Conference Call Transcript

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CORPORATE PARTICIPANTS

Sean Trauschke
Duke Energy Corporation - SVP of IR and Financial Planning

Jim Rogers
Duke Energy Corporation - Chairman, President, CEO

David Hauser
Duke Energy Corporation - CFO

CONFERENCE CALL PARTICIPANTS

Jonathan Arnold
BAS-ML - Analyst

Paul Patterson
Glenrock Associates - Analyst

Greg Gordon
Citigroup - Analyst

Michael Lapides
Goldman Sachs - Analyst

Steve Fleishman
Catapult Capital Management - Analyst

Hugh Wynne
Sanford C. Bernstein & Company, Inc. - Analyst

PRESENTATION

Operator

Good day, everyone, and welcome to the Duke Energy fourth quarter earnings conference call. Today's call is being recorded.

At this time for opening remarks I would like to turn the call over to Mr. Sean Trauschke, Senior Vice President, Investor Relations and Financial Planning. Please go ahead, sir.

Sean Trauschke - ***Duke Energy Corporation - SVP of IR and Financial Planning***

Good morning. And welcome to Duke Energy's fourth quarter and year end 2008 earnings review. Leading our discussion today are Jim Rogers, Chairman, President and Chief Executive Officer; and David Hauser, Group Executive and Chief Financial Officer.

Jim will begin today's presentation by providing a general overview of our 2008 results and a discussion of our outlook for 2009. Then David will provide more detail and context around our 2008 results for each of our businesses as well as more detail and context around our 2009 plan. Jim will close with an update of our regulatory initiatives. Following those prepared remarks, we'll open the lines for your questions.

Before we begin, let me take a moment to remind you that some of the things we will discuss today concern future company performance and include 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 Duke Energy's 2007 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. 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. Like the first three quarters, today we are reporting adjusted earnings which exclude mark-to-market impacts of economic hedges in the Commercial Power segment as well as special items, extraordinary items and discontinued operations.

As you saw in our news release this morning, starting this quarter, the results of Crescent have been moved into Other. This reflects management's view that Crescent is no longer recognized as a major part of the business. With that, I'll turn the call over to Jim.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Thank you, Sean. Good morning, everyone, and thank you for joining us today. Most importantly, thank you for your interest and investment in Duke Energy. Despite the headwinds of a deepening recession, we delivered solid results for the fourth quarter of 2008 and for the entire year.

As we said in our news release this morning, we announced adjusted diluted earnings per share of $0.27 for the fourth quarter of 2008 versus $0.25 in the fourth quarter last year. Adjusted diluted earnings per share for the full year 2008 were $1.21 compared to $1.23 for 2007. The recession may have impacted our sales volumes, but it didn't diminish our employees' focus on our customers and our operations.

We said in November that we would work hard to beat the minimum threshold under our employee incentive plan of $1.20. In addition to doing this, our employees delivered an excellent year from an operational standpoint. Their focus was evident in the way we responded to the most consequential storm in the history of our Midwest operations, Hurricane Ike, which impacted over two thirds of our Midwest electric customers.

And their focus was most evident on the most important metric of all, safety. In 2008, our employees achieved our best year ever for safety. I just wanted to take this opportunity to thank our employees for achieving results that we can all be proud of.

Turning from operations to capital, even with all of the upheaval in the financial markets, we maintained our access to the credit and capital markets and we continue to invest in all of our businesses, from cleaner coal, to wind, to the smart grid. We have issued about $4.5 billion of fixed rate debt since January 1, 2008 at a weighted average rate of 6.05% with an average maturity of 15.2 years.

As of December 31, 2008, the weighted average cost of our long-term debt is 5.65% with an average maturity of 12.7 years. We are committed to maintaining a strong balance sheet. Capital is our life blood. It is the key to our future earnings growth. Our access to capital will continue to differentiate us from other companies in our sector, especially during these uncertain times and in these uncharted waters for the economy and the capital markets.

We are also well positioned to ride the public policy waves that will sweep across our country in the next four years. President Obama and the new Congress are going to implement policies that will create a new energy economy. Our regulatory initiatives in the five states we serve were made in anticipation of these changes: smart grid, renewables (including roof-top solar), energy efficiency and the expansion of our transmission system.

Our investments in wind and hydro were made in recognition of the fact that we will be moving to a low-carbon economy and that renewables will play a greater role in that transition. Today, we are the third largest generator of electricity and the third largest emitter of CO_2 in the U.S. However, there are 11 major electricity suppliers in the U.S. with higher carbon intensities in tons per megawatt-hour sold than Duke Energy.

With the completion of our two coal plants, Cliffside and Edwardsport, and two gas-fired units by 2012, the carbon intensity of the electricity we produce will decline even further. If we construct the proposed Lee Nuclear Station by the end of the next decade, we will again significantly reduce the carbon intensity of our sales to our customers. These projects, coupled with our plans to increase our investments in energy efficiency, will help us make the transition to a low carbon economy.

The timely execution of our regulatory strategy also underpins our future earnings growth. We continue to make significant progress on our major regulatory and legislative priorities and recently achieved very important approvals. I will discuss those in detail following David's presentation.

Now, let me turn to our plans for 2009. In our news release this morning, we announced our 2009 employee incentive earnings target of $1.20 per share on an adjusted diluted basis, essentially flat with what we achieved in '08. While flat earnings year-over-year are not normally something we'd be happy with, we believe this is an appropriately challenging goal given the deterioration in weather adjusted electric sales we saw in '08 and expect to continue to see in '09.

You should also know that we have added a Company-wide cost and reliability component to our employee short-term incentive plan for 2009. Our customers are cutting costs to address current challenges and we want to put the appropriate incentive out there for employees to do the same. We added a reliability component because we want to make sure that even as we work to control costs, we continue to deliver the superior reliability our customers have come to expect.

As you will recall during our analyst meeting in November, we reaffirmed our goal to achieve a five-year compound annual growth rate of 5% to 7% in adjusted diluted EPS through 2013. To achieve that growth rate, some combination of the following five things must occur. First, there must be a rebound in sales growth in our regulated operations. Two, we must implement regulatory mechanisms that will reduce the regulatory lag we are currently experiencing in the recovery of new capital expenditures and increased operating costs.

Three, we must be able to increase our prices to reflect our investments in our regulated businesses. Fourth, we must be able to further reduce the cost structure of our enterprise. And fifth, we must be able to successfully execute our growth plans in our commercial businesses. David will share more details on the assumptions we have used to arrive at our 2009 employee incentive target.

But first, I will discuss our adjusted segment EBIT expectations for 2009. We expect the Company's total adjusted segment EBIT to be approximately $3.2 billion in 2009 and that's before Other net expenses. Again, the U.S. Franchised Electric and Gas segment will be the largest contributor to adjusted segment EBIT.

We expect an adjusted segment EBIT contribution of approximately $2.4 billion from USFE&G. Our Commercial Power segment is expected to contribute approximately $470 million in adjusted segment EBIT. Most of the Commercial Power adjusted segment EBIT comes from serving retail electric customers in Ohio.

Our International operations are expected to contribute approximately $370 million in adjusted segment EBIT. We expect Other to be a net expense of $250 million. With that, let me now turn it over to David.

David Hauser - ***Duke Energy Corporation - CFO***

Thank you, Jim. I'm going to start with a discussion of our quarterly business segment results and then provide a quick look at our performance from an annual perspective. Afterwards, I'll provide an outlook on a few key items for 2009.

I'll begin my quarterly segment review with our largest business segment, U.S. Franchised Electric and Gas. The segment's fourth quarter 2008 adjusted segment EBIT of $532 million was an increase of $13 million over last year's fourth quarter. Favorable weather and the deferral of third quarter storm restoration costs in the Midwest were the primary positive drivers for the increase over last year's quarterly results.

Weather added approximately $39 million to the quarter-over-quarter increase in the segment's adjusted EBIT. In the Midwest, heating degree days for the fourth quarter of 2008 were approximately 11% above normal, compared to 6% below normal during the same period in 2007. For the Carolinas, heating degree days for the fourth quarter of 2008 were approximately 5% above normal, compared to 20% below normal during the same period in 2007.

As you may know, our request to defer costs resulting from Hurricane Ike in September of 2008 was approved by the commissions in both Ohio and Kentucky. As a result, operations and maintenance expenses were lower in the fourth quarter of 2008 due to the deferral of a total of $36 million of storm restoration costs. These positive contributions were partially offset by an approximate $45 million decline due to lower weather adjusted sales volumes to retail customers across all of our service territories.

Additionally, during the fourth quarter of 2008, we increased charge-offs for bad debt by approximately $15 million as a result of increased customer delinquencies. Overall, our customer base continues to grow, but at a lower growth rate than we expected in our original plan. However, offsetting this growth in customers has been a decline in weather-adjusted sales volumes.

Although residential activity in the Carolinas was slightly favorable for the quarter, it declined in the Midwest. Industrial activity was down in both the Midwest and the Carolinas. We specifically saw declines in the steel industry in the Midwest. While in the Carolinas, industrial activity was down principally as a result of reduced housing starts and consistent with what we've told you before, the Carolinas have experienced continued declines in the textile industry.

Next I'll review Commercial Power. For the quarter, Commercial Power reported adjusted segment EBIT from continuing operations of $101 million, compared to $25 million in the fourth quarter of 2007. The segment's improved adjusted EBIT was driven by a $35 million increase due to favorable timing of fuel and purchased power costs that had been under collected through the third quarter of 2008.

The segment also benefited from improved quarter-over-quarter results of $11 million from our Midwest gas-fired assets. In addition, lower net purchase accounting expenses of $10 million contributed to the segment's improved results. Another positive driver was a $12 million gain on sales of NOx emission allowances.

There are a couple of things I want to mention about the performance of our Commercial Power business in 2008 before I move on. Our Midwest gas assets ended the year with an adjusted EBIT loss of $6 million. If you exclude the $15 million in bad debt reserves we recorded in the third quarter on power sales to Lehman Brothers, our Midwest gas assets would have been EBIT positive for the year on an adjusted basis. Further, we are projecting these assets to be EBIT positive in 2009 on an adjusted basis.

Finally, I want to point out that the approval of our Electric Security Plan in Ohio resulted in the reapplication of regulatory accounting treatment to a portion of the rate riders, such as fuel and purchase power, for generation serving our native load customers. This resulted in the recognition of an extraordinary item for the quarter of $67 million net of tax which, of course, is not included in Commercial Power's adjusted segment EBIT. Also as a result of the reapplication, Commercial Power's earnings will no longer be subject to volatility due to the over or under collection of these rate riders.

Now, let's turn to our International business. For the fourth quarter of 2008, Duke Energy International reported adjusted segment EBIT of approximately $104 million, which is essentially flat with last year's results of $105 million. For the quarter, favorable results in Latin America due to increased demand and higher contract prices were offset by lower results at National Methanol and unfavorable average foreign exchange rates.

Two quick notes before I move on. First, National Methanol has provided strong results over the last few years. I think it may be helpful to give you a perspective on NMC's contribution to DEI. Over the past three years, our share of NMC's results has contributed about 25% to 30% of DEI's adjusted EBIT results. Looking forward into 2009, we think NMC's contribution will be around 20%.

Second, for the quarter, FX was unfavorable by approximately $15 million due to the Brazilian currency weakening in the fourth quarter of 2008. However, for the year, FX was favorable by about $14 million. Remember, the earnings impact from changes in foreign exchange rates is reduced by the corresponding effect on interest expense of local currency Brazilian debt.

Before I move on, I'll remind you of the rule of thumb I provided last quarter. The impact of a 10% devaluation in the Brazilian currency exchange rate is about $0.01 to our annual earnings.

Next, I'll review our Other category, which primarily includes costs associated with corporate governance and Duke Energy's captive insurance company. As Sean highlighted, Other now also includes the result of Duke Energy's real estate joint venture, Crescent Resources. Duke Energy continues to have a zero book basis in its investment in Crescent.

We don't expect Crescent to be a significant contributor to near-term results, but we will continue to update you if any material change should occur in that business. As you will recall, we continue to be a named guarantor on surety bonds and letters of credit related to projects at Crescent that were in progress at the time of the creation of the joint venture in September 2006. These sureties and letters of credit which total approximately $100 million relate to performance guarantees and we will only be called upon to perform if Crescent fails to do so. In fact, Crescent has already completed a substantial portion of its obligations under these commitments. As a result, we currently anticipate our maximum remaining exposure to be approximately $40 million.

With that, let me get back to our quarterly results. Other reported a fourth quarter 2008 adjusted net expense from continuing operations of $98 million, compared to $83 million in the fourth quarter of 2007. The increase for the quarter was due primarily to unfavorable returns on investments and the impacts from the continued downturn in the real estate market at Crescent, resulting in no equity earnings for the fourth quarter of 2008. A prior year contribution to the Duke Foundation had a favorable impact on the quarter-over-quarter variance and partially offset these increases.

We thought it would be helpful to highlight our 2008 actual annual adjusted segment EBIT results compared to our original adjusted segment EBIT expectations we provided to you a year ago. We slightly missed the mark in U.S. Franchised Electric and Gas, but we exceeded our expectations in our other two energy business segments.

Overall, our segments performed well in the face of the deteriorating economy during 2008. Other's net expenses were greater than our expectations for 2008. Although corporate governance costs declined year-over-year, this favorable driver was more than offset by losses on returns on investments in our executive savings plans and losses at Crescent. Although it is now included in our Other segment, we are showing Crescent on a separate line to highlight how Crescent negatively impacted our results for 2008 when compared to our expectations.

With that, I'll turn to a few important non-operating items. Interest expense for 2008 was $741 million, which was above what we had expected for 2008. The increase was primarily driven by the timing of debt issuances and foreign currency impacts to our local currency Brazilian debt. Our capital expenditures in 2008 totaled approximately $4.9 billion. That's about $200 million less than we had expected to spend when we provided our financing plans last year.

Equity, AFUDC, for 2008 was $149 million as compared to our 2008 expectation of approximately $112 million. Capitalized interest including AFUDC debt was approximately $93 million in 2008 as compared to our 2008 expectation of approximately $106 million. The effective tax rate of approximately 32.5% for 2008 was essentially flat with our 2008 expectation of 33%.

Before I move on to our outlook for 2009, I want to reiterate that we continue to have a strong liquidity position as well as superior access to capital markets. Our total available liquidity was approximately $1.8 billion at December 31, which includes approximately $1.2 billion available under our $3.1 billion Master Credit Facility. We ended the year with approximately $600 million of cash, cash equivalents and short-term investments, excluding approximately $400 million in foreign jurisdictions. I think it is important to note that our Master Credit Facility does not expire until June 2012.

With that, let's look forward into 2009. This slide provides the adjusted EPS assumptions used to set our 2009 employee incentive target of $1.20 in adjusted earnings diluted per share.

Let me first mention a few of our key assumptions related to our business segments. First, for U.S. Franchised Electric and Gas, we have assumed that recessionary pressures will continue in 2009 resulting in an essentially flat kilowatt hour sales on a weather adjusted basis in both the Carolinas and the Midwest. As always, our 2009 plan is based on normal weather.

For Commercial Power, our 2009 assumptions incorporate the impact of the ESP approval in Ohio while for International we have assumed a decreased contribution from National Methanol. Next, I'll cover some of our key financial assumptions for 2009. First, we have assumed an effective tax rate of approximately 34%. Second, we expect interest expense to be approximately $800 million.

Further, we have included the impacts of a $500 million pension contribution for 2009, which we made earlier this week. We also assume equity AFUDC of approximately $160 million and debt AFUDC and capitalized interest of approximately $130 million.

Now let's take a quick look at our projected capital expenditures spending in 2009. In order to demonstrate our CapEx spending flexibility, we've taken the capital expenditure numbers we showed you in November and put them into three buckets. The first bucket, Committed Capital, shows those dollars we are committed to invest. For example, we are committed to completing our two new base load power plants, Edwardsport in Indiana and Cliffside in North Carolina. Likewise, we are going to finish our environmental compliance projects and, of course, we must invest in nuclear fuel.

The next bucket is Ongoing Capital. This bucket is where we begin to gain some flexibility. If all is going well, we can invest those dollars now. But if the broad economy continues to deteriorate, we have flexibility as to when we spend those dollars. For example, maintenance and other, we don't necessarily need to invest those dollars in any specific period, but we do have to invest the dollars eventually to ensure we maintain our overall system and reliability.

The third bucket, Discretionary Growth Capital, is where we have our greatest flexibility. These are dollars we will invest only under certain circumstances. For example, in our regulated businesses, capital allocated to the smart grid project will be invested only if we secure constructive regulatory treatment for those projects such as in Ohio with our recent ESP approval. And in our Commercial Power segment, our wind expansion plans assume that opportunities will become available that meet our return expectations. Likewise, the capital allocated to International will only be invested if we find projects that also meet our return expectations.

Let me conclude with some highlights around our 2009 cash flows and assumptions related to our required financing. You have seen this schedule before, but let me emphasize that as a result of our 2009 capital expenditures and investments, along with dividend payments, we will have a funding requirement for 2009. We told you in November that our 2009 financing plan was based on the assumption that we would not issue any holdco debt.

We also said that we can meet our needs by financing at the operating companies. But if the markets become attractive for holdco and project financings, we will consider those opportunities as well. This past January, we took advantage of attractive holding company financing rates when we issued $750 million in five-year senior notes at the holding company at a 6.3% interest rate. As a result of that financing, we were able to fund our pension plan by $500 million earlier this week which is two months earlier than we had expected.

This recent holdco financing gives us additional flexibility and we will continue to be opportunistic as to when and where we finance. Despite our recent holdco financing, our 2009 plan still assumes that we will finance at the operating subsidiary level. So any additional long-term debt issued will be used to reduce our commercial paper balances or to improve our flexibility.

Our focus is on preserving our long-term liquidity. For 2009, the maximum we would finance at each operating subsidiary is as follows: Duke Energy Carolinas, up to $650 million; Duke Energy Indiana, up to $450 million; Duke Energy Ohio, up to $450 million; and Duke Energy Kentucky, less than $100 million.

Finally, we generated approximately $100 million from the dividend reinvestment plan and internal plan equity issuances in December of 2008. We expect to generate additional capital of at least $350 million from these sources in 2009. Although we raised more than we expected in December, I want to reiterate that we have not changed our original intention to limit these equity issuances to approximately $600 million over the five-year planning period.

Duke's strong investment grade balance sheet continues to provide us with significant flexibility in achieving our CapEx plan. For 2009, we do not need to issue any public equity to fund our CapEx programs other than the equity issued through the dividend reinvestment plans and internal plans that I just discussed.

With that, I'll turn it over to Jim for closing remarks.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Thank you, David. Because our regulatory strategy is one of the linchpins of our future revenue stream, I'd like to show you all how we've been executing on that strategy. Let me review some of our major accomplishments in just the last five quarters. Early last month, the Indiana Utility Regulatory Commission approved our first CWIP filing for the 630 megawatt Edwardsport IGCC project in Southwest Indiana.

The Commission's order also approved our revised cost estimate for the project and our proposal to study the capture and possible storage of CO_2 from that plant. As of December 31, 2008 Edwardsport was over 20% complete and so far we have spent over $400 million on it. The committed costs which includes the value of firm purchase orders and contracts we have awarded is around $900 million.

Also last month in Ohio and Kentucky, we secured deferral of the cost plus interest that we incurred from last September's major wind storm in the Midwest. In December '08, we received approval of our Electric Security Plan for Ohio. The ESP includes our save-a-watt energy efficiency and smart grid programs. In June 2008 the North Carolina Utilities Commission approved the CPCNs to build our Buck and Dan River combined cycle gas generating units.

Also in June, our $18 million gas rate case in Ohio was approved. In January '08, the final air permit was issued for the new 825-megawatt advanced coal unit we are building at our Cliffside Station in North Carolina. As of December 31, 2008, that project was approximately 30% complete and our committed cost is almost $1.1 billion.

We also continue to meet every legal challenge to the project. Last month the judge in an ongoing federal case rejected several environmental groups' charges that we were failing to comply with his order to undergo a review of Maximum Achievable Control Technology or MACT requirements. The environmental groups' efforts to stop construction of the project were also unsuccessful.

In December 2007, we settled our North Carolina rate review which allowed us to include our remaining clean air expenditures of over $800 million in rate base in the years 2008 to 2010. I'm really proud of our team. In my view, these accomplishments are unparalleled in our industry. Our challenge is to keep up this pace over our five-year planning horizon and beyond.

Our goal is to significantly reduce regulatory lag. That means shrinking the time between when we make the investments and when we earn on them and recover those investments. With that progress as a backdrop, let me highlight our 2009 regulatory calendar for you. In Indiana, we will have a hearing later this quarter on our save-a-watt plan where we continue to reach settlements with the intervenors.

The hearing on our smart grid initiative which would see the installation of up to 800,000 smart meters and other advanced technologies over the next five years is coming up in late April. Also in Indiana we expect to receive approval of our second IGCC CWIP rider in the second quarter of this year. Going forward, these will be more routine filings and we expect them to occur in May and November of each year.

In Ohio, we anticipate resolving our electric distribution rate case by mid-year. We're seeking an annual 5% increase which would amount to $86 million. In North Carolina, we expect to resolve our save-a-watt proceeding at any time and we plan to file an electric rate case mid-year with rates becoming effective in 2010. In South Carolina, we plan to file an electric rate case by mid-year with rates becoming effective in 2010 and we also continue to work to resolve our save-a-watt case where we have a partial settlement.

Let me reiterate that the rate cases I mentioned are subject to Commission approvals. As we've told you before, even with these increases, we are projecting that our rates will remain well below national average in four of our five jurisdictions. That was a quick regulatory update.

Let me now make a few comments about our Commercial Power business. As of December 31, 2008 we had close to 400 megawatts of wind power in operation and a wind development pipeline of more than 5,000 megawatts in 14 states. Our strategy for our wind business is to secure long-term purchase power agreements and then invest capital in the assets.

In fact, we're actively participating in a number of wind energy RFPs. And on the public policy front, we are encouraged by the fact that the economic stimulus bill passed by the House last week and which is being debated by the Senate this week has several incentives that greatly benefit wind energy.

Finally, yesterday we closed on the sale of a wind project that was under development in Scotland for approximately $30 million. We picked up this development project as part of the Catamount acquisition last year. I am pleased with the progress we continue to make in redefining our boundaries to transition our company to a low-carbon future while at the same time we stay focused on our core business.

When you look at everything we're doing, from new generation to save-a-watt, to the smart grid, to renewables, to carbon legislation, in my view, no other company is moving forward and strategically allocating capital to pursue their initiatives the way we are. That puts us in a unique position to evolve and grow our business for the future.

We are in step with the coming transformation of our industry. We have positioned ourselves to create superior value for all of our stakeholders. In closing, I want to reconfirm that our value proposition hasn't changed and it's not going to change.

We are committed to having a strong balance sheet and to the integrity of that balance sheet as we access the capital markets. We are committed to the dividend and growing the dividend and we are committed to the 5% to 7% compound annual growth rate through 2013.

Now let's open the lines for your questions.

QUESTION AND ANSWER

Operator

Thank you, gentlemen. Ladies and gentlemen, the question-and-answer session will be conducted electronically. (Operator Instructions) And we'll pause for just a moment. And we'll hear first from Jonathan Arnold with Merrill Lynch.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Welcome, Jonathan.

Jonathan Arnold - ***BAS-ML - Analyst***

Good morning, guys, thank you.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Good morning.

Jonathan Arnold - ***BAS-ML - Analyst***

How about just a question about your assumption on sales growth and the way -- you talk about continuing recessionary pressures in 2009 and then a about flat sales assumption. When we look at the kind of profile of sales in 2008, they seem to -- particularly in the industrial segment drop very, very sharply in the fourth quarter and are you -- I'm trying to reconcile that with the statement that the economy kind of -- we remain in recession.

Are you assuming the like-for-like comps just stabilize here in these next quarters or, not that we start to see some of that fourth quarter weakness feed through into the first three quarters of 2009 which I'm having a hard time making sense of that?

David Hauser - ***Duke Energy Corporation - CFO***

Jonathan, this is David. We've assumed that kilowatt hour sales in '09 will be flat with '08 and we think that does reflect the recession. Especially it incorporates the numbers that happened in the fourth quarter. And, of course, in the fourth quarter, we had substantial hits to industrial due to closing -- actual closing of factories.

So we've made the assumption, we initially had growth in there a little bit, we've taken that out, we've made it flat. And then, of course, the other thing we've done is we've put in a cost control measure where we're all incented to cut O&M expense by $100 million, which is another driver that's important for us.

Jonathan Arnold - ***BAS-ML - Analyst***

Wouldn't the factory closures continue to impact the next three quarters?

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

It's our judgment that the -- a lot of the closings in the fourth quarter were really around the month of December and the holiday seasons and as a consequence of that, we don't think that is reflective of what will happen this year.

Jonathan Arnold - ***BAS-ML - Analyst***

Oh, I -- you mean the temporary shutdowns.

David Hauser - ***Duke Energy Corporation - CFO***

They were temporary. That's right. I'm sorry.

Jonathan Arnold - ***BAS-ML - Analyst***

And if I may just -- one other topic. What's a good assumption -- you gave a lot of detail on the outlook, but what's a good assumption for the interest income line? I think it was about $130 million in '08, but was running at $27 million in the fourth quarter. I think the cash balances are going to be a good bit lower, so what would -- where would you expect that to come out for the year?

David Hauser - ***Duke Energy Corporation - CFO***

For the year, '09?

Jonathan Arnold - ***BAS-ML - Analyst***

Yes.

David Hauser - ***Duke Energy Corporation - CFO***

I don't think we've put an assumption out there, have we? We haven't put that number out there. I think that number really is going to move around based on our ability to finance and the timing of that financing. So that's why we haven't put a number out there.

Jonathan Arnold - ***BAS-ML - Analyst***

Okay. Thank you, David.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Jonathan, thank you.

Operator

Thank you, Mr. Arnold. We'll now hear from Mr. Paul Patterson with Glenrock Associates.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Welcome, Paul.

Paul Patterson - ***Glenrock Associates - Analyst***

Thank you. I want to touch base with you on the earned ROE for your regulatory jurisdictions for '08 and what's projected for '09, not assuming any rate relief, if you could just give us a flavor for what you're seeing?

David Hauser - ***Duke Energy Corporation - CFO***

Well, let me tell you where we were at September 30 -- this is really North Carolina and South Carolina is where we do the filing. North Carolina was 10.17% and South Carolina was 9.42%. We don't provide what we look forward as our returns by jurisdiction for '09, what we provided the earnings estimates for '09.

Paul Patterson - ***Glenrock Associates - Analyst***

Okay. But I mean -- okay. Do we have any flavor as to what kind of rate increases you guys might be looking for in North Carolina and South Carolina at this point? I know it's early, but --

David Hauser - ***Duke Energy Corporation - CFO***

We have not put a percentage out there, but we have clearly said in the Carolinas we will be filing next year, but the -- the rate increase will be -- the impact of it will be in 2010. So there's no rate increases in the Carolinas that will impact '09. There is in Ohio.

Paul Patterson - ***Glenrock Associates - Analyst***

Okay.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Our plan, Paul, is to file mid-year with respect to North Carolina and South Carolina.

Paul Patterson - ***Glenrock Associates - Analyst***

Right. Okay. And then with respect to the regulatory lag issue that you want to -- you want to mitigate, any developments on legislative or policy issues that you could share with us since September?

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

I put this item in the "work in progress." We're working the legislative process both in North and South Carolina to really address this issue. We think it's really critical to reduce that regulatory lag with mechanisms and I would -- similar to the one we have in Indiana with CWIP where we're able to get the cash on a regular basis there and to really build into the regulatory regime these type of mechanisms.

Paul Patterson - ***Glenrock Associates - Analyst***

Okay. Any flavor in terms of timing here? I mean when does the legislative session, I guess, end and when might we be seeing more on it? I mean I know -- you can't give us information on it right now because it's too early, that's okay, I was just wondering if there is anything you can give us on that?

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

I think I'll stick with your alternative that it's too early.

Paul Patterson - ***Glenrock Associates - Analyst***

Okay.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Thank you.

Paul Patterson - ***Glenrock Associates - Analyst***

And then on Commercial Power, the timing issue that you mentioned, is there any other timing issue that we should be aware of with this capacity riders and whatever in 2009 versus -- anything like that that we should be thinking about?

David Hauser - ***Duke Energy Corporation - CFO***

I don't think so. Of course, the ESP got put in place, which was effective January 1, which is a positive and by going to -- back to the regulatory accounting standard, Financial Standard 71, a lot of that movement disappears.

Paul Patterson - ***Glenrock Associates - Analyst***

Okay. Great. Thanks a lot, guys.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Thank you.

Operator

Thank you. And we'll now hear from Greg Gordon with Citi Investments.

Greg Gordon - ***Citigroup - Analyst***

Thanks, good morning.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Welcome, Greg, good morning to you.

Greg Gordon - ***Citigroup - Analyst***

When I look at your -- a couple of questions. You're assuming that interest expense on an annual basis increases about $50 million. Just looking at how much incremental debt you issued last year plus how much you plan on issuing this year, it looks like, I'm just having a hard time to getting to only a $50 million increase. It looks more like it should be an $80 million or $90 million increase. Can you talk about what went into those drivers?

David Hauser - ***Duke Energy Corporation - CFO***

That number that you are looking at is net of the capitalized interest. So the capitalized interest is going up next year and if you net that out, you'll come out a lot closer to what you're thinking.

Greg Gordon - ***Citigroup - Analyst***

Fantastic, thanks. The second thing is just using your guidance on percentage of earnings coming from -- or percentage of EBIT coming from NMC historically versus what you're expecting this year, is it fair to presume that that is about a $0.02 drag year-over-year?

David Hauser - ***Duke Energy Corporation - CFO***

$0.02 would be a real good number.

Greg Gordon - ***Citigroup - Analyst***

Great. And then finally, the $850 million, and if you talked about this in the script, I apologize, the $850 million of other positive cash flow that you're budgeting for this year -- or, sorry, it's $825 million.

David Hauser - ***Duke Energy Corporation - CFO***

Yes.

Greg Gordon - ***Citigroup - Analyst***

Can you tell us what that is or reiterate what that is?

David Hauser - ***Duke Energy Corporation - CFO***

Four things in a very broad way. One is the assumption of some asset sales, just like we had in the November 20 presentation. Two is -- and this goes the other way, the $500 million contribution to the pension plan. Three is deferred tax benefits and four is some improvements in working capital.

Greg Gordon - ***Citigroup - Analyst***

What type of assets are you generally looking at shedding?

David Hauser - ***Duke Energy Corporation - CFO***

Well, as we've talked about it November 20, we're considering ideas like a wind joint venture and ideas like some of the Midwest gas assets.

Greg Gordon - ***Citigroup - Analyst***

Thank you.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Greg, thank you very much.

Operator

Thank you. And we'll now go to Michael Lapides with Goldman Sachs.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Welcome, Michael.

Michael Lapides - ***Goldman Sachs - Analyst***

Thanks, Jim. Two questions, a little bit unrelated, one on the high level end thinking about your Latin American business. A) how do you think about it in terms of potential -- whether its core or not core to you, especially given some of the discussion around either repatriation of capital from overseas subsidiaries to U.S. holding companies or at least lending from overseas subsidiaries to U.S. holding companies?

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

I mean we've always thought about it as part of our core business and any changes that are being contemplated by Congress would give us greater flexibility with respect to the movement of capital from those operations to the U.S.

Michael Lapides - ***Goldman Sachs - Analyst***

If you were able to -- if Congress makes that change, whether it's lending or actual, kind of like a one-time repatriation, would that impact your CapEx in Latin America, meaning kind of thinking about your near term and your long-term CapEx plan there?

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

In my judgment, it wouldn't impact it, but more importantly, it would give us the flexibility to deal with any tightness in the credit markets that may occur in future periods.

Michael Lapides - ***Goldman Sachs - Analyst***

Got it. Unrelated, kind of thinking about your U.S. businesses, how much are you seeing in the way of switching from coal to gas generation both in the Midwest and down in the Carolinas?

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

With respect to our customers, Michael?

Michael Lapides - ***Goldman Sachs - Analyst***

Yes, I'm just thinking about the dispatch curve a little bit. I mean we've got gas at $4.50, $4.55 right now in MMBtu, just trying to get a feel of what's happening at the dispatch curve because it would impact your coal assets in Ohio and your gas assets in pretty different manners.

David Hauser - ***Duke Energy Corporation - CFO***

Well, I think in the Carolinas, of course, we dispatch it 100% in a regulatory way and the coal is still significantly cheaper than the gas, even in today's market. And so you dispatch the coal first.

In the Midwest, where it impacts us is our ability to dispatch the Midwest gas assets we've got and what's happening there, of course, is the capacity markets and most of the earnings there are driven by capacity, not by energy.

Michael Lapides - ***Goldman Sachs - Analyst***

So you're not seeing an uplift in the dispatch of your gas assets in the Midwest even though given the kind of sizable decline in gas prices?

David Hauser - ***Duke Energy Corporation - CFO***

We haven't seen anything at this point.

Michael Lapides - ***Goldman Sachs - Analyst***

Okay. Thank you guys.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Thank you, Michael.

Operator

Thank you. And we'll continue on. We'll now go to Steve Fleishman with Catapult Capital.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Welcome, Steve, good morning to you.

Steve Fleishman - ***Catapult Capital Management - Analyst***

Yes, hi, Jim, how are ?

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Great.

Steve Fleishman - ***Catapult Capital Management - Analyst***

Most of my questions were answered already, but one thing I've heard you mention a few times over the last few calls or meetings is some talking about the importance of cheap capital or access to capital and looking at other ways to get capital.

What is some of the thinking that you have on those fronts and just -- I mean, obviously, you've generally been able to get cheap capital, but what are some of the things you're thinking along those lines?

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

I -- it's our judgment -- I mean you look back to last year, Steven, and we were -- had great access when we raised $4.5 billion at a 6% rate with an average maturity of 15 years. So our strong balance sheet, our coverage ratios has really given us the capability -- everyone of our operating companies are single A issuers. As we look to the future, though, we see continued uncertainty with respect to capital markets.

What we can't predict, and I don't think anybody can, is whether the possibility of vulcanization of global financial markets as each country's government takes stakes in banks where the banking model is unclear at this juncture and the turmoil that's there raises questions about the capital formation process. The protectionism measures that are reflected in current legislation could trigger a series of reactions around the world that could impact the global financial markets.

So there's a combination of factors at work. What we're saying is that in all likelihood, we will return to business as usual in terms of capital formation. But there is some probability, and it's anybody's guess what that number is, that it won't return to business at usual in terms of the way that capital has been created and the whole intermediation process has worked.

So one of the things that we're going to be very focused on and we see no down side in it is really strengthening our relationships with pension funds, insurance companies, sources of capital in Asia, sources -- sovereign wealth funds in the Middle East, so that we really build deeper relationships with these various sources of capital going forward.

That will give us more flexibility in this uncertain time and particularly given our inability to have clear visibility to what the capital formation process could evolve to over the next six months to two years.

David Hauser - ***Duke Energy Corporation - CFO***

Steve, let me add one thing. This is David. I fully agree with Jim. This is about relationship building. But we should be clear, our confidence that we can finance the plan we've laid out in a way that works for the bondholders and the shareholders is very high. We're simply adding another arrow to our quiver is the way I would view it.

Steve Fleishman - ***Catapult Capital Management - Analyst***

Okay. Great. Thank you.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Thank you very much.

Operator

Thank you. And we'll take our final question from Mr. Hugh Wynne with Sanford Bernstein.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Welcome, Hugh.

Hugh Wynne - ***Sanford C. Bernstein & Company, Inc. - Analyst***

Good morning. I wonder if you would bear with me quickly while I frame this question by reference to your results in '08. Last year you grew your net PP&E by about 9.5%, but your EBIT rose by less than 6% because your volume sales were down and because of regulatory lag.

Your interest expense grew more less in tandem with your PP&E and as a result your EPS was down. Now, going forward, you've said you plan to continue to invest at a rapid rate, you hope to realize a 5% to 7% EPS growth provided that you get a resumption in sales growth, you manage to limit regulatory lag and get rate recovery for your new CapEx.

My question is whether those assumptions are plausible in the current environment given that we have a weak economy and the growing emphasis on conservation from the government. On account of the weak economy and rising unemployment, we have some political difficulty in granting rate relief. Is the appropriate response to continue to invest and possibly drive returns on capital down further or should we be husbanding capital much more dramatically than what you're proposing?

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

I think that question is a very good question, very thoughtful. As we think about it, we look at every recession that we've experienced, whether it's a U or a V or whatever letter you -- or description you want to put on it. But virtually, after every recession, there has been a significant rebound in the demand for electricity.

So while we're in this period where there's downward pressure, we're continuing to plan to make sure we have adequate supplies available when that rebound occurs.

The second thing is that one of the reasons that we believe it's important to change the regulatory regime in some of our states that don't currently provide, what I call tracking type of mechanisms, we believe that those kind of mechanisms that track capital investment, may track additional O&M expenses, smooth out the cost impact on consumers and make it from a political standpoint and from a planning standpoint a -- planning from our customers' standpoint, make it much easier for them to deal with rising rates in the future.

So a lot of what we're contemplating is the ability to, one, file for rate increases, two, put these mechanisms in place and to smooth out the cost impact on consumers because we're experiencing, as the entire industry is, the real price of electricity actually going up for the first time in a decade and a half. And so one of our challenges in this weak economy is to get consumer support, political support for these increases and the type of mechanisms I've just been describing help make this more doable going forward.

David Hauser - ***Duke Energy Corporation - CFO***

Here, let me just add, this is David, that the reason we broke out the capital in a different mechanism than we did was so people could see what our flexibility was because we have a lot more flexibility than people realize. So we will be certainly assessing every day whether we can finance it and do we want to finance it and earn the returns on it, but our judgment right now is that we do.

I guess the one other piece I would add is that in parts of our business, there's some really good things going on. If you read all the articles about people can't get capital to build wind and there's a lot of RFPs out there for wind, well, another way to look at it is that's some opportunity for us to bid at returns that are desirable.

Hugh Wynne - ***Sanford C. Bernstein & Company, Inc. - Analyst***

Great. Thanks very much.

Jim Rogers - ***Duke Energy Corporation - Chairman, President, CEO***

Hugh, thank you.

Operator

Thank you, and that does conclude today's question-and-answer session. Mr. Trauschke, I'll turn things back over to you for any final or closing remarks.

Sean Trauschke - ***Duke Energy Corporation - SVP of IR and Financial Planning***

Okay, thank you, Katherine. We want to thank you for joining us today and as always, our team will be available to answer any follow-up questions. Thank you.

Operator

Thank you, ladies and gentlemen. That does conclude today's presentation. Thank you for your participation and have a good afternoon.