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Monthly Chat

December 18, 2001

Richard Osborne
Executive Vice President
and Chief Risk Officer

David Hauser
Senior Vice President
and Treasurer



Today's Topics

- Financial strength and liquidity
- Risk management expertise

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Financial Strength

David Hauser
Senior Vice President
and Treasurer



Key Financial Targets

- Earnings per Share
 - ◆ Targeting 10-15% cumulative annual growth over a base of \$2.10 in 2000
 - ◆ Expect to exceed this target in 2001 and expect to be at the high end of this range in 2002
- Capital Funding
 - ◆ Total of \$6-8 billion per year, including approximately \$1.5 billion in maintenance capex
 - ◆ Approximately one-half of requirements will be funded by internally generated cash
 - ◆ Does not include Westcoast

Diverse Energy Asset Base Underpinned by Strong Cash Flow



- Consistent cash flows from franchised electric and gas transmission businesses
- Westcoast acquisition adds lower risk asset base while retaining strong earnings potential

Field Services



Pipelines



Gas



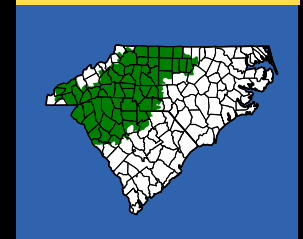
Generation



Power



Distribution



Strong Commitment to “A” Credit Ratings

- Demonstrated commitment through common equity transactions in 2001
- Historical legacy of ratings commitment over past two decades
- After the announcement of the Westcoast acquisition, S&P, Moody’s and Fitch reaffirmed Duke Energy’s ratings

Duke Energy

FRMB: AA-/Aa3/AA-
Sr Notes: A+ / A1 / A+
CP: A-1 / P-1 / F1+

Duke Capital

Sr Notes: A / A3 / A
CP: A-1 / P-2 / F1

Texas Eastern Transmission

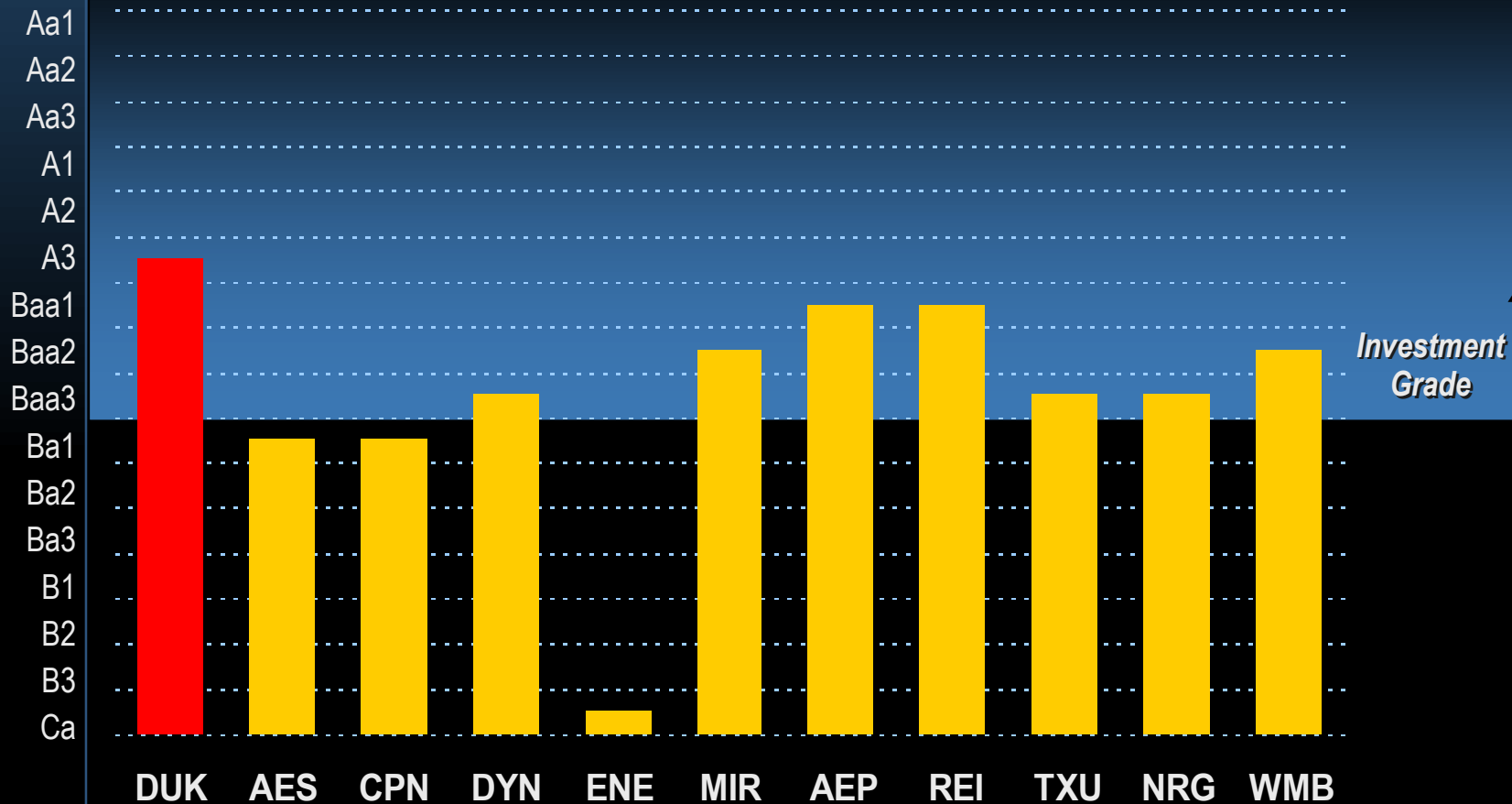
Sr Notes: A+ / A2 / A-

Duke Energy Trading & Marketing

Corporate Credit: A-

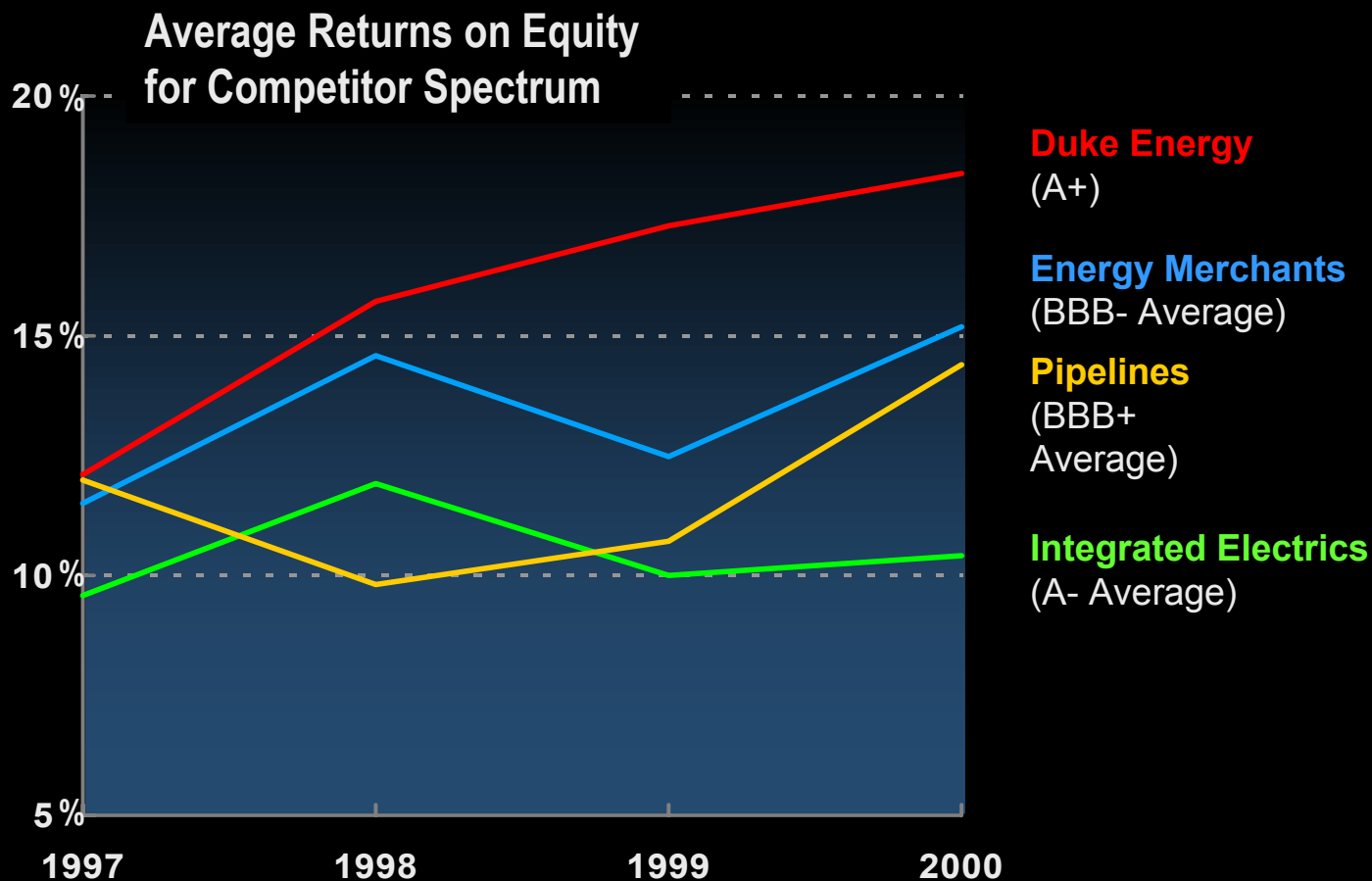
Industry Credit Ratings

Moody's Credit Ratings



Note: The previous version of this slide included erroneous information for Dynegy and TXU. The information above has been verified with Moody's (12/18/01). The rating for DUK represents Duke Capital. Duke Energy Corporation's rating is A1.

Effective Use of Capital



Integrated Electrics include: AEP, D, EXC, PEG, REI, SO, TXU

Energy Merchants include: AES, CPN, DYN, MIR

Pipelines include: EPG, KMI

Balance Sheet Strength

Balanced capitalization program provides financial flexibility and supports long-term growth

As of September 30, 2001

| <i>US\$ in millions</i> | <i>Actual</i> | <i>Percent</i> | <i>Adjusted</i> ⁽²⁾ | <i>Percent</i> |
|-------------------------------------|---------------|----------------|--------------------------------|----------------|
| Short-term Debt | \$ 951 | 3% | \$ 201 | 1% |
| Long-term Debt ⁽¹⁾ | 11,502 | 38% | 11,502 | 38% |
| Equity Units | 875 | 3% | 1,625 | 5% |
| Total Long-term Debt | 12,377 | 41% | 13,127 | 43% |
| Preferred Securities ⁽¹⁾ | 1,667 | 6% | 1,667 | 6% |
| Minority Interest | 2,528 | 8% | 2,528 | 8% |
| Stockholders' Equity | 12,501 | 42% | 12,501 | 42% |
| Total Capitalization | \$30,024 | 100% | \$30,024 | 100% |

(1) Includes current maturities

(2) Reflects pro-forma adjustment for \$750 million Equity Units issued in November, 2001

Equity Transactions for 2001

| | Common Equity | Equity Units | |
|-----------------|---------------|---------------|---------------|
| | March | March | November |
| Shares/Units | 28.75 million | 35 million | 30 million |
| Share/Ref Price | \$38.98 | \$38.98 | \$40.125 |
| Yield | n/a | 8.25% | 8.00% |
| Premium | n/a | 22.0% | 18.5% |
| Maturity | n/a | May 2004 | Nov 2004 |
| Gross Proceeds | \$1.1 billion | \$875 million | \$750 million |

Liquidity: Broad and Deep

| | Duke Energy | Duke Capital |
|-------------------------|-----------------|-----------------|
| CP Program | \$1,250 million | \$1,550 million |
| Avg 2001 Balance | \$1,050 million | \$625 million |
| LOC Facility | n/a | \$1,075 million |
| Avg 2001 Usage | n/a | \$150 million |
| ECN Program | \$500 million | \$1,000 million |

(1) Amounts stated in US dollars

Financial Strength

- Strong Balance Sheet
- Deep Liquidity
- Transparent Financial Structure
- Executive Management Commitment to Retaining Financial Strength and Credit Ratings

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Risk Management

*Richard Osborne
Executive Vice President
and Chief Risk Officer*



Risk Management



Safeguarding Assets Exposed to Commodity Price Risk

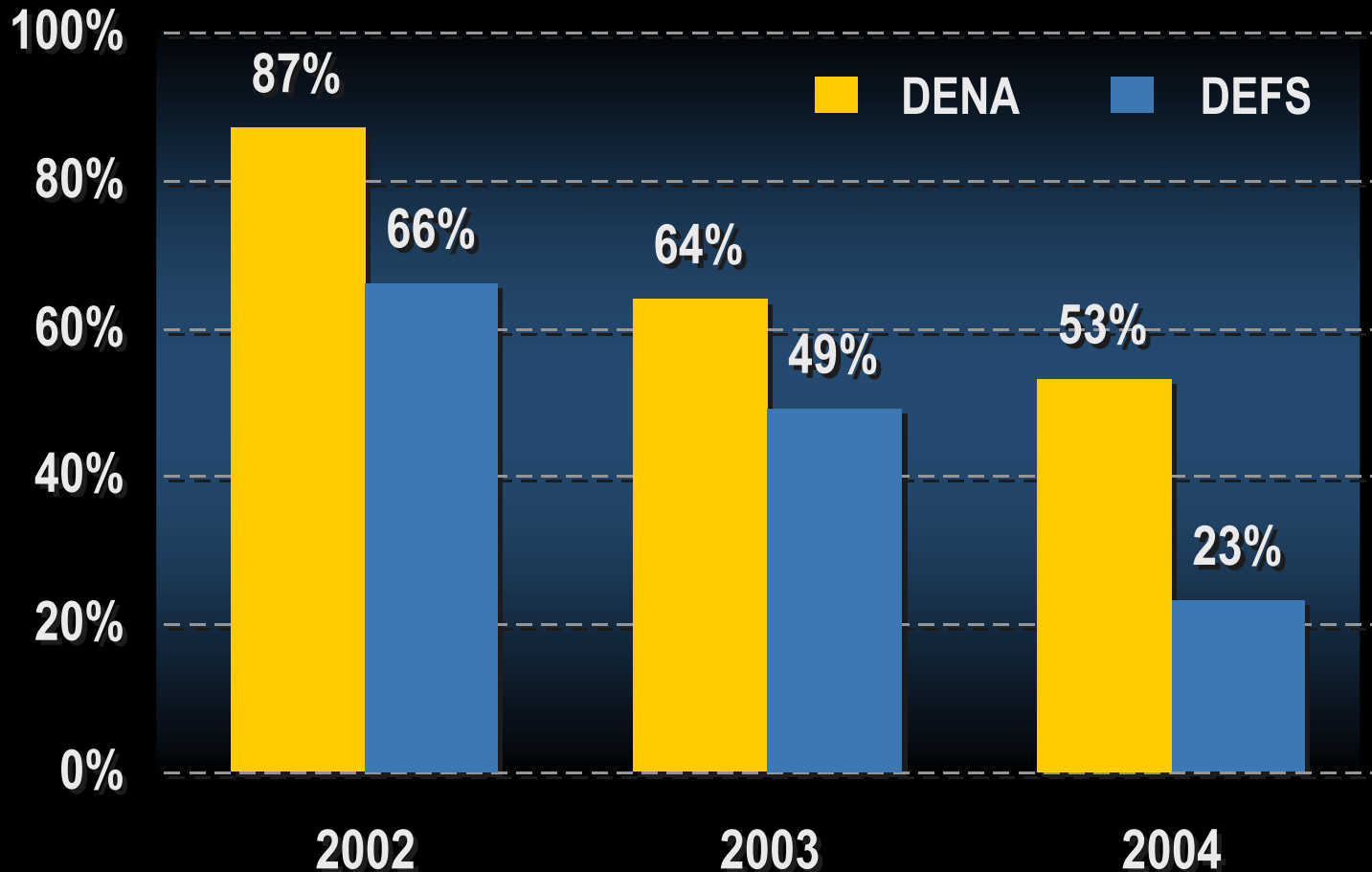
- Designed hedge program to mitigate earnings volatility
- Guidelines consider term structure of the markets
- Guidelines influenced by mean reversion of markets
- Hedge percentage targets based on forward market price curves



Safeguarding Assets Exposed to Commodity Price Risk



Current Hedges



Safeguarding Capital Committed to Trading and Marketing



- Daily Earnings at Risk (DER) - Value at Risk Metric used to estimate the maximum expected portfolio loss over the next day with a 95% confidence level
 - ◆ YTD 2001: NAWE has averaged less than \$14 million in DER
 - ◆ 2000: NAWE averaged \$16 million in DER
- Notional Limits - Limits placed on the size of portfolio positions to provide catastrophic loss protection, under extreme market conditions
- Greek Limits - Limits placed on portfolio options greek exposure to control financial risk under normal and extreme market conditions

Credit Risk Management - Objectives

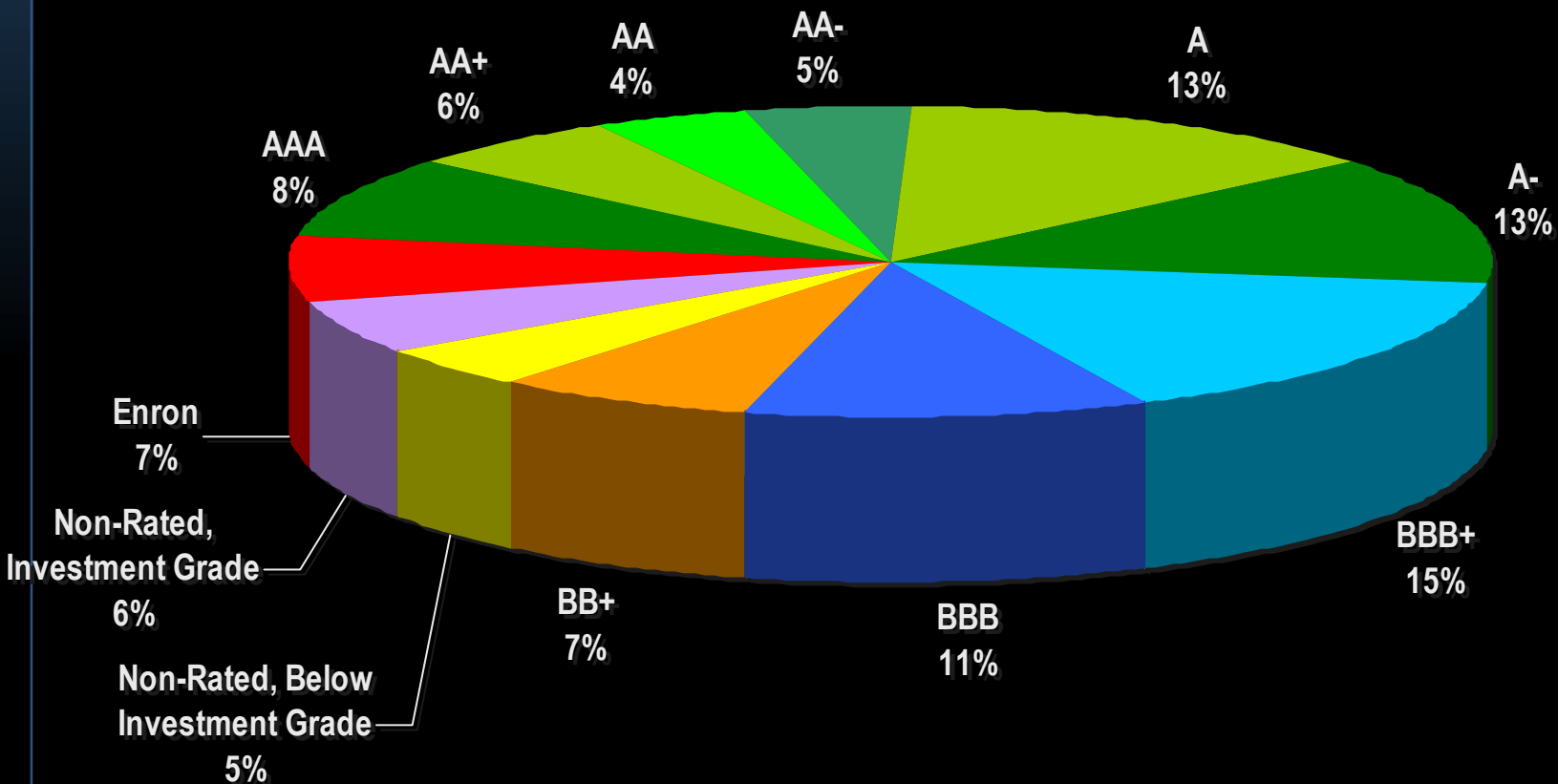
- Establish standards for effective and efficient credit risk management, including organizational accountabilities, exposure calculations, credit procedures and information management
- Maximize risk-adjusted returns by maintaining credit exposures within acceptable parameters

Credit Risk Management - Process

- Financial requirements for unsecured lines of credit
- Counterparty risk assessment
 - ◆ Assignment of credit limits using corporate credit model; agency senior unsecured debt ratings are also considered
- Types of credit exposure managed
 - ◆ Accounts receivable – principally controlled through enforcement of credit limits
 - ◆ Mark-to-market value – principally controlled through the use of collateral via Master Agreements
- Primary tools to manage counterparty credit exposure
 - ◆ Collateral – enforced via Master Agreements and managed by a dedicated Margin Desk
 - ◆ Netting via Master Agreements
 - ◆ Credit limit enforcement - “Halt Trading”

Credit Quality

Top 30 Trading Exposures November 30, 2001



What Differentiates Duke Energy?

- Disciplined business strategy
- Diversified portfolio of energy assets and positions
 - ◆ Geographic location
 - ◆ Multiple commodities
- Financial strength
- Risk management skills and expertise
- Strong track record of delivering long-term earnings growth and sustainability



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