

# 2006 Earnings Review and 2007 Outlook

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# Safe Harbor Statement

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Some of the statements in this document concerning future company performance will be forward-looking within the meanings of the securities laws. Actual results may materially differ from those discussed in these forward-looking statements, and you should refer to the additional information contained in Duke Energy's 2005 Form 10-K filed with the SEC and our other SEC filings, concerning factors that could cause those results to be different than contemplated in today's discussion.

## **Reg G Disclosure**

In addition, today's discussion includes certain non-GAAP financial measures as defined under SEC Regulation G. A reconciliation of those measures to the most directly comparable GAAP measures is available on our Investor Relations website at [www.duke-energy.com](http://www.duke-energy.com).

# Earnings Summary



	4Q06	4Q05	2006	2005
Reported Diluted EPS	\$ 0.31	\$ 0.63	\$ 1.57	\$ 1.88
Discontinued Operations	0.01	(0.18)	0.13	0.73
Special Items	0.11	(0.02)	0.11	(0.88)
Ongoing Diluted EPS	\$ 0.43	\$ 0.43	\$ 1.81	\$ 1.73

- Annual results
  - Ongoing earnings per share up due to addition of Cinergy and lower effective tax rate
  - Offset by lower results at Crescent, International and issuance of new shares from Cinergy merger
- Results for 4Q06
  - Ongoing earnings per share flat
  - Increases from addition of Cinergy and various tax benefits, offset by lower results at Crescent and issuance of new shares from Cinergy merger

# Special Items for 4Q 2006



(\$ millions except per share amounts)	Pre-Tax	After Tax	EPS Impacts, Diluted
Settlement reserves	\$ (165)	\$ (107)	\$ (0.08)
Adjustment to Campeche investment	5	5	0.00
Impairment of Bolivia investment	(28)	3	0.00
Costs to achieve, Cinergy merger	(31)	(20)	(0.01)
Costs to achieve, gas spin-off	(43)	(37)	(0.03)
Tax adjustments	-	8	0.01
Total special items	\$ (262)	\$ (148)	\$ (0.11)

# U.S. Franchised Electric & Gas



	Reported & Ongoing Segment EBIT (\$ millions)			
	4Q06	4Q05	2006	2005
Reported Segment EBIT	\$ 423	\$ 279	\$ 1,811	\$ 1,495
Special Items	-	-	-	-
Ongoing Segment EBIT	\$ 423	\$ 279	\$ 1,811	\$ 1,495

- 4Q06 Segment EBIT increased by \$144 million over 4Q05
- The addition of Cinergy's regulated utilities in the Midwest contributed \$153 million, net of \$16 million in rate reductions associated with the merger
- Duke Energy Carolinas also recognized about \$35 million for rate reductions associated with the merger
- Excluding rate reductions, Carolinas results up \$26 million from 4Q05
- Positive results include lower O&M costs of \$75 million and reduced Clean Air amortization of \$33 million
- Offsets to the positive results include milder weather of \$20 million and lower bulk power marketing of \$15 million

# Commercial Power



	Reported & Ongoing Segment EBIT (\$ millions)			
	4Q06	4Q05	2006	2005
Reported Segment EBIT (Loss)	\$ (29)	\$ (74)	\$ 21	\$ (118)
Special Items	-	75	-	75
Ongoing Segment EBIT (Loss)	\$ (29)	\$ 1	\$ 21	\$ (43)

- Commercial Power segment includes non-regulated generation assets in the Midwest and Duke Energy Generation Services
- 4Q06 ongoing segment EBIT was (\$29) million, down by \$30 million over 4Q05
- Cinergy's non-regulated generation fleet added \$36 million before the impacts of purchase accounting
- Offsetting these results
  - Net purchase accounting charges of \$42 million related to the merger
  - Midwest gas-fired plant losses of \$13 million
  - Costs from synfuels of \$10 million (before the benefit of tax credits)

# Commercial Power (cont.)



<b>Ongoing Segment EBIT Bridge</b>		<b>(\$ millions)</b>
2006 Actual		\$ 21
Adjustments to bridge to 2007 Projected:		
Addition of Q1 Cinergy (before purchase accounting)		100
Prior year under collections of fuel and purchased power		40
Purchase accounting		20
Improvement of Midwest gas-fired assets		10
Other		9
2007 Projected		\$ 200

# International Energy



	Reported & Ongoing Segment EBIT (\$ millions)			
	4Q06	4Q05	2006	2005
Reported Segment EBIT (Loss)	\$ (42)	\$ 97	\$ 139	\$ 314
Special Items	123	-	178	20
Ongoing Segment EBIT	\$ 81	\$ 97	\$ 317	\$ 334

- 4Q06 ongoing segment EBIT declined \$16 million compared to 4Q05
- Decrease is primarily due to lower results at National Methanol
- 4Q06 ongoing results principally exclude
  - \$28 million impairment related to our investment in Bolivia
  - \$100 million litigation reserve related to dispute between formerly operated LNG business and Citrus Trading; assigned as part of the gas spin-off

# Crescent Resources



Reported & Ongoing Segment EBIT		(\$ millions)		
	4Q06	4Q05	2006	2005
Reported Segment EBIT	\$ 17	\$ 104	\$ 532	\$ 314
Special Items	-	-	(246)	-
Ongoing Segment EBIT	\$ 17	\$ 104	\$ 286	\$ 314

- 4Q06 equity earnings declined due to change in ownership (effective 50% ownership), lower residential and commercial property sales and lower land sales
- Offsetting these results were reduced operating expenses

# Other



Reported & Ongoing EBIT (\$ millions)				
	4Q06	4Q05	2006	2005
Reported EBIT (Loss)	\$ (228)	\$ (64)	\$ (581)	\$ (518)
Special Items	137	(55)	251	7
Ongoing EBIT (Loss)	\$ (91)	\$ (119)	\$ (330)	\$ (511)

- Includes cost of corporate governance, merger and gas spin-off costs-to-achieve, captive insurance and de-designated hedges related to DEFS
- 4Q06 ongoing EBIT losses improved by \$28 million due primarily to decrease in the amount of DEFS de-designated hedges
  - All DEFS de-designated hedges expired as of year end 2006
- Special items for 4Q06 include
  - \$31 million for Cinergy merger costs-to-achieve
  - \$41 million for gas spin-off costs-to-achieve
  - \$65 million related to contract settlement negotiations

# Natural Gas Transmission



Reported & Ongoing Segment EBIT		(\$ millions)		
	4Q06	4Q05	2006	2005
Reported Segment EBIT	\$ 336	\$ 344	\$ 1,438	\$ 1,388
Special Items	2	-	(37)	-
Ongoing Segment EBIT	\$ 338	\$ 344	\$ 1,401	\$ 1,388

- 4Q06 ongoing segment results were down \$6 million primarily due to higher O&M costs
- Decreases were partially offset by higher processing margins at the Empress facility

# Field Services



Reported & Ongoing Segment EBIT (\$ millions)				
	4Q06	4Q05	2006	2005
Reported Segment EBIT	\$ 119	\$ 162	\$ 569	\$ 1,946
Special Items	-	(35)	(14)	(1,441)
Ongoing Segment EBIT	\$ 119	\$ 127	\$ 555	\$ 505

- Represents Duke Energy's 50% ownership in DCP Midstream LLC
- 4Q06 equity earnings were primarily down due to lower commodity prices
- Reflecting strong earnings and cash flow, DCP Midstream LLC paid dividends of \$243 million and another \$98 million in tax distributions to Duke Energy in 4Q06

# Other Items



## Q4 2006

- Interest expense for the quarter was \$325 million compared to \$250 million for 4Q05
  - Primarily due to the Cinergy merger
- Lower effective tax rate due to several factors
  - Tax settlements, Bolivia impairment, reversal of taxes and synfuel credits
- Estimated Duke / Spectra split for 2006 ongoing diluted EPS of \$1.07 / \$0.74

## 2007

- Duke Energy initiated stock buyback program
  - Up to \$500 million should share price reach certain levels
  - No shares repurchased to date
- Post-gas spin-off, 2007 opening net cash balance of approximately \$2 billion
- 2007–2009 U.S. Franchised Electric & Gas Cap Ex
  - \$9+ billion total projected spend
    - Carolinas: 67% ; Indiana: 23% ; Ohio and Kentucky: 10%

# Looking Back / Measuring Success



## Merger Scorecard

### Financial

*Workforce reductions*

Status



*Merger Costs-to-achieve*



*Non-fuel O&M:*

Franchised Electric



DEA



Corporate Governance



### Customer Satisfaction & Employee Engagement

*Customer satisfaction (Franchised Electric)*



*Employee pulse survey*



### Integration Project Milestones

*All projects completed*



### Operational

Status

*Safety:*

Total incidents / lost workday



*Reliability:*

SAIDI / SAIFI



Availability (fossil / hydro)



Capacity factor (nuclear)



*Environmental:*

Regulatory citations



*Non-Regulated Capacity Utilization:*

Cinergy assets



MW gas-fired assets



All non-reg assets



# Current Regulatory Calendar



Activity	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Carolinas</b>												
1. New generation – Cliffside												
Pursue CPCN	■											
Pursue recovery of financing costs on CWIP		■	■	■	■	■	■	■				
2. New generation – Nuclear												
Pursue recovery of upfront costs	■	■	■	■								
Pursue recovery of financing costs on CWIP		■	■	■	■	■	■	■				
File COL application				■	■	■	■	■				
NRC approval period						■	■	■	■	■	■	■
3. Merger-related rate credit ends		■	■									
4. File "show cause" / rate case		■	■									
5. NC fuel clause filing		■	■			■	■			■	■	
6. SC fuel clause filing			■	■			■	■			■	■
<b>Indiana</b>												
1. New generation – IGCC												
Pursue CPCN	■	■	■	■	■							
Pursue recovery of financing costs on CWIP and recovery of operating costs	■	■	■	■	■							
2. Merger-related rate credit ends		■	■									
3. Demand side management adjustment		■	■			■	■			■	■	
4. Summer reliability adjustment	■	■			■	■			■	■		
5. Pollution control revenue adjustment and clean coal operating cost adjustment filings		■	■	■	■	■		■	■	■		■
6. Fuel, emission allowances and MISO costs		- Filed quarterly -										

# Current Regulatory Calendar (cont.)

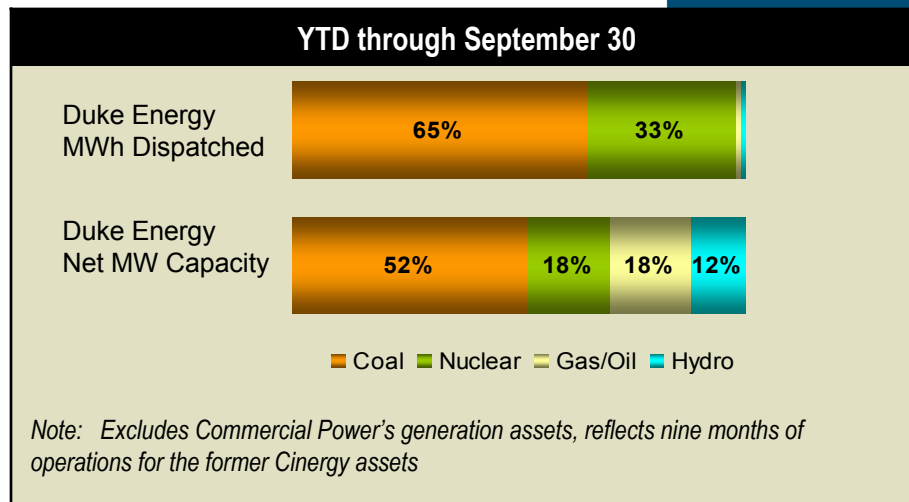


Activity	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Ohio</b>												
1. RSP												
Supreme Court remand	■											
Current program ends								■				
2. Merger-related rate credit ends		- Ended December 31, 2006 -										
3. Transmission cost recovery filing		■		■		■		■		■		■
4. Fuel & purchased power and SRT filing		- Filed 1 <sup>st</sup> month of each quarter -										
5. Gas cost adjustment		- Filed monthly -										
6. AMRP – Gas	■				■				■			
<b>Kentucky</b>												
1. Rate case – Electric		- New rates effective January 1, 2007 -										
2. Fuel clause		- Filed monthly beginning March 2007 -										
3. Power / emission allowance sharing		- Expect to file quarterly beginning Q2 2007 -										
4. Merger related rate credit		- Runs through 2011 -										
5. AMRP – Gas	■				■				■			
6. Gas cost adjustment		- Filed monthly -										

# Federal Regulatory Strategy



- Key Congressional issue
  - Carbon
  - Hearings currently underway
- Potential impact to Duke
  - Third-largest consumer of coal
  - Over 100 million metric tons of carbon output annually
- Proactive strategy
  - USCAP
  - Cap-and-trade
  - Fair and equitable allocation



**Bundled Retail Rate Comparison**

	National Average	Duke Energy				
		SC	IN	KY <sup>(1)</sup>	NC	OH
Cents / kwh	8.54	5.46	5.98	6.01	6.40	7.36
% of National Avg.		64%	70%	70%	75%	86%

*Source: EEI Typical Bills Summer 2006*

*(1) Does not reflect recent rate settlement, which provides for a 20% rate increase, effective Jan. 1, 2007*

# Value Proposition



- Growth
  - Sales growth
  - Cost reductions
  - Return on capital investments
- Value
  - Proactive regulatory strategy
  - 2007 EPS incentive target of \$1.15 per share, based on ongoing diluted EPS
  - 4 – 6% ongoing diluted EPS growth through 2009
  - 70 – 75% dividend payout ratio; expect dividend growth consistent with EPS growth

