

# Second Quarter Earnings Review



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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 2006 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



	2Q07	2Q06
DUK Reported Diluted Earnings per Share	\$ 0.23	\$ 0.28
Special Items	0.01	0.08
Discontinued Operations	0.01	(0.12)
DUK Ongoing Diluted Earnings per Share	\$ 0.25	\$ 0.24

- Increase in ongoing earnings due to improved results at FE&G, Commercial Power and International
  - Increase in ongoing EBIT of approximately 30% in these three segments combined compared to 2Q06
- Offset by lower results at Crescent
- 2Q07 special items:
  - Severance costs and costs to achieve Cinergy merger of \$(0.01) per share
- Expect to exceed 2007 employee incentive target of \$1.15 ongoing diluted EPS

# U.S. Franchised Electric & Gas



Reported & Ongoing Segment EBIT (\$ millions)		
	2Q07	2Q06
Reported Segment EBIT	\$ 452	\$ 351
Special Items	-	-
Ongoing Segment EBIT	\$ 452	\$ 351

- 2Q07 segment EBIT increased by \$101 million over 2Q06
- Increase due primarily to:
  - Favorable weather
  - Increased wholesale volumes
  - Lower purchased power expenses
  - 2006 results included \$18 million charge due to recalculation of BPM sharing expense and \$12 million donation related to the merger approval in N.C.
- Offset by higher O&M due primarily to plant outages and storm costs and \$22 million more in merger-related rate reductions
- 2Q07 results also include bulk power marketing contribution of \$17 million (net of sharing) and N.C. Clean Air amortization of \$56 million

# Commercial Power



Reported & Ongoing Segment EBIT (\$ millions)		
	2Q07	2Q06
Reported Segment EBIT	\$ 35	\$ 20
Special Items	-	-
Ongoing Segment EBIT	\$ 35	\$ 20

- 2Q07 segment EBIT improved \$15 million over 2Q06
- Increase due primarily to
  - Higher retail demand
  - Favorable MTM impact
  - Improved results from Midwest gas-fired generation
    - Current ongoing EBIT projection: ~\$30 million in losses for full year 2007 and break-even by 2009
- Offset by higher O&M costs due primarily to outages and increased synfuel costs (before the benefit of tax credits)

# International Energy



Reported & Ongoing Segment EBIT (\$ millions)		
	2Q07	2Q06
Reported Segment EBIT	\$ 97	\$ 24
Special Items	-	55
Ongoing Segment EBIT	\$ 97	\$ 79

- 2Q07 ongoing segment EBIT increased \$18 million compared to 2Q06
- Increase primarily due to increased margins in Latin America
  - 2Q06 included outage in Peru that resulted in higher purchased power costs

# Crescent Resources



Reported & Ongoing Segment EBIT (\$ millions)		
	2Q07	2Q06
Reported Segment EBIT	\$ 17	\$ 174
Special Items	-	-
Ongoing Segment EBIT	\$ 17	\$ 174

- 2Q07 segment results declined compared to 2Q06, due primarily to the following:
  - 2Q06 results included gains of \$81 and \$52 million on property and land sales
  - 2Q07 results represent Duke's effective 50% ownership

# Other



Reported & Ongoing EBIT	(\$ millions)	
	2Q07	2Q06
Reported EBIT (Loss)	\$ (66)	\$ (151)
Special Items	24	74
Ongoing EBIT (Loss)	\$ (42)	\$ (77)

- 2Q07 ongoing EBIT losses improved by \$35 million compared to 2Q06, due primarily to lower corporate overhead and governance costs
- 2Q07 special items include:
  - Severance costs of \$12 million
  - Cinergy merger costs-to-achieve of \$12 million

# Other Items



- Net cash balance of approximately \$900 million on 6/30/07
  - ~\$1.6 billion of cash, cash equivalents and short-term investments
  - Net of ~\$700 million in short-term commercial paper
- Interest expense for the quarter was \$160 million compared to \$185 million for 2Q06
- 2Q07 effective tax rate of 28% compared to 21% in 2Q06
  - 2Q06 tax rate impacted by favorable merger-related adjustments to state income taxes
  - 2Q07 tax rate includes recognition of \$23 million in synfuel credits
- Projected effective tax rate of 27% for 2007
- Share repurchase plan ended June 30, 2007; no shares repurchased

# Earnings Growth Drivers



Steady Sales Growth	Enhanced Cost Reductions	Significant Capital Reinvestment
<ul style="list-style-type: none"><li>▪ Annual load growth<ul style="list-style-type: none"><li>▪ 1.5% in Carolinas</li><li>▪ 1.0% in Midwest</li></ul></li><li>▪ ~65,000 new customers per year</li></ul>	<ul style="list-style-type: none"><li>▪ Consistent focus on cost control</li><li>▪ Creation of continuous improvement team</li></ul>	<ul style="list-style-type: none"><li>▪ Recovery of and on investment</li><li>▪ Current focus on regulatory and legislative process</li></ul>

# Regulatory Update: N.C. Legislation

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- Balanced approach to meeting future N.C. energy needs
- Establishes renewable portfolio standard to be phased in
  - 3% by 2012 . . . 12.5% by 2021
  - Provides cost recovery for energy efficiency
- Provides cost recovery for
  - Environmental re-agents
  - Energy component of purchased power
  - Avoided-cost portion of renewables
- Gives Commission enhanced authority to grant recovery of financing costs for new power plants during construction
- Passed by N.C. General Assembly. . . awaits decision from the governor

# Regulatory Update cont'd.



N.C. Rate Case	Ohio Gas Rate Case	Ohio RSP
<ul style="list-style-type: none"><li>▪ Requested \$140 million increase in rates (3.6%)</li><li>▪ Effective January 1, 2008</li><li>▪ Would be first base rate increase in 16 years</li><li>▪ Requested rate increase addresses rate parity<ul style="list-style-type: none"><li>▪ Residential: 6.8%</li><li>▪ General service and industrial: 2.0%</li></ul></li><li>▪ Review of Clean Air Act compliance costs</li></ul>	<ul style="list-style-type: none"><li>▪ Requested \$34 million increase in rates (5.8%)</li><li>▪ Approval to continue tracker for accelerated gas main replacement program</li><li>▪ If approved, effective in spring of 2008</li></ul>	<ul style="list-style-type: none"><li>▪ RSP expires in 2008</li><li>▪ 1,500 MW currently needed, 900 MW more by 2013</li><li>▪ Three options<ul style="list-style-type: none"><li>▪ 10-year extension of RSP</li><li>▪ Solicit bids for 2009</li><li>▪ Short-term extension of RSP until long-term plan is finalized</li></ul></li></ul>

# Regulatory Update cont'd.



New Coal and Gas Generation (N.C.)	630 MW IGCC Plant (IN)	Energy Efficiency and Nuclear
<p><u>Cliffside</u></p> <ul style="list-style-type: none"> <li>▪ \$1.8 billion updated cost estimate (excludes \$600 million AFUDC)</li> <li>▪ \$62.5 million in tax credits</li> <li>▪ Air permit expected 3Q07</li> </ul> <p><u>Gas-Fired Generation</u></p> <ul style="list-style-type: none"> <li>▪ Two 600-800 MW combined-cycle gas plants</li> <li>▪ Anticipate CPCN filing in 4Q07</li> </ul>	<ul style="list-style-type: none"> <li>▪ Completed evidentiary hearings in June</li> <li>▪ Expect order in 4Q07</li> <li>▪ Expect \$460 million federal, state and local tax incentives</li> <li>▪ ~\$2 billion cost estimate                             <ul style="list-style-type: none"> <li>▪ Estimate includes ~\$200 million AFUDC</li> <li>▪ Excludes tax incentives</li> </ul> </li> </ul>	<p><u>Energy Efficiency</u></p> <ul style="list-style-type: none"> <li>▪ Filed save-a-watt plan in May with N.C. Commission                             <ul style="list-style-type: none"> <li>▪ Return on and of 90% of avoided costs</li> </ul> </li> <li>▪ Ohio and Kentucky approved enhanced DSM programs</li> </ul> <p><u>Nuclear</u></p> <ul style="list-style-type: none"> <li>▪ Application for COL to be filed by the end of 2007</li> <li>▪ Expect to file CPCN in S.C. in 4Q07</li> </ul>

# Regulatory Update cont'd.



Wind Energy	Climate Change
<ul style="list-style-type: none"><li>▪ Recent acquisition of 1,000+ MW of wind development projects</li><li>▪ Currently 23 states with renewable portfolio standards</li><li>▪ Approximately \$400 million in CapEx planned through 2009</li></ul>	<ul style="list-style-type: none"><li>▪ Seven competing bills currently</li><li>▪ Key economic issue: allowance allocation</li><li>▪ Duke Energy supports economy-wide cap and trade<ul style="list-style-type: none"><li>▪ Treats all industries equitably</li></ul></li><li>▪ Bingaman-Specter bill<ul style="list-style-type: none"><li>▪ Achievable targets</li></ul></li></ul>

# September Analyst Conference

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- September 14 in New York City
- Updated five-year CapEx plan
- Update ongoing earnings growth rate
- Regulatory update
- Review of operations by Duke Energy senior management team

# 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 target through 2009



