Duke Energy Investor Relations Monthly Chat
Wednesday, March 27, 2002, 11:00 a.m. ET

Operator: Good morning everyone, and welcome to the Duke Energy monthly chat conference call. Today's call is being recorded. At this time, for opening remarks, I would like to turn the call over to the Senior Financial Analyst of Investor Relations, Ms. Jennifer Traylor. Ms. Traylor, please go ahead.

Jennifer Traylor: Hello everyone, and welcome to our March monthly chat. With me today is Robert Brace, Duke Energy's Executive Vice President and Chief Financial Officer. Today's call will focus on the earnings outlook for the year and updated numbers for the new financial disclosures related to our trading activities that you will see in our annual report and 10K. Today's call is also being webcast on our website at www.duke-energy.com, and a copy of the slides will be available for download following the call. Before Robert begins, I would like to review with you our safe harbor statement. Some of the things we will discuss in today's call in reference to our views on future company performance and results, and other statements not dealing with historical facts, will be the forward looking statements within the meaning of the securities law. This is to inform you that actual results may materially differ from those discussed in these forward looking statements, and you should refer to the additional information contained in our filings with the SEC concerning factors that could cause these results to be different from those contemplated in this discussion. Robert will take your questions at the end of today's call, and also joining us for the question and answer session is Bill McCollum, Vice President of Duke Power's Oconee Nuclear station, and Bill will be available to take your questions concerning our nuclear operations. Robert?

Robert Brace: Thank you. Good morning everyone. Today, I would like to talk about the earnings picture for Duke Energy for the coming year. First and foremost, we still expect earnings towards the high end of our target range of 10% to 15% compound annual growth in EPS. We established this new target a year ago and far surpassed expectations in 2001, increasing earnings per share from ongoing operations by 26%. These were exceptional results, and as we have told you before, we really do not expect a repeat of the market dynamics that allowed us produce such a high growth rate in 2001. This is why we have encouraged investors to continue to expect earnings in that 10% to

15% range, which for 2002, translates into an EPS range from $2.54 to $2.78 per share.

Looking at 2002, we are focusing on more normalized expectations for commodity pricing and volatility in the energy markets, more business opportunities to grow our energy businesses, primarily through acquisitions and internal development. Some forecasters are indicating that there could well be a recovery in the US economy later in 2002, and if that were to be so, we believe energy demand would likely increase as a result. The energy markets are currently experiencing good levels of liquidity and moderate demand growth.

We believe Duke Energy is uniquely positioned to create value however commodity prices move, and our financial strength and flexibility will allow us to take advantage of business opportunities in energy markets in the US and around the world. We remain firmly committed to our diversified strategy of combining energy asset positions with trading expertise. Our integrated energy merchant strategy provides the ability to weather market cycles, and it allows us to deliver consistent earnings growth.

One thing to remember, however, is that we do operate in a seasonal business, focused primarily on the cooling season, which provides earnings in a cyclical pattern. The earning stream at Duke Energy looks a bit like a Bell curve, with the largest percentage of our earnings realized in the third quarter of the year. The major contributors during the summer months are the regulated utility in the Carolinas and DENA, with its growing merchant generation fleet of combined cycle and peaking facilities. You will recall that our merchant generation portfolio runs up to the cooling season, primarily May through September. On average, our peaking facilities realize roughly 95% of their annual contribution during that cooling season, while combined cycled facilities realize about 60% to 65% of their annual contribution during that same period. This summer, DENA expects to complete the construction of another 6700 megawatts, nearly doubling its current operating portfolio of 8000 megawatts. These new facilities will provide significant earnings growth in the third quarter and will also affect gas storage and transmission. Returning our attention to the first quarter. The strong results we felt for the first quarter last year were the result of the unusual market dynamics and our ability to create value from those opportunities. So when determining our forecast for the planning horizon, we use normalized historically based assumptions to predict earnings for future periods. In the past years, our plans assume that the first quarter would contribute about 20% to 25% of the year's earnings. Based on our current assumptions and the change in seasonality in our business, we expect the first quarter of 2002 to provide a percentage contribution to annual earnings in the range of the low to mid teens for this year. These results are consistent with our plans for the year and consistent with our plans to be towards the high end of the 10% to 15% range for EPS growth that we have discussed with you in the past. These results are also in line with our management incentive plan, which currently target $2.75 per share for 2002.

We believe that the first quarter of 2002 cannot easily be compared with last year's first quarter. You will recall that commodity prices and volatility levels were at record levels last year. Last year, natural gas was about $7.00 and NGL pricing was in the $.60 range. This year, the prices on these commodities are about half of what they were at this time last year. Last years spark spreads and volatility levels were significantly higher than historical norms. In looking ahead, we currently see an increase in power prices as a result of rising gas prices and concerns about availability of nuclear generation this summer.

Weather continues to play a major factor in our earnings for Franchised Electric. Unlike the first quarter of 2001, which benefitted from winter temperatures slightly colder than normal, this year, winter in the east has been warmer than normal. Gas marketing and storage as well as natural gas liquids are also affected by these weather patterns. On the up side, whilst gas transmissions earning stream is relatively even throughout the year, the group will see a boost to earnings as a result of the acquisition of Westcoast Energy, which we will consolidate from the month of March. Listed here is our EBIT growth guidance for Duke Energy's main business groups. These numbers are the same since our last review on the year-end earnings call in January with the exception of natural gas transmission. The gas transmission group has increased its range from 5% to 7%, to 7% to 9% following the closing of the Westcoast acquisition this month. These EBIT growth targets support our stated guidance for 10% to 15% compound annual growth in EPS from the $2.10 base in the year 2000. Results in that range of 10% to 15% growth continue to be a goal that Duke Energy believes we will achieve over the next several years. For 2002, we are on plan to earn towards the high end of that range. Gas Transmissions greatest push for growth has been the acquisition of Westcoast Energy, which closed on the 14th of March.

There are several strategic benefits to this transaction. Westcoast's extensive network of natural gas assets will extend Duke Energy's integrated energy businesses across North America, providing a strong platform for future growth. Westcoast's energy asset portfolio provides the opportunity for Duke Energy to leverage its merchant expertise to enhance earnings growth, and Westcoast will provide access to new important supply sources and markets that could not reasonably be developed without this acquisition. Integration of Westcoast is well under way, and we are exploring opportunities to enhance the value of these assets and businesses for future earnings growth. The management team is in place, and synergies are on track. For 2002, we expect earnings accretion of approximately $.03. This amount represents 10 months of earnings, beginning in March.

Next, I would like to review the financial disclosures that we provided in January. Over the last couple of months, we have reviewed our estimates provided to you in January, refined our numbers, and further improved the disclosures. These numbers are consistent with disclosures in our 10K and annual report, which will be made public tomorrow. The first thing I would like to review is Duke Energy's daily earnings at risk, or DER. The daily earnings at risk computations are based on a historical simulation, which utilizes price movements over a specified period of time, generally between 7 to 14 days, to simulate forward price curves in the market, a useful estimate, at a confidence level of 95%, a favorable or unfavorable impact of 1 day's price movement on the existing portfolio. The average DER for Duke Energy in 2001 was $21 million, compared with an average of $18 million in the year 2000. In January, we discussed with you an average DER for the year of $16 million, which did not include a contract specific DER of $5 million related to an origination contract initiated and hedged during 2001.

Next, I would like to review our mark-to-market and accrual portfolios for the company. First is the evaluation of these portfolios as of the end of the year, and also, the cumulative percentages of the current mark-to-market and accrual portfolios that will be realized over the next several years. Evaluation of the mark-to-market portfolio on December 31 was $1.1 billion, and the accrual book at that point in time was valued at $6.4 billion. The differences in the mark-to-market portfolio from the number we provided in January are due to: (1) the amount we provided in January did not include reserves, whereas the figure we have disclosed in the annual report and the 10K does, and (2) the amount in January included some Enron-related contracts that had not at that time been taken out of the books; these have been taken out now and closed out, and these are the numbers that will be included in our 10K disclosure. The minor change in the accrual amount is due to the time period used in calculating the total value. The $6.4 billion amount relates to the portfolio value through to the end of 2010. A forward value of the accrual and mark-to-market books is roughly an 80/20 split of the total valuation of the portfolio and is subject to fluctuations over time as the market prices change.

Where the realization period is concerned, the mark-to-market portfolio, the underlying contracts mature at 33% in 2002, 48% cumulative in 2003, and 61% in 2004; on the re-accrual books, 13% in 2002, 26% in 2003, and 39% in 2004. So, these percentages to show that for the mark-to-market book, about half the value will be realized over the next 2 years. We believe this realization period is appropriate for Duke, particularly in the light of our balance sheets and liquidity position. The strength of our financial position enables us to take advantage of transactions with a somewhat longer duration of cash flow, but with higher margins. For Duke Energy, the unrealized portion of mark-to-market margin included in our 2001 results were $619 million , compared with $139 million in 2000. These amounts represent the gross margin before minority interests, so keep in mind that this number represents margin and not EBIT. To get EBIT, it would be necessary to deduct certain variable costs associated with these amounts, which average about 15% to 20%.

To put that in perspective, it represents in total about 12% of Duke Energy's total EBIT for 2001. Another method that might be helpful to you is the percentage of our merchant generation and capacity of those hedged forward. The numbers, as of the 31st of December, were for 2001, as of the 31st of December, we had sold 91% of our expected output for 2002, 62% of our expected output for 2003, and 62% of our expected output for 2004. These numbers are essentially the same as we discussed with you at the year end, and these hedge percentages represent the percentage of expected output we had sold forward or hedged at the 31st of December 2001. We intend to update this information for you on a quarterly basis going forth, and we hope that you will find it useful.

That concludes my prepared remarks, and I would be very happy to take your questions. Thank you.

Operator: Thank you. Today's question and answer session will be conducted electronically. If you would like to ask a question, you may signal us by pressing the star key followed by the digit one. We will take your questions in the order that you signal us and take as many questions as time permits. Once again, press star 1 to ask a question. We will pause a moment to assemble the roster. Our first question will come from Andy Levy with Wagner Scott Bear.

Andy Levy: Hi. How are you doing guys? I just wanted to clarify, the mark-to-market was 600 and something, if you would just repeat that, I just did not get the number. Also, I do not know if you can give us this number, but what are you forecasting for 2002 in your earnings as far as mark-to-market. I mean, obviously, it is not predictable, but any type of ballpark as to what percent of the earnings may come from that?

Robert Brace: Well, the number in 2001 for Duke Energy as a whole was $619 million. It is really difficult for us to forecast that, because we do not know what contracts we are going to do between now and the end of the year, and we do not know which one of those are going to be done on an accrual basis and which ones are going to be done on a mark-to-market basis. Last year, the mark-to-market $619 million represented about 12% of our total EBIT, so something around there is not an unreasonable assumption, but it could easily be a few percentage points lower or a few percentage points higher.

Andy Levy: Just two more questions real quick. Can you give us an update on the regulatory audit happening in North Carolina, and also, can you give us an update on, I forgot the second question, so just the first question if fine.

Robert Brace: All right, well you can come back when I am finished. On the regulatory audit, there is no real news at the moment. It is happening, and it is proceeding in an orderly way. Nothing untoward has happened. Nothing has come out of it yet, but it is not finished, and I think they will finish their report and the authorities in North and South Carolina will review that and decide what to do. I mean, just to repeat, we do not believe there is any problem here underlying, but obviously, the authorities are allowed to review this in the way that they are doing.

Andy Levy: What is the timing on hearing something?

Robert Brace: Well, this is not in our hands. I would think it is sort of in another 3 months, but it is not in my hands.

Andy Levy: I did remember my last question, and I will let somebody else go. If you could just give us an update, obviously you have, of your nuclear guy there, if you have something to say to give us an update on that relative to what is going on with First Energy.

Robert Brace: Well, why don't we do that now? Bill, are you there?

Bill McCollum: Yes.

Robert Brace: Would you have a few comments on what has been in the papers recently?

Bill McCollum: I guess the comment on the issues at First Energy would be that these issues arise out of some longer term issues, which have been subject of some NRC bulletins over the past year or so. We, at Duke, have been on the forefront on those issues in terms of understanding and dealing with the technical issues involved, and the recent release of the preliminary report from First Energy, those results are consistent with the assumptions that we have been making and are consistent with the actions that we have been taking over the last year, so we do not see any surprises coming out of that information.

Robert Brace: Thank you very much.

Andy Levy: Thank you.

Operator: Our next question will come from Tom Hamlin with Wachovia Securities.

Tom Hamlin: Good morning Robert.

Robert Brace: Good morning.

Tom Hamlin: Could you update us on any financing plans that you have for the second quarter here, particularly related to the Westcoast acquisition? There seems to be a lot of talk about a convertible issue or an equity issue.

Robert Brace: Well, all that we have said is that, at some point in the next 12 months, our current thought is that we will issue up to $1 billion dollars worth of mandatory convertible on a similar basis to that that we issued last year. So, what we issued last year had a 3-year term and a roughly 20% conversion premium, but we do not have any particular deadline for that in the next 3 months. You know, we do not have any particular plans for the next 3 months. We will just look at market conditions and decide what is appropriate as we go along. We have no plans to issue equity, per se, at the moment. We did issue some equity for the completion of the Westcoast deal. We issued 49.9 million shares to the Westcoast shareholders. If you remember, it was 50% equity and 50% cash, and the Duke Energy share prices are at the low end of the scale of the cap and the collar, so we issued the maximum number of shares that could be issued at 49.9 million, so there is a bit of extra dilution there compared with us being at the upper end of the collar.

Tom Hamlin: You also mentioned that you saw some favorable signs on commodity pricing in various markets. Has your forward sold position in North America changed since the year-end numbers that you repeated here earlier? Has that number gone up, or have you re-sold positions? Can you give us any collar on that activity in the first quarter?

Robert Brace: Well, there is constant movement of these numbers, and we will be disclosing the Q1 numbers after Easter, in April. The hedging guidelines that we give our traders would not encourage them to sell a lot forward at the current market prices. You know, they get a range; the way it works is that they have a range within which they can deal at the point in time. If the commodity prices or the spark spread is relatively low, then the hedging guidelines are that they will sell far less than they would have done if the spark spread was higher. So, as the spark spread increases, we would expect us to be more sold than we would have been if it had not increased. So because it has been relatively depressed in the last 3 months, I doubt if there has been a lot of encouragement to sell a lot more forward.

Tom Hamlin: Okay. But with the change in pricing, we may see a change in the value of your book though, right?

Robert Brace: Right. The value of the book changes on the accrual book, you know it does not affect the P&L, it just affects the balance sheet, and both sides of the balance sheet go up and down depending on the market prices. In the mark-to-market book, it will get remarked at the end of March.

Tom Hamlin: Okay. Thank you Robert.

Operator: Richard Reace, RLR Capital Management, has our next question.

Richard Reace: Yes. Thank you. In your 10K for last year for the first quarter, the company showed a net mark-to-market gain of $609 million, and you said that for the year, your total mark-to-market was $619 million, so does that mean that for the second, third, and fourth quarters you had almost no net mark-to-market gain?

Robert Brace: I do not think that those numbers are comparable. The $609 million could well be a balance sheet movement. I do not have that number in my head, but if you really want us to reconcile them for you, we would be very happy to do so. If you would give us a ring afterwards, we will reconcile them, but the numbers are not comparable. We will explain them, exactly what they are, if you give us a ring after the call.

Richard Reace: Okay. Thanks very much.

Operator: William Maze with Bank of America we will hear from next. Mr. Maze Hearing no response, we will move to Winfred Freuhauf with National Bank Financial.

Winfred Fruehauf: Good morning. Regarding Westcoast, the $.03 that you are assuming for 10 months. Are you assuming that Westcoast, as you have acquired it, will stay intact, or have you assumed selling any pieces of Westcoast?

Robert Brace: There have been some small disposals that Westcoast has been initiating, and there are a few small disposals in the pipeline, but nothing significant. I mean, the $.03 is really the result of the mainstream operation being consolidated into Duke for 10 months with a vicinity plan that we have, which ramps up over 2 or 3 years, and the 49.9 million shares issued, which is a bit of a drag on the EPS accretion, because it is slightly higher than it would have been if we were at the upper end of the range.

Winfred Freuhauf: Would you care at this moment to address the estimated contribution from Westcoast next year, in 2003?

Robert Brace: If you look back at the guidance we set last time, my best estimate today would be +/- $.05.

Winfred Freuhauf: Okay. And then probably a bit more as you fully harvest the synergies with Westcoast, maybe in 2004?

Robert Brace: Yes. I mean, it is a bit far out, but I think that if we were on a track that said it was $.03, $.05, $.07, or something like that, I would not think that was unreasonable.

Winfred Freuhauf: Okay. Thanks very much, that is helpful.

Operator: Moving now to William Maze with Bank of America.

William Maze: Yes, sorry, I apologize. I am having issues with my phone today. To that end, I was wondering if you could repeat the comments that you had on the first quarter expectations?

Robert Brace: The first quarter expectations; what we are saying is the seasonality, the pattern that we have with the shape of our business at the moment, would drive first quarter earnings to be low- to mid-teens percentages of the total year in quarter one.

William Maze: Okay, so if I am at $2.70, then you are looking at something around $.35?

Robert Brace: Yeah, $.35, $.40, $.45, I mean, we are not trying to give you a precise amount.

William Maze: Okay, that's fine, but could you, I think the comparison is obviously within, I think it was like $.69 last year. Could you just walk us through the different components, and then, why you have the confidence then that you will be able to make that up in the latter half.

Robert Brace: Right. Because the way that we look at it is that we have a budget, and we have given you indications of where our budget and our plan is likely to lead us in 2002. The percentages that we talked about there in the mid-teens percentages of the total year in quarter one, is a reflection of the way that our business is structured at the moment. In the past, it might have been 20%, 21%, 22%, 23%, or so. So, just as the business evolves, that is a seasonality change. We think we are going to be on plan for the first quarter, which is why we have the confidence to stick with our earnings guidance that we gave you before for the full year. So, at the moment, we are feeling good, we feel we are on plan. If you look at the second part of your question, really it is what is the difference in this year and last year. The main difference in this year and last year is that the actual spark spread and the absolute commodity prices were significantly different this time last year. The volatility was higher. The spark spread was higher. The commodity prices were higher. All of which lead to a particularly favorable environment, and we executed well on that, so we had a particularly strong quarter, if you like, at this time last year. We are not anticipating that this time. We are not anticipating a bad quarter, but we are not anticipating……most of the quarter is gone, and you can see what has happened to the prices and the volatility. A lot of the things picked up a bit in the last week or two. Most of the quarter was relatively subdued in terms of the prices, the spark spread, and the volatility, so that is the main issues.

William Maze: I guess my question really is, you know, it is about a $.30 - $.35 difference. Is your outlook then, therefore, for the rest of the year, obviously improving off the first quarter environment, and you expect to make that up, or are there other areas that you expect to make that up? Now, the $.03 coming from Westcoast, I understand that, but…..

Robert Brace: Yes, but the business has grown, so we have over 6000 megawatts of extra capacity coming on that will be there for the cooling season, which is pushed a hump up, if you like in the 3rd quarter. We have a high degree of confidence that those plants are going to come online. They are mostly built at this stage, substantially built, and we have a good track record of bringing these plants in and getting them operating on time.

William Maze: Are those hedged out at this point?

Robert Brace: Yes. The hedge percentages that I gave you for the proportion of capacity sold includes the new capacity that we will be bringing online, and the denominator includes the capacity that we plan to bring online in 2002.

William Maze: Just to comment on that, when we talk about E&P and field services, etc. Typically, companies will give out their hedge number, the price at which they are hedged out at. Can you disclose that on your power plants, or is there a margin that you have locked in.

Robert Brace: It is really difficult for us to do that, because the way that we look at it, the plant produces the power and sells it internally, if you like, to the traders, and then the traders trade around it, so the amount of margin that we make moves all the time ……you know, they have these hedge guidelines, which move up and down and give the traders a band in which they can move, quite a wide band. Depending on their volatility in the market and their ability to execute, you know, it can move quite substantially, but we have given indications before that we look for quite a substantial increase as a result of what we call extrinsic value, so over and above just selling in the forward market. We have been able to trade up the volatility and take advantage of the price movements. I think we said in the past that we have been able to uplift the price, if you are talking about 12 months forward, rather than just selling 12 months forward, with the trading around it, we have been able to uplift 20% or more over and above that price, so the spark spread that we have locked in is, essentially, the forward price 12 months forward, plus, depending on the skill of the traders and the volatility of their markets, 20% as we have given as an average. Now, in a particular deal, it could be 40% and in another deal it could be 10%.

William Maze: Okay. I appreciate it; it is helpful. I will just ask one more question, and I will jump off the line here. In the Westcoast Energy discussion, you did, one of the bullet points you mentioned was access new markets. I just wondered if you would just apply a little more color on that?

Robert Brace: Well, we think that Canada is going to be really quite important for the US in the next decade in terms of gas supply, and we think that new pipelines are going to get built. You might even have an Alaskan pipeline coming down from the North at the end of that period. We think this positions us really well for developing new markets as the, because our infrastructure now extends all the way to the Northwest of the US and on the Westcoast Northwest of Canada, and it comes all the way across through to Toronto and joins up with the Maritimes & Northeast pipeline, and we just think that that gives us just tons of opportunity that we did not have before, and we think that those are going to be…..there is going to be a lot of growth in the gas supply.

William Maze: Okay. Thank you, Robert.

Operator: Steve Fleishman with Merrill Lynch, please go ahead with your question.

Steve Fleishman: Yes, hi Robert, can you hear me?

Robert Brace: Yes, I hear you well. Thank you.

Steve Fleishman: A couple of questions. First, the $619 million that you mentioned for 2001 mark-to-market is different. It used to be $700 million. Is that because of the taking out the reserves and also taking out Enron.

Robert Brace: Well, it is a combination of things. The number, again, is not quite comparable We said around $700 million last time, and we said it was for DENA when we were formalizing our disclosures for the 10K and the annual report, we disclosed the number for all of Duke Energy. The $700 million was an estimate, so there is no big difference in that, but the reserves had a small affect, and the minority interests had an affect. It is just that we find our numbers, to say what did we think was a really good, solid, and what was the most helpful number to publish on an ongoing basis, and this is what we settled on.

Steve Fleishman: Okay. Secondly, in the hedging amount that you have given, what kind of additional megawatts are assumed, particularly in 2003? Have you changed your current plan for 2003 in terms of adding megawatts, or is it still trying to add another 6000 or so.

Robert Brace: I think we are expecting about another 5000 megawatts to come on in 2003.

Steve Fleishman: Okay. So the 62% in 2003 includes that other 5000 in there?

Robert Brace: I think that they normally like to include the plants that we are bringing on in 2002.

Steve Fleishman: But in 2003, it doesn't?

Robert Brace: No, but we will add them in at some point We just had to pick a convention, if you like, and if you find as we go through this, we are trying to be really helpful, so if you or any other investors or analysts want some other bits of information or defined another way, or we all said it one way and we are doing it differently, we will conform with whatever best practices or whatever people find most useful. We just have to adopt something, so we took the stuff we were going to bring online in 2002; but, we will start selling forward the stuff that will come out of the 2003 plants. I mean, when we start building, we do start selling, but with the prices now at the moment, there is not a lot of encouragement for the traders to sell a lot.

Steve Fleishman: Okay. Just curious if in the 10K there is any additional disclosure on these asbestos issues.

Robert Brace: No, we discuss it. There is no additional disclosure, as such, but we discuss what our position is. There are no surprises in it; that is for sure. We think we are well covered on the asbestos provisions, and all the statistics we have and all the data we have says that we have a good handle on this issue. We understand how many people are involved eventually. That is standard, and I think other companies, not in the energy industry, got into trouble when they did not have such a bounded population, if you like, with good statistics, the medics, the medical surveys, and everything else. We feel pretty good with the combination of our provision that we took and the insurance that we took that we are well covered, and we repeat that in the 10K.

Steve Fleishman: Okay. Robert, thanks a lot.

Operator: Our next question will come from Carrie Stevens with Morgan Stanley.

Carrie Stevens: Hi, how are you.

Robert Brace: I'm fine, thanks.

Carrie Stevens: Robert, I was wondering if you could go over the synergy number that you are expecting from Westcoast Energy and maybe break it down between cost savings and revenue enhancements.

Robert Brace: Yes, we went through that at the time of the Westcoast acquisition, and I do not have that bit of paper in front of me, but I will try and find if. If not, we will ring you back. But, since then, what we have found is, we have found more cost saving synergies than we had in our plan, which gives us confidence that we will beat the synergy numbers, certainly achieve and probably beat the synergy numbers that we put out, and we have found more cost saving. We are always a bit muted on the revenue upside synergies, because they light the candle or they won't, so it is really difficult naming ones that we have gone after, and we think we will get more cost savings than we had in the plan. I cannot find the bit of paper with the numbers we disclosed back in September, or whenever it was, but we will call you back and talk you through that.

Carrie Stevens: Okay. I wanted to ask, you kind of were talking about a shift in your quarterly pattern of earnings, obviously with this first quarter being below your historical trend. I was wondering if you could guide towards maybe where that allocation of earnings is coming. I know you talked about the third quarter being very leveraged there, but is it with Westcoast, and I am thinking a pipeline business has a lot of earnings in the first and fourth quarter. You did not have it this first quarter. Are you going to also….I kind of looked at your historical pattern of earnings, and you were generally earning between like 23% and 28% in the first quarter and now you are down to the mid- to low-teens at incremental, maybe 10 percentage points. Is that going to be pushed into strictly the third quarter, or should we say that it would be spread out into the third and fourth quarter. Just some guidance there.

Robert Brace: The scale is not clearly laid out, but on our web site, there is a graph that you might not have seen that we put out when we were talking, and you can download it off of the web site. It shows you the shape of the curve, and it shows the shape of the curve that we think now versus 2001, 2000, and 1999. You can see that there is a bigger hump in Q3. So, optically, when you look at it, you might find a little bit in Q2, a little bit in Q4, and the bulk in Q3. If you have a look at the curve, it might help you a bit.

Carrie Stevens: I guess, maybe, for Westcoast, am I correct in thinking that the earnings are predominantly kind of first and fourth quarter driven?

Robert Brace: I think that is reasonable. Of course, we missed most of that. That Jan/Feb we missed.

Carrie Stevens: And then I've got, I don't know if you guys are prepared to give it, but I know you have given accretion guidance for Westcoast in terms of earnings, but I was wondering if you guys have internally developed kind of a broad range of an EBIT target for what Westcoast would provide to the gas pipeline business this year.

Robert Brace: We have the budgets and a plan. We have not disclosed that at this point in time, but let me think about that. If people find it particularly useful, we might do that, but we have not disclosed it at this point in time. There is no mystery amount, we just have a plan for Westcoast, Westcoast business…..

Carrie Stevens: Right. I guess it is just, it is such a large acquisition, it would kind of be helpful, maybe just a broad range of what we can expect.

Robert Brace: Yeah, and we have increased gas transmissions growth by 2%.

Carrie Stevens: Right. But you have obviously got a big one step up this time. Okay, great. Thank you, Robert.

Operator: Moving on to SAC Capital, Rose-lynn Armstrong.

Rose-lynn Armstrong: Robert, I was actually just going to follow up on, well, I was going to ask the same question that Carrie asked about the distribution of quarterly earnings. I know you said there is a graph available on the web site, but will that give us a fairly accurate representation of the distribution coming in the second, third, and fourth quarters so that we understand.

Robert Brace: Well, it is a factual representation of our plan.

Rose-lynn Armstrong: Okay, so just, on the call here, can you just roughly put a percentage number to the third quarter of what that graph would indicate.

Robert Brace: I am not sure I can. You would have to look at the graph. I mean, the graph is in earnings, it is not in percentages, so it is very difficult to sort of optically to call up the percentages, and I tried to do it in response to Carrie's question, which optically, it looks like there is a little bit extra in the second quarter, in that you say where did the first quarter difference go compared to a couple of years ago.

Rose-lynn Armstrong: I will go back and refer to that slide, but am I to understand then that what the graph is going to show is that the third quarter of 2002 is going to be higher than the third quarter of 2001?

Robert Brace: Yes. And the fourth quarter.

Rose-lynn Armstrong: And the fourth quarter would be higher than the fourth quarter of 2001.

Robert Brace: Right, and the second quarter might be a little bit. It is difficult for me to just optically to scan up the numbers here. Certainly, the third quarter is better than the fourth quarter has been.

Rose-lynn Armstrong: Okay, thank you.

Robert Brace: And the fourth quarter, as Carrie had pointed out, you have got the Westcoast coming in.

Rose-lynn Armstrong: Right. All right, thank you very much.

Jennifer Traylor: Curt Launer with CS First Boston, please go ahead.

Curt Launer: Good morning, Curt Launer, thank you for holding this call. Three questions if I could, just very quickly. First, add to the quarterly earnings spread questioning, I also want to ask about Duke Energy Field Services; natural gas liquids prices are much lower here in the first quarter, and that has probably had an impact, so I would like to ask if you could describe that a little bit. Secondly, for additional disclosure, if you could, relative to the merchant book and the percent of fair value that is based on market quotes, and also, if you could provide us with round numbers for the percentages of the merchant EBIT, which is coming from trading, origination, and optimization businesses.

Robert Brace: Okay. Take me through that one by one. What was the first one?

Curt Launer: The first one was Duke Energy Field Services and the decline in natural gas liquids prices and whether that is playing a role in your changed thoughts relative to the distribution of earnings through the year, especially because the first quarter is likely to be the worst in terms of the quarterly comparison on natural gas liquids prices.

Robert Brace: That's true. What we talked about in terms of scope of our plan was not today's estimate, it was our plan, if you like, that was established at the back end of 2001, but at that point in time, we had to assume that

NGL prices would be subdued in quarter one, so that has had an effect both in the plan and on the actuals. But, we are hoping that NGL prices will recover, and our plan was not that they would stay at this level, and there has been a bit of an increase lately, I think. In terms of the second point, it is a good question. In our annual reports and 10K, we have disclosed the amount of the trading contracts that were valued on the basis of market prices and external sources versus models, etc. And, if you have a pen, I can give you the numbers; this will be published tomorrow, but I can give you the numbers now. In terms of 2002, we have $457 million of the value was supported by closing market prices and other external verifiable sources, and ($104) million was based on models and other valuation methods, so virtually, more than all of it, if you like, was based on quotes. If you go into 2003, $153 million was based on prices and verifiable sources, and $11 million was based on models. In 2004, as you go out, you would expect the modeling to get higher and the market prices to get less. In 2004, $9 million was on quoted prices, and $128 million was as a result of modeling. From 2005 onwards, $26 million was on quoted prices, and $389 million was based on modeling. So, in aggregate there, we are analyzing $1069, which is the mark-to-market, then $645 of that $1069 was based on market prices, and $424 was based on models, but as you can see from the numbers, if you took them down, virtually all of the modeling stuff is in the outer years, which is where you would expect, and the early years are all on quoted and verifiable sources. I have to say that we are very comfortable with our modeling assumptions as well, I mean, they are created and validated by an independent risk management part of the risk management department, which reports separately from the dealers and the traders and separately from Energy Services, reports in to Rich Osborne, my predecessor as CFO, and so he and his team are responsible for setting this pricing, it is not the traders.

Curt Launer: Okay. Thank you very much. The last piece of disclosure would be any round numbers for the percentage of the business which is trading origination or optimization of the total merchant EBIT.

Robert Brace: I think it is really difficult for us to give you that for some of the reasons that I have mentioned earlier, because we do not actually measure it like that. I mean, what we do is, we manage it as a combined unit where the power plants are there, and the traders trade around it, so we look on the traders as inconstant. The profitability of the plan, over and above just selling it….start off selling 12 months forward at the rate at the time, and indications we have given in the past is that we have looked at enhancement at 20% or more, and going forward depends on the market prices and the volatilities, but I think if this spark spread is down when it starts to pick up, you might find it is even better than 20%, because you have a smaller starting point. See what I mean? If you assume the starting plan was that the plant was going to sell power at the current market price 12 months hence, by the time the traders trade over the next 12 months, they might well enhance that mark by more than 20% if you start off as small a base.

Curt Launer: Yes. That's right. I would suggest that be part of the optimization portion.

Robert Brace: Okay. Right. I can't give you a specific number very easily. It is not something that we separately report, internally or externally.

Curt Launer: Okay. Thank you very much.

Operator: We will now hear from Sam Nangia with Credit Lyonnais Securities.

Sam Nangia: Yes, hi. Good morning guys. Thanks for holding this call. I just had a quick question related to a comment you had made earlier. This was regarding the interplay between gas prices and power prices. Needless to say, there are a number of us who have been looking at gas prices moving up, and perhaps, the power prices not moving up as much. Just, you know, based on that, if you could, just give us your insight. I heard what you said, which was that you expect power prices to come up. If you could give us any sort of broad range based on that, and if not, then what is the down side for gas prices from here?

Robert Brace: Well, we do not have a crystal ball, and obviously, we have a view at a point in time, which we continually update, and you can probably take just as good a view of the market as we do, but we think that across the US there will be, there is a lot of capacity coming on stream in the next few years, but in the after years, most of the build that was scheduled for 2004 and onwards has been cut back, so we think demand for power will continue to grow in the US. Gas consuming power stations, we think, will be the overwhelming sort of power plant that gets built to fill that demand, and then, market by market across the US, some will have a better supply/demand balance than others. So, we are pretty choosy in terms of the markets, and we have views on that, which we talk about from time to time. We think the price is at a relatively low point at the moment. I don't know what I can say, really, I don't have an easy forecast here, except we do think volatility will increase. There has still been a fair amount of volatility, but that has been lower than it was this time last year. We think volatility will increase, and we think the spark spread over time will probably increase, too, from today's level.

Sam Nangia: Okay. That's…..Yeah. You know, I was more referring to just the short-term look, you know, this summer and next summer.

Robert Brace: Well, a lot depends on the weather then, and then it becomes quite spotty. We have had a very mild winter in the Carolinas, but the current forecast, if you can believe them, for 6 months out, 5 months out for the summer, is that the summer is going to be quite favorable for energy consumption, but you know, who knows. I mean it is a 5-month forecast.

Sam Nangia: Thank you.

Operator: Moving on to Weintraub Capital, David Stadlin.

David Stadlin: Yes, can you hear me?

Robert Brace: Yes.

David Stadlin: I was just going to go back, and I was also unclear as to the reason for the confidence that you would exceed last year's numbers in the latter half of this year, and I guess one of the ways I was going to ask about that was with respect to your hedging. You mentioned that you sold power to the trading operation, and then the trading operation was responsible for getting higher returns on that power. So I am wondering if you can possibly know that you will receive, sort of, higher trading returns than you would have last year. Say you are 92% hedged for this year, what, in fact, that means.

Robert Brace: Well, I mean, there are some things we know, and there are a lot of things we don't know. We just take in reasonable assumptions. The underlying point about where does our confidence come from, is that we have a plan, we have a budget that would operate in the business, we have beaten or exceeded our plan in the recent past. We think we have a good strategy. We have a good capability for executing, and for the first quarter, we are on plan. That doesn't mean to say that you can't have problems or big opportunities that arise during the rest of the year. It is just best estimate at this point in time is that we are on plan, and we are feeling comfortable. In terms of the capacity sold forward, what that means is, we estimate how much power is going to be produced by each of our units on a normalized basis. So, you know for a peak or a combined cycle unit, we estimate how much power output is likely to be used in a normal year. We then say, what proportion of those megawatts have we actually sold forward, or what proportion of that spark spread that would be generated by that has actually been sold forward, and that is the ratio that we are giving out. So, for 2002, you know, over 90% of our output, including the output from the new plants that are coming on stream in 2002 have been sold, and the vast majority of those were sold last year, when prices were higher than they are today. So, to that extent, if we did no more trading, we would know the price and the margin that we would earn on that 90-odd percent. Then we don't know whether the plants, if it is going to be a hot summer, then the plants might produce more electricity, more power, than the normalized range; if it was going to be soft, they will produce a bit less. The peakers, in particular, you know you don't, there is quite a variation between what they actually run at and the average, depending on the weather in that particular area of the country. So, we do our best to normalize it, but it is not an exact sort of science, but we are doing our best to share with you the numbers that we use for managing internally.

David Stadlin: Okay. If I could ask one more, the gentleman that spoke about the nuclear inspections, I was not clear. Have you in fact performed the same types of inspections on your plants, and if you have not, do you anticipate having to do so, and will that cause you to have to take downtime at those plants.

Robert Brace: Okay. Bill, are you still there.

Bill McCollum: Yes.

Robert Brace: Bill can answer that, if he would.

Bill McCollum: At our Oconee plants that are comparable in design to the plant that First Energy is dealing with, we have performed those inspections. In fact, a lot of additional inspections beyond those visual inspections at all three of our units over the last year or so, and that is what I meant by, we have been working on these issues and have been ahead of these issues for a year. For our other nuclear units that are not the same design, we are in the process of performing those visual inspections. We have successfully performed the first of those inspections on one of our McGuire units, and there were no problems or issues found there, and we do not anticipate that there will be any. We do not see anything now in the results coming out of First Energy that would give me a feeling that there is a significant risk of having to take any unanticipated downtime because of those.

David Stadlin: Okay. So you don't have to take downtime to inspect.

Bill McCollum: Well, what our strategy is, is to perform those inspections during our normally scheduled refueling outages at each of the plants. That is what we have been doing at Oconee, and what we would plan to do at our other units.

Robert Brace: The key point is that we have done it at Oconee. We have done it over some period of time, and we have forward ordered new reactor vessel as do a lot of people around the world.

David Stadlin: Okay. That's great. Thank you very much.

Operator: We will just take one last question, and our final question will come from Jerome Dugan with Dane Bosworth.

Jerome Dugan: Good morning gentleman, thanks for taking the time. Just a quick question, one which I know you really can't answer, but there is an ongoing rumor in various financial periodicals relating to Duke perhaps having some interest in Calpine. Would Duke have any interest in any California interests at this point in time, considering all the problems that have developed out there.

Robert Brace: Well, I think two things. I suppose that the standard reply on acquisition type rumors, I suppose we have to hold to and just say "no comment" on any specific deals. Terms of a more general point, about what is our position vis-à-vis California. I mean, clearly, there have been some issues over the last year or so. It has certainly, from my perspective, increased the risk of investing in California, and unless the authorities, one way or another, do something to reduce the risk of investing in California, I think they run a real risk of supply shortages recurring. I think, as of today, we are continuing the build out of our extension of our plant facilities in California, and we are pretty confident that those will come on stream in time, on schedule. Our plants are operating well. They operated particularly well, and produced more output than they had ever produced, during the Californian energy crisis, and there were a lot of things being said and criticized at the time, but if you look back now, in hindsight, I don't think anything, Duke didn't do anything wrong. In fact, the exact opposite, I mean, everything that Duke has done, you know, did their best to alleviate the supply problems in California, and I think any accusations that either went to court, or didn't go to court, or whatever, have all been taken off the table, or other people have been criticized. We did not sign any long-term contracts with CDWR because we were unsatisfied with the credit support that they were offering. So, I think, Calpine, I don't know, I just read it in the newspaper, so it is probably not correct, but I read that Calpine has over $4 billion worth of contract with the CDWR. Other people have got a billion dollars, and they don't have collateral, and I don't think the CDWR agreed to normal financial arrangements, for that means, if the power prices go up, I'm sorry, the power prices have gone down, so there is a massive liability there that the authorities have said that they would like to re-negotiate some of those. I can't believe at the end of the day that freely entered into contracts between third parties are going to be thrown over by the courts, but it really does put a lot of, well it increases the risk, if you like, of investing in California in a lot of people's minds, so I think we would be cautious. But, we are continuing with what we had planned before, and we are doing everything we can to produce as much energy as we can to prevent California having problems again, and we produced more, during the California crisis, I think I am right in saying, we produced more megawatts out of those plants than they had ever produced. I think our people did a really wonderful job. Of course, they received no recognition apart from within Duke, and I think they did a great job.

Jerome Dugan: Thank you for a very comprehensive answer.

Robert Brace: Thank you.

Jennifer Traylor: Thanks everyone for joining us today. If you have other questions, we will be glad to answer them, and our next conference call will be for the first quarter earnings on April 17. Thanks for joining us.

Operator: That does conclude today's conference. Thanks you for joining us, and have a great day.