5.5 billion by the end of 2005.

We're making wise and prudent decisions to reduce costs – both capital and O&M -- with particular focus on Duke Energy North America, Duke Energy Marketing and Duke Energy Field Services.

All of these initiatives are critically important to our ability to maintain a strong and competitive financial position.

#### **Invest in Our Strongest Business Sectors**

We are taking a disciplined approach to assuring future growth. Approximately 80 percent of Duke Energy's 2003 total segment EBIT is projected to come from our regulated businesses, and that's where much of our limited capital investment will go.

You'll hear from Robert shortly on the quarterly results for those businesses, but I will say that they continue to perform solid and reliable as you've come to expect.

The combined earnings before interest and taxes contribution from Franchised Electric and Gas Transmission for the quarter were \$877 million.

Despite the major winter storms in the Carolinas, Duke Power delivered more power to more customers – both retail and wholesale.

We saw increased demand for natural gas this winter, and set new peak winter deliveries – all pointing to the need for additional supply, particularly in Northeast markets. Again, Robert will provide a detailed summary of Gas Transmission's results, but our cornerstone businesses are delivering valued and consistent results.

#### **Size Businesses to Fit New Market Realities**

We've made some tough decisions this year as we've focused on sizing our businesses to fit the current market environment. Much of this scaling back is in our merchant energy business.

Our decision to exit our finance business, Duke Capital Partners, is another good example of the realignment underway. In today's capital-constrained environment, the prudent course for us was to exit the business and monetize its portfolio. To date, we've monetized about \$80 million of Duke Capital Partners' \$340 million portfolio. We expect to monetize 50 percent of the remaining portfolio before year-end, and will complete the close-out during the first half of next year.

#### **Address Issues in Merchant Energy Business**

I feel good about the progress we've made in restructuring our merchant energy businesses. Duke Energy North America has been repositioned and refocused, beginning with a new leadership team. The business is becoming smaller and simpler, with a reduced scope.

We've discontinued proprietary trading at DENA and Duke Energy Merchants, which will further reduce our risk as well as our collateral needs. We are focused on trading around hard assets and contract positions, and providing our customers with risk management support, as that is where our strengths and true sustainable value lie.

I can't leave this subject without reaffirming our commitment to merchant energy. I hope you know us well enough to know that we won't engage in any business where we don't see long-term

shareholder value. But we do see value, potential and opportunity within merchant energy. It is a cyclical business, and we expect to see improved profitability as the wholesale power market rebounds. The competitive field has narrowed considerably, and we intend to be well positioned to benefit from the recovery.

#### **Strengthen Relationships with Customers**

We know that the economic and market turbulence of last year left many customers confused, skeptical and frustrated. It's in these times that reliability and financial strength are critical. In this environment our reputation for operational excellence is a major selling point, and we are working to cement existing relationships and expand with new ones.

Duke Energy Gas Transmission has an impressive record in customer contract renewals – they have earned a reputation for reliability that wins them repeat business.

Duke Power, which consistently ranks high in customer satisfaction, is stepping up its marketing efforts and working to develop new products and services – as well as hooking up 40,000 new customers a year.

#### **Reduce Regulatory and Legal Risk and Uncertainty**

We've been steadily working through a number of regulatory and legal issues – most, as you might expect, related to the California energy market.

We are encouraged by the recent FERC report that exonerated Duke Energy on charges of withholding power in California. We are confident of our facts and are pleased that they are being recognized at long last. One of California's own expert witnesses referred to Duke in his testimony as a "model competitor."

We have had a number of other legal victories involving the western market, and are optimistic that we will emerge from those controversies successfully as the facts continue to reaffirm our record of operating with diligence and integrity.

Earlier this week, FERC issued a white paper describing a scaled-back version of its plan to develop a standard market design for wholesale power in the U.S. We will need to fully review FERC's white paper, but it appears that FERC has acknowledged the important role of state regulators in the development and oversight of regional transmission and wholesale market institutions.

Duke Energy continues to support a well-structured regulatory market design that will bolster competitive wholesale energy markets and yield tangible customer benefits. And we believe that

progress on these complicated issues depends on regional stakeholder collaboration, as well as regulatory clarity and decisiveness.

These six directives have been our focus. Let me turn now to our results:

For the quarter, we reported earnings of 25 cents per share, including an 18 cent charge for the impact of previously announced accounting changes for the implementation of EITF 02-03 and the adoption of FAS 143. Before the cumulative effect of those changes, Duke earned 43 cents per share.

The results we're seeing from the very deliberate drive-out of our business plan provide me and our entire management team with a high level of confidence in our previously stated 2003 guidance of \$1.35 to \$1.60 earnings per share, before the changes I just mentioned.

We closed first quarter on-plan -- and with significant earnings and cash flows from our strongest businesses. And we've made great head-way in dealing with the merchant energy downturn by reducing our exposure and strengthening our balance sheet position.

Now I'll turn the call over to Robert to review the earnings information in more detail...

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#### **Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Our regulated businesses – Duke Power and Natural Gas Transmission – delivered the largest portion of Total Segment Earnings before Interest and Taxes (EBIT) for the quarter. Segment EBIT from these two businesses contributed \$877 million, [or 94%,] of total segment EBIT. The largest source of segment EBIT for the quarter was Franchised Electric, which reported \$454 million for the first quarter of 2003, an 18 percent increase over the same period last year.

One of the primary drivers for the positive results this quarter was the increase in sales to wholesale customers primarily outside of our service territory. Increased sales resulted from the gas price spike in late February and colder than normal weather.

Colder weather in our service territory provided increased sales to our retail customers and also delivered more winter storms, knocking out power to approximately 350,000 customers in North

Carolina. Charges associated with replacing and restoring electric service to these customers totaled approximately \$35 million.

Heating degree hours increased 9.7% over last year's first quarter. This colder weather increased gigawatt-hour sales by almost 13% over the first quarter of 2002. Not surprisingly, residential and commercial sales led the increase with 9% and 4% growth, respectively. Industrial sales did not improve during the quarter and showed a slight decline in sales, of 0.9%. The average number of customers increased by more than 46,000, representing an increase of 2.2% compared to the first quarter of 2002.

Also during the quarter, Franchised Electric began amortizing the estimated \$1.5 billion in expected environmental costs associated with the North Carolina Clean Smokestacks legislation. This amortization expense for the first quarter was \$17 million. The annual estimate for this amortization expense in 2003 is still about \$70 million.

We are still on target to meet our 2003 segment EBIT goal of \$1.6 billion for our Franchised Electric business.

Our next largest contributor to segment EBIT was Natural Gas Transmission. Our Natural Gas Transmission businesses in the US and Canada delivered \$423 million in EBIT for the first quarter of 2003 compared with \$266 million in 2002.

Of the \$157 million increase, approximately \$135 million was due to the additional two months of earnings from Westcoast recognized in 2003. You'll recall that we acquired Westcoast last March and it contributed only one month of earnings last year and a full quarter this year.

Excluding the additional two months of earnings from Westcoast, quarter over quarter earnings increased more than 8% due to incremental earnings from business expansion projects, primarily connecting gas-fired power plants and storage expansion projects.

Gas Transmission continues to expand its operations through the construction and ongoing development of several projects. In the Southeast, DEGT began construction on the Patriot project – a 94-mile extension of the East Tennessee Natural Gas system into Virginia and North Carolina. In the Northeast, we are working to develop HubLine Phase II, a project that will transport eastern Canadian natural gas to the greater Boston market and increase the reliability of natural gas infrastructure in eastern Massachusetts. In western Canada, DEGT received final approval from Canada's National Energy Board to proceed with the construction of the Grizzly Pipeline extension, which will tie new natural gas production in western Canada to growing markets in British Columbia, the U.S. Pacific Northwest and beyond.

Also during the first quarter of 2003, Natural Gas Transmission sold additional limited partner units in Northern Border for a gain of \$14 million. We sold similar units in the first quarter of last year for the same gain of \$14 million – so quarter over quarter there was no variance to EBIT.

Natural Gas Transmission is on target to meet its annual segment EBIT goal of \$1.2 billion.

Combined segment EBIT from our regulated operations totaled \$877 million compared with \$650 million for the first quarter of 2002 – a 35% increase. Franchised Electric and Natural Gas Transmission will continue to be the strongest contributors to total segment EBIT and cash flows for 2003, providing around 80% of total segment EBIT for the year.

Next I'd like to review the results from our unregulated businesses, starting with Duke Energy North America (DENA).

DENA's results for the quarter continue to reflect the difficult market conditions for the merchant energy business. DENA reported first quarter EBIT of \$23 million compared with \$54 million last year.

Earnings for the quarter were negatively affected by reduced earnings from proprietary trading and by lower earnings, due in part, to the required change from mark-to-market to accrual-based accounting late last year. In addition, DENA's depreciation expense nearly doubled this quarter due to the addition of new facilities totaling some 7,000 megawatts that began commercial operation last summer.

Earlier this month, DENA announced it will be exiting the proprietary trading business and concentrating its trading activities on maximizing the value from our energy asset and contractual positions. While we expected around 10% of total gross margin to come from proprietary trading, we are not changing our annual EBIT guidance of \$200 million. Although the removal of this earnings stream makes achieving our DENA segment EBIT target more challenging, we now expect lower G&A expenses to help offset the lack of gross margin from proprietary trading. Another benefit of this action is the decreased need for collateral requirements with counterparties. Once we fully unwind these positions we expect to reduce our collateral needs by \$100 to \$200 million.

You'll recall that DENA's earnings for the year will come from a variety of sources. The low-risk gross margin that will be generated from hedges that are in place, ancillary services and must-run revenues is expected to be approximately \$470 million for the remaining 9 months of the year.

Total gross margin realized in the first quarter amounted to \$193 million. The low-risk gross margin realized in the first quarter was in line with our expectations and we made progress on realizing gross margin from other sources. Offsetting total gross margin were operating expenses totaling approximate \$170 million for depreciation, plant operating expenses and G&A expenses.

Total operating expenses for 2003 are now expected to be about \$825 million. So, beyond realizing the \$470 million in low-risk gross margin in the remaining 3 quarters, we also need approximately \$360 million from "Other Sources" of gross margin to reach our segment EBIT goal of \$200 million for the full year 2003.

We expect earnings from un-hedged generation sales and the optimization of our generation, natural gas transportation and storage portfolios to fill that gap.

And, as in the past, we expect DENA's strongest quarter to be in the third quarter in conjunction with the peak cooling season.

Field Services reported EBIT of \$33 million during the quarter, down slightly from last year's first quarter results of \$35 million.

Results for the quarter benefited from the increase in NGL prices, but were offset by the effects of the increase in natural gas prices, particularly the spikes in late February, lower processing volumes and hedging activities. Weighted average NGL prices for the first quarter averaged 58¢ compared with 31¢ for the same period last year.

Processing volumes were reduced due in part to the ethane rejection we used to help mitigate our exposure to the dramatic spike in natural gas prices in late February.

O&M expenses were approximately \$150 million for the quarter and in line with our expectation of \$600 million for the entire year.

Duke Energy's international operations reported segment EBIT of \$54 million, compared with \$57 million in the first quarter of 2002.

The \$3 million reduction in segment EBIT was primarily due to a non-recurring charge of approximately \$11 million related to the timing of revenue recognition at the Cantarell project in Mexico, which was acquired as part of the Westcoast transaction last year. Partially offsetting this reduction were lower G&A expenses resulting from cost reduction efforts over the last year.

International Energy expects to meet its 2003 segment EBIT goal of \$250 million.

So now, let's take a look at total segment EBIT for the quarter.

For the first quarter of 2003, Duke Energy reported total segment EBIT of \$930 million, compared with total segment EBIT of \$706 million for the first quarter of 2002. As I said earlier, the vast majority of that segment EBIT came from Franchised Electric and Natural Gas Transmission.

We have now combined our previously reported segments - Duke Ventures and Other Energy Services - into Other Operations. The primary ongoing businesses that are included in this new reporting segment are Crescent Resources, Duke/Fluor Daniel and DukeNet. Other businesses currently included in this segment are Duke Capital Partners and Duke Energy Merchants, which we have already announced that we will be exiting. We are in the process of monetizing the loan portfolios for Duke Capital Partners and have exited from proprietary trading at Duke Energy Merchants.

The reduction in earnings at the Other Operations segment is primarily related to the losses associated with the exiting of proprietary trading and the hydrocarbons business at Duke Energy Merchants.

One of our goals for 2003 includes the sale of certain non-strategic assets totaling approximately \$1.5 billion. This chart, which some of you saw on our April 22<sup>nd</sup> Monthly Chat, provides more detail on the sales we've announced so far. To date, we have announced or closed on \$1.1 billion in non-strategic asset sales. And we expect another \$400 million in sales this year. The after-tax proceeds associated with these sales are approximately \$1.3 billion.

With the reduction in asset positions, comes a reduction in earnings from those assets. The impact on annual EBIT associated with these asset sales is approximately \$155 million.

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

This slide summarizes the credit facilities at 3 borrowing nodes - Duke Energy, Duke Capital and Other as of April 21, 2003 - the day before our last Monthly Chat. First at Duke Energy, we have \$950 million of credit facilities, which are used to fully backstop its CP program.

At Duke Capital, we currently have a total of \$2.7 billion of credit facilities. These facilities fully backstop the Duke Capital commercial paper program. The \$790 million letter of credit facility principally provides support for our ongoing trading operations. We can also borrow against the unused portion of this facility].

In addition, we have other credit facilities of \$1.45 billion to support our commercial paper programs at Westcoast, Union Gas, Duke Energy Field Services, and in Australia.

As you can see, our current commercial paper outstanding at Duke Energy on April 21st was \$450 million.

At Duke Capital, we had approximately \$475 million of commercial paper outstanding and have posted about \$550 million in letters of credit. Our "Other" commercial paper outstanding and borrowings totaled \$550 million.

Therefore, our unused capacity is approximately \$3.1 billion. While we have reduced our credit facilities by \$500 million, we have also reduced our utilization such that total unused capacity increased \$400 million.

In addition, we had cash and cash equivalents at April 21<sup>st</sup> of approximately \$1.3 billion. Of this amount we expect to maintain a balance of about \$500 million at Duke Capital for liquidity purposes.

We also recently re-syndicated several facilities across the company. In April, Duke Capital completed the re-syndication of a \$252.5 million Letter of Credit Facility. And in March, Duke Energy Field Services completed the renewal of its \$350 million facility and Duke Australia Pipeline Finance Pty Ltd completed the renewal of an AUD\$315 million facility. These facilities were structured to provide liquidity support and working capital for these business entities.

Next I'd like to cover briefly a couple of the trading disclosures provided in our earnings package. I won't walk through all of the tables on this call but will focus on those tables of most interest – starting with Daily Value at Risk or DVaR.

Daily Value at Risk measures the favorable or unfavorable impact of one day's price movement against the existing portfolio. We previously referred to this term as Daily Earnings at Risk. The existing portfolio includes the remaining proprietary trading book still in the process of being wound down and structured contracts. Owned assets are not included in this calculation.

You'll notice that the average DVaR amount of \$21 million was higher than in past quarters and was attributable to the price spikes in late February and early March. The DVaR calculation at the end of March was \$13 million and reflects the reduction in commodity prices and associated volatility, and is more in line with previous quarters.

Next I'll review the generation hedging information.

To begin, our estimate of the total production available from our US merchant plants for the remaining nine months of 2003 is approximately 69 million megawatt-hours. This number takes into account our expectations for normal maintenance. Of the total available capacity, 80% is from our combined cycle plants and 20% from the peaking units.

Our expected production from these plants for the next nine months is currently 22 million megawatt-hours, of which 21 million megawatt-hours will come from our combined-cycle plants and about one million from our peaking units. During the first quarter our plants generated approximately 5 million megawatt-hours.

As of March 31, we had hedged 96% of the expected power output for the remainder of 2003 at an average price of \$50 per megawatt-hour. We have sold forward 76% of our estimated production for 2004 and 63% for 2005.

In summary, we had a good quarter and we've made solid progress toward achieving our goals for 2003. Franchised Electric and Natural Gas Transmission were rock solid and provided strong earnings and cash flows this quarter as we expected them to. These regulated businesses will provide the bulk of our earnings this year. And our unregulated businesses continue to work hard and expect to meet their earnings goals through cost reductions and efficient operations.

We're making significant headway on asset sales and will use the proceeds to help reduce our balance sheet leverage. Our continued focus on reducing expenses across the company – both operating expenses and capital spending – will also support our debt reduction goal. We expect to reduce debt by approximately \$1.8 billion this year.

We are also exiting proprietary trading at Duke Energy North America and Duke Energy Merchants. This move will reduce collateral requirements and lower our risk profile. Our ongoing trading activities will focus solely on maximizing the value of our energy asset positions.

With these goals in mind, we remain confident and committed to our earnings per share goal of \$1.35 to \$1.60 per share, before the impact of changes in accounting principles, for 2003.

That concludes our prepared remarks and now we'll open the lines to take your questions.

## QUESTION AND ANSWER

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**Operator**

Thank you. The question and answer session will be conducted electronically today. If you would like to ask a question, please press the star key followed by the digit one on your telephone. We will take as many questions as time permits and we will proceed in the order you signal us. We would like to remind everyone if you're using a speakerphone today, please release the mute button so that your signal may reach our equipment, and again it is star one if you do have a question. We'll go first to Paul Patterson at Glen Rock Associates associates.

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**Paul Patterson - Glen Rock Associates**

Good morning. I wanted to follow up, on page 21 of your disclosure the supplemental disclosure, you have for 2003 and 2004 under owned assets the actively quoted price - I'm sorry, the fair value of the energy contracts. Can we take those numbers and then apply them to what you have on slide, the last slide before the summary regarding the amount that you have hedged? In other words, you guys have about \$305 million dollars worth of margin essentially in 2003, and \$251 million for 2004, of which you contracted.

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

You can't quite do that because what is in the total same value of the energy value contract net assets is really an analysis of what's in the balance sheet. On that balance sheet, we have four accounts, two in the liability side, two in the asset side, one short, one long-term liability. If you net those four, you come to a figure of \$1.215 billion. The difference in the \$1.215 billion and the \$1.430 billion which is the total of that - total fair value column is the difference which Duke Energy in total and DENA. So if you looked at DENA's balance sheet, you come to the \$1.430 billion.

We also have normal purchase and sales agreements which are the same contracts in some cases, the ones that are accounted for in the balance sheet. But according to FAS 133, those are not put on the balance sheet until they actually close or till they come to delivery. Nothing hits the balance sheet or the P&L account until that day in '04 when the power is supplied, in which case the net margin then becomes part of the accounts. So I'm sorry, we're analyzing the balance sheet and this is in the CCRO [Committee of Chief Risk Officers] format, but it's not the whole story because the accounting is just so complicated.

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**Paul Patterson - Glen Rock Associates**

So we can't really apply that I guess?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

It's a portion of it but you have to take the normal purchases and sales as well.

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**Paul Patterson - Glen Rock Associates**

Okay. The other thing I had to ask you was in terms of the cash flow statement on page 16, there's a mark-to-market recognition versus realization of \$116 million and then it looks on page 20 that you have a \$31 million dollar mark-to-market number for the quarter. And I'm just trying to get an idea about what is the total mark-to-market gross margin that you guys recognized in the first quarter of this year?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Again, that's quite complicated because the rules changed. The EITF 02-03 rules changed and we have a big write off of 17 cents when we move from mark-to-market to accrual book accounting. From a cash point of view, that amount on the cash flow, the \$160 million minus is the cash effect of all of the movements of the roll-ons and the roll-offs, the things that were accounted for mark-to-market before it settled, et cetera. You also see on the disclosures, Paul that we also show - I think it's probably on page 20, the value of the mark-to-market book, and that's the extent to which we have taken profit into the P&L that is not yet settled.

So we haven't had the cash, so it's the lag effect if you like. On the top of page 20 it's not \$0.3 billion. So the value of our mark-to-market book has dropped from over \$1 billion a year or so ago down to \$0.3 billion partly as a result of the mark-to-market profits reducing and partly as a result of the movement to account for more things on an accrual basis versus mark-to-market. For which we are very comfortable with by the way. But the accounting rules have changed so much. So there's \$300 million dollars of profit that we have taken in prior periods including Q1, '03, but also in 2002 and 2001 where this amount is not settled yet and the cash will come in the future periods. If you look at the top of page 21 without going into too much detail, you see on the total fair value column \$197 million on the right-hand side for proprietary trading. That \$197 million is probably all mark-to-market. So that's a component of the \$300 million, and then a portion of the \$217 million structured contracts will also be. Also, the owned assets will be mark-to-market where they fail the FAS 133 test. You have to mark them to market if they fail, the accrual accounting test.

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**Paul Patterson - Glen Rock Associates**

Under the contract, you mean?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Within the structured contract and maybe a bit within the owned assets.

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**Paul Patterson - Glen Rock Associates**

How much did you guys recognize in terms of either new deals or changes in the fair value existing contracts? How much contributed to net income I guess is what I'm saying for first quarter? Do we have an idea about that?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Another way of looking at it I suppose is if you look at page 20, again, in the second section under DENA you see the mark-to-market gross margin. You see the reconciliation of DENA's gross margin, and I talked earlier on one of the slides we put on the web site and said that DENA had \$193 million dollars of gross margin in the quarter, and that \$193 is analyzed there on page 20. You can see that \$4 million of it came from proprietary trading, \$42 million came from structured contracts and \$147 million came from owned assets. The mark-to-market element within there was \$31 million, the top line, so you've got \$4 million plus \$26 million plus \$1 million.

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**Paul Patterson - Glen Rock Associates**

Okay. So essentially \$31million is the number to look at, is that correct?

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**Richard Priory - Duke Energy Corporation - Chairman and CEO**

As far as the gross margin is concerned yes.

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**Paul Patterson - Glen Rock Associates**

Thank you.

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**Operator**

We'll move next to Jason West at Deutsche Bank.

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**Jason West - Deutsche Bank**

I have a question about breakout on page 12 of the press release. The EBIT by business segment. In the other line item which is below other operations, you guys had like a \$76 million dollars or so improvement there. A negative \$31 million versus \$107 million a year ago. Just wondered what that improvement was related to?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Last year, the \$107 million included profit eliminations as it does this year on inter-company activity. Last year there was a large profit in Duke/Flour Daniel on sales to DENA for the completion of DENA power plants. So the large chunk of the \$107 million was profit elimination at Duke/Flour Daniels that didn't happen this year. So in that other line we have the corporate costs plus our inter-company eliminations and consolidation adjustments, et cetera. The main swing relates to that Duke/Flour Daniel elimination last year.

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**Jason West - Deutsche Bank**

Do you know how we should look at the line item for the full year? I believe it's running near the \$400 million dollar range, on a full year basis?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

It's very difficult for you to model because it's got all our consolidation adjustments in it. In a way, you can't model it independently of what's happening in the other lines. But I think \$400 million is a bit high. I think it's going to be less.

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**Jason West - Deutsche Bank**

Then one other question. Were there any other gains on asset sales or so forth in the EBIT numbers that weren't, you know, specifically laid out in the press release such as Crescent asset sales?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Nothing of any significance.

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**Jason West - Deutsche Bank**

Okay. Thank you.

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**Operator**

We'll move on to Carol Coale at Prudential Securities.

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**Carol Coale - Prudential Securities**

Good morning. I've got a follow-up from Paul Patterson's call earlier just to get a little bit more clarity on the trading and marketing component of your earnings. Now, when you say that you're including Duke Merchant and other operation, is that your trading?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Duke Energy Merchants did do some trading, but it didn't do the main DENA power and gas trading. It traded in other commodities.

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**Carol Coale - Prudential Securities**

I just wanted to walk through a few more numbers. On pages 17 and 18 of your balance sheet, I have netted out the change in your both current and long-term asset and liabilities from trading and come up with a net increase of \$57 million, and since you showed a \$116 million positive benefit from mark-to-market accounting, so we can assume that the difference between the \$57 million increase on the book value or the balance sheet would be a \$59 million dollar profit, but yet you just said that mark-to-market earnings were \$31 million. So I was wondering if you could reconcile the difference. So that's the first question, reconciling the difference.

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

The \$31 million related to DENA which is analyzed on page 20, and obviously the balance sheet movements related to the total company?

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**Carol Coale - Prudential Securities**

I just took the \$4.662 billion of assets and subtracted \$3.447 billion and got \$1.215 billion.

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

\$1.215 billion is for the total company.

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**Carol Coale - Prudential Securities**

Versus the end of the year, 2002, net balance of \$1.158 billion, that's \$57 million of a positive change. So that's what we're assuming is the increase in the value of the assets. If I'm looking at

this as mark-to-market income, and then taking that from the \$116 million and coming up with ...

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Yes. \$31 million of it came from DENA. and on page 21 in the disclosures, we've added more disclosures than we had in the past, you can see at the bottom right-hand column there \$1.430 billion. And this \$1.430 billion is the DENA component of the \$1.215 billion that you got by net in the four balance sheet amounts. I apologize for the accounting. I didn't invent it. We have to just follow the rules.

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**Carol Coale - Prudential Securities**

Assuming the \$59 million is implied mark-to-market income, \$31 million came from DENA and the balance is from trading?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Well, the balance came from elsewhere. I don't readily have an analysis of that in hand, but the vast majority of the number is in DENA, which we have analyzed on disclosures. It's a combination of the proprietary trading of the structured contracts and the owned assets. We also have normal purchases and sales agreements, as I said in the Paul Patterson answer, that are inline with FAS 133 and though they're similar are treated differently and don't go on the balance sheet in the structured contracts and loaned assets amounts. They don't go up and down as the market moves until the deal settles. They actually stay off the balance sheet until the deal sells. You get the same economic results and the same cash flows and same profit at the end of the day. Just isn't on the balance sheet in the meantime and that's just the way FAS 133 was written.

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**Carol Coale - Prudential Securities**

On page 15, the \$73 million loss under operating revenues from trading and marketing, do we look at that as an \$189 million dollar implied loss on trades that were open and closed during the quarter? I'm taking the \$116 million gain and adding the \$73 million dollar loss back to it and coming up with \$189 million loss. So was there a loss on your trading book?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

I don't think you can do that. The \$73 million on the consolidated segment of income on page 15, emanates from trading and marketing, and it's a feature of the new EITF 02-03 treatment where certain contracts are treated gross at where you put the

revenues in and put the cost of sales and certain contracts are treated net. Where the contracts are treated net, then you put the net amount in the revenue. Sometimes that's a plus and sometimes that's a minus. But it's not the whole story because you also have similar contracts treated gross where you've got the revenue up in the revenue line, but not in that traded marketing net line. Then you've got the costs down below. I apologize, it's really difficult to understand, but we're following the rules.

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**Carol Coale - Prudential Securities**

Maybe this is easier to answer. Weather - could you please break out how much of your electric business benefited from weather and then also in the gas business? I guess that's where you report Union Gas or Canadian Distribution Company. If you could give us an idea on how much weather benefited that as well. Thank you.

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

I think the weather, at Duke Power, was tens of millions. I don't have a precise number. Some tens of millions to the good, but we also had \$35 million dollars to the bad if you like from the cost of dealing with the ice storms. If you take that into account, and I'm not quite sure where you come out, but the number of heating degree days was certainly up in the quarter in the Carolinas. It was up over last year, and it was up over the north.

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**Richard Priory - Duke Energy Corporation - Chairman and CEO**

So we ended up with stronger jurisdictional sales as mentioned by Robert. Likewise, in terms in the wholesale market, weather drove other elements of the wholesale market and we were able to also provide wholesale power into the markets that attracted pricing. So weather drove at least those two elements.

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**Carol Coale - Prudential Securities**

Do you have an idea what it did in Canadian markets?

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**Fred Fowler - Duke Energy Corporation - President and COO**

Yes, Carol this is Fred Fowler. It did help, but it wasn't huge because we had a weather hedge on this year to protect our down side. So we didn't get the full impact of the weather on Union Gas.

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**Carol Coale - Prudential Securities**

Okay. I may contact you off line about the accounting. Thank you very much. I know it's complicated.

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**Operator**

And we'll go next to Zach Schreiber at Duquesne Capital.

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**Zach Schreiber - Duquesne Capital**

Hi, guys. Congratulations on a strong quarter. I was wondering if we can talk about what all this sort of implies as we start to tweak our models for 2004 and before we get to 2004, the 2003 should we annualize this natural gas transmission for the quarter? Does that mean that we think we'll come in sort of above this billion two guidance for natural gas transmission, or is natural gas transmission sort of lumpy with respect to the Union Gas portion which is the LDC portion and this is sort of in the second quarter and in the third quarter it should be down a bit, even given the straight fixed variable rate nature of the interstate pipes?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

We're on track as we see it. It's first and fourth quarter kind of thing. As a consequence, we had a pretty good first quarter. We have to go through the second and third and then we expect some uplift in the fourth quarter as well, just due to the natural behavior of that business.

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**Zach Schreiber - Duquesne Capital**

So first and fourth quarter?

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**Richard Priory - Duke Energy Corporation - Chairman and CEO**

I wouldn't take the first quarter results and project them. We certainly don't. We think we're pretty much on plan here at the end of the first quarter.

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**Zach Schreiber - Duquesne Capital**

Is there any way to sort of quantify at the Duke Energy or North American line what the benefit was to you from the weather, whether the five million megawatt hours that you generate there was in excess of your budget and so forth?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Well, weather has a fairly limited impact on DENA primarily because we have hedged. The vast bulk of that which we anticipate taking into the market. There can be can be a bit of an uplift associated with running the plant a bit more than we anticipated, just simply due to weather. But the major impact is muted simply because of the hedging program that we use.

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**Zach Schreiber - Duquesne Capital**

All right, great.

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

The 5.1 - 5 million megawatt hours that we produce is more or less in line with our expectations to our full year if you take the quarter of actual and the three months forecast we have given you on the disclosures on the slides are more or less are the same estimated production as we gave you in January.

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**Zach Schreiber - Duquesne Capital**

Got it. And just - on the \$340 million dollar of interest expense is that sort the right quarterly run rate for the year now? Or do we expect more kind of capitalized interest to be coming on line or are at we the full run rate?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

I don't think capitalized interest is a big issue this quarter.

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**Richard Priory - Duke Energy Corporation - Chairman and CEO**

This basically picks up the West Coast, a couple of months of West Coast as well. The full effect of West Coast and as we pay down debt going forward, you should see interest expense declining.

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Maybe \$1.2 billion for the full year or so. [Note: *Cash interest* paid for 2003 is expected to be \$1.2B - \$1.3B. The expected annual *interest expense* for 2003 will likely be around \$1.3B. In 2002, *cash interest* was \$1.0B while the actual *interest expense* was \$1.1B]

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**Zach Schreiber - Duquesne Capital**

And just from everything that we know now taking it in sum, and looking at the asset sales, looking at the natural gas transmission growth, continuing challenges at DENA, can you say, and I know you're not going to give official '04 guidance till the end of the year, is there any way to say directionally if we're looking at an up or down year in '04 or flat year?

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**Richard Priory - Duke Energy Corporation - Chairman and CEO**

If I were to answer that question at the beginning of the first quarter, I would have been more pessimistic than I am right now. There have been a few good things that have happened and a few things that give us some hope for 2004 that will continue to see improved behavior in this marketplace. But in terms of us locking into anything, we have to wait until a little bit later in the year to get a grip on this market to make sure we have a good solid sense of where we think it's going. But there are good indicators out there, at least in first quarter. I don't know what the second quarter is going to show. You have to ask me this question at the end of the second quarter as well to get a fix on where we really believe things may be going.

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**Zach Schreiber - Duquesne Capital**

I mean, are those indicators rich that make you think you can hold it flat in '04? Are those indicating something we can get greedy enough to think there's upside?

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**Richard Priory - Duke Energy Corporation - Chairman and CEO**

We haven't run that out and extrapolated it in this point of time. David of course did a chat back on April 22 and we tried to put as many disclaimers on the net income assumptions. We say, how do we put the numbers out and give meaningful credit presentation, and lay the numbers out on the table and make sure nobody walks away thinking that's what we expect one way or the other. I think we did get that one across. Just a continuation of flat net income was a realistic way of putting it on the table if you think next year is going to be better. If you think it will be worse, things get worse.

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**Zach Schreiber - Duquesne Capital**

Thank you so much.

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**Operator**

And we'll go next to Peter Quinn at Goldman Sachs.

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**Peter Quinn - Goldman Sachs**

Good morning, congratulations on the earnings. A couple questions on page 16. I appreciate all the disclosure for us. Can you discuss for us two line items. The \$770 million of cash used in financing activities - I've got dividends of about \$250 million and debt reduction of over \$100 million. Could you explain the additional part to that and also the positive \$656 million of changes

in working capital and other, can you break that down for us? Thanks.

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

There are various things in there, you know, there's distributions to our minorities. There's various other things but you're right, the dividend \$250 million is in there, and any movements in our debts including CP and as well as long-term debt.

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**Peter Quinn - Goldman Sachs**

But the net debt reduction is about \$108 million?

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**David Hauser - Duke Energy Corporation - Senior Vice President and Treasurer**

Yes. For Duke Energy consolidated, that's correct.

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**Peter Quinn - Goldman Sachs**

Okay. How about the changes in working capital and other, any operating activities?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

If you look at the \$656 million for 2003, there are quite a lot of things in there. One thing in there, for instance is inventory reduction, about \$160 million dollars. There are some tax timing difference benefits, about \$300 million dollars. There is collateral reduction. We've reduced collateral over the quarter. Then working capital - the difference in all the receivables and the payables was moved up and down. We have about \$250 million benefit within there. It's all the working capital but I have given you the main numbers.

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**Peter Quinn - Goldman Sachs**

Right. And can you give us some guidance as to what you think that line would be for the full year of '03 going forward?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

What we have done and David set it out on his call and I think the slides are still on our web site, is we have given you what we think the cash generated will be during the year. Taking into account everything that happens, not just that particular component and including asset sales proceeds, and included in the benefits of our

dividend reinvestment plan, we think we'll get \$5.8 billion dollars gross in the quarter. We think our Cap Ex will be around \$3 billion, dividend will be around a billion, which leaves us \$1.8 billion net to the good.

It's easier to do it on a total basis than it is to do the individual lines because some compensate for each other. But the main elements are set out and we can certainly take you through all that again. But the slides on the web site of how we make up the \$5.8 billion and David has gone through a few times on monthly chats, but that's \$1.4 billion of net income. Add back the non-cash items, et cetera, including the benefit of our disposals which we also laid out fairly comprehensively in the 22nd of April chat. There's a slide - if you can't find it, we'll be happy to send you another.

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**Peter Quinn - Goldman Sachs**

I'd assume the defer income taxes was included in there and I was trying to figure out what else was in there and how we expect those to change quarter to quarter?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

I think it's difficult within \$100 million to \$200 million to forecast the particular line. Our working capital on an ongoing basis, over a reasonable period of time, the moment the business isn't growing very much it isn't shrinking too much. It's growing small by small amounts. We've reduced the collateral requirements, reduced the risk on the business. You'd expect working capital to be flat over reasonable period of time, maybe even a little bit positive because of the collateral reductions. But, you know, you do get tax differences and everything else which can move, you know, \$200 million between quarters to our benefit. Over a longer period of time, it should be flattish.

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**Peter Quinn - Goldman Sachs**

Thank you.

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**Operator**

We'll move on to Brian Chin at Smith Barney.

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**Brian Chin - Salomon Smith Barney**

A question for you on the increased wholesale power sales on utility. Just to follow-up. Would it be fair to say that it was more weather-driven and natural gas spike-driven and less of a increase shift on management's part to sell more power to the markets via the utility?

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**Richard Priory - Duke Energy Corporation - Chairman and CEO**

Our desire to sell is always high. The market conditions have to be right. We have weather, plus a series of issues occurring in the fuel markets, and what have you, that presented us favorable opportunities in the wholesale market.

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**Brian Chin - Salomon Smith Barney**

Great. Thank you.

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**Operator**

And we'll go on to Hugh Wynne at Sanford Bernstein.

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**Hugh Wynne - Sanford Bernstein**

Two quick questions. One on page 20, in your chart under Duke Energy North America referring to merchant plant production and hedging information, is there an updated number for your projection of low-risk gross margin for '03 and '04 and '05?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

We have not forecast that for '04 and '05. We have tried to give you good visibility on '03.

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**Hugh Wynne - Sanford Bernstein**

And this is?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Well, for '03, we've got \$193 million dollars earned in the quarter. One of the slides that is on our web site, that we used today, will show that. That means we need to earn \$832 million dollars gross margin in the next nine months to hit a \$200 million dollar EBIT contribution from DENA, assuming \$825 million expenses. I gave in my prepared remarks \$825 million for the total year expenses of DENA. Now, of that \$832 million gross margin, we have said it includes \$470 million of low risk gross margin. So that means that \$362 million dollars that we still have to earn in the next nine months, but the \$470 million is the low risk gross margin for the subsequent nine months.

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**Hugh Wynne - Sanford Bernstein**

Okay. So \$470 million for the next nine months and for the first three months your low risk growth margin was ...

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Once the quarter is over, it's a bit difficult to say what it was, because our total gross margin was \$193 million. The low risk gross margin was in line with our estimates of \$140 million, \$130 million, \$140 million also in the first quarter. Once it's happened, it's difficult to call it low risk anymore because it's happened.

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**Hugh Wynne - Sanford Bernstein**

No risk at this point I guess?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

No risk at this point.

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**Hugh Wynne - Sanford Bernstein**

And the second question just to follow up on an earlier point, page 16, the changes in the working capital and other, first I wanted to confirm in the \$656 million number there does not appear to be a significant component of asset sales. \$656 million being your change in working capital in the first quarter of '03.

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Yes. I think that's fair.

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**Hugh Wynne - Sanford Bernstein**

That's correct? And I believe you said that there was, however, about a \$300 million benefit from timing difference on your taxes by which I take you mean deferred taxes?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Right.

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**Hugh Wynne - Sanford Bernstein**

Okay. Very good. Thank you very much.

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

It's a timing difference in most of the deferred tax.

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**Hugh Wynne - Sanford Bernstein**

Understood. Thanks.

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**Operator**

And we'll take our final question today from John Olson at Sanders, Morris, Harris.

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**John Olson - Sanders Morris Harris**

Good morning. Thank you. The two questions, one is kind of a side bar to one of the earlier questions. Implicitly when you have hedged your DENA power prices for '04 and '05, I'm presuming you have done a back to back hedge on the gas side of the equation too?

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**Richard Priory - Duke Energy Corporation - Chairman and CEO**

We remain substantially hedged, if you will, in the gas side. We don't disclose that side. Primarily we have to leave one out open so we can maintain some uncertainty with regard to our position in terms of our competitors.

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**John Olson - Sanders Morris Harris**

Okay.

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

As Rick said, we're substantially hedged and you saw in the first quarter the fact that the gas price spiked and everything else. That didn't ...

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**John Olson - Sanders Morris Harris**

Didn't hurt?

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**Robert Brace - Duke Energy Corporation - Executive Vice President and CFO**

Right.

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**John Olson - Sanders Morris Harris**

A second question if I may. ConocoPhillips and the possibly of pushing 1 billion of Conoco-Phillips into assets is that dog going to hunt?

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**Richard Priory - Duke Energy Corporation - Chairman and CEO**

Well, the dialogue continues. We continue to discuss that. The plan we're talking about today and for the remainder of 2003, that kind of discussion is absolutely neutral to our plan. But those discussions are presently ongoing and I'm sure that it will come to some conclusion over time. We don't have a time frame or schedule for that, but those active discussions are currently under way.

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**John Olson - Sanders Morris Harris**

Thank you very much.

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**Greg Ebel - Duke Energy Corporation - Vice President of Investor and Shareholder Relations**

Thank you. Thanks very much for joining us today. We will obviously be available from investor relations and see a number of you in New York and Boston over the next couple of days. Thanks very much.

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**Operator**

And this does conclude today's conference call. Thank you all for joining us.