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Rating: Maintain Hold

**Duke Energy
(DUK-NYSE-\$18)**

Price Intraday	6/11					
	18					
52-week range	21-17				Price	Y-t-d
Book Value (12/31/07)*	13.08	137%	P/b	Performance	6/11	%
Reported Ongoing				Duke	18	(11)
2004 Ongoing	0.64	28.1	P/e	Phil. Index	541	(5)
2005	0.92	19.5		Dow Industrials	12,099	(9)
2006	0.91	19.8		Coverage		
2007	1.20	15.0		Analyst Total	18	
2008 Consensus	1.28	14.1		Buys	5	28%
2009 Consensus	1.35	13.3		Shares (mil)	1,262	
2010 Estimate	1.40	12.8		Market (\$Bil)	23	
2011 Estimate	1.45	12.4				
Dividend Per Share	0.88	4.9%	Yield			

Source: Consensus estimates are from Bloomberg Financial Service.

*Book value excludes \$3.67 a share of Goodwill

Overview & Recommendation

Duke Energy shares have underperformed the Philadelphia 22 Electric Stock Index for the year-to-date and trailing 12-months. Compared to the Dow Industrials, DUK underperformed year-to-date (-11% versus -9%) but outperformed for the trailing 12-months (-3% versus -10%). Price/earnings ratios of 14.1 times and 13.3 times 2008 and 2009 consensus estimates, respectively, represent discounts of 11% and 7% to the S&P Utilities Index. The \$0.88 a share dividend represents a 70% payout of 2008 earnings and provides a 4.9% yield, versus the S&P Utilities payout of 50% and yield of 3.2%.

The corporate incentive target for ongoing operations is \$1.27 a share (plus 6%) in 2008 within a range of \$1.20 to \$1.35 a share, in line with a goal of growing earnings 6% per annum through 2012 off a 2007 base employee profit level of \$1.15 a share. Management has committed to annual dividend growth without specifying a target. Assuming dividends increase 5% annually, a \$1.12 a share level in 2012 would represent a 73% payout on earnings of \$1.54 a share. The total return of about 10% per annum is at the high end of the 8%-10% envisioned for the group. Management indicated that performance will likely be lumpy depending on the timing of rate relief and the extent of sales slowdowns in a rising unit cost environment.

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See page 5 of report for Analyst's Certification, pages 5-6 for Important Disclosures and page 6 for Other Disclosures and Disclaimers

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The 500 pound Gorilla in Duke's living room is of course looming Carbon legislation under a new administration. Duke, as the third largest emitter of carbon dioxide behind American Electric Power (AEP-hold) and Southern Co. (SO-hold), could incur destructive cost increases. Hopefully legislation will be less onerous than the S.2191 Climate Security Act of 2007 (Lieberman-Warner) proposed in the recent session. A representative from CRA International estimated that Lieberman-Warner would reduce GDP by 1.0% to 1.6%. With that threat, it's tough to argue for a Duke Energy out-performance. But the dividend is safe and likely to grow. We recommend hold for income with a 12-month trading range of \$16-\$20 a share.

Street Opinion and Shareholder Profile

According to Bloomberg Financial Service, Duke has 18 active recommendations, 5 buys (B of A, Edward Jones, Matrix, Lehman and Atlantic Equities), 1 sell (Goldman Sachs) and 12 holds. Its 10 largest shareholders as of December 31, 2007 hold 357 million shares or 28% of the 1.2 billion shares outstanding: State Street Corp. (98 million shares); Barrow Hanley (45 million); Barclays (42 million); Vanguard (39 million); Franklin Resources (36 million); Capital World (23 million); B of A (20 million); T. Rowe Price (18 million); Bank of NY (18 million); and Goldman Sachs Asset Management (18 million).

Earnings per Share – 2007 per Sector

Management reports results to the investment community based on Earnings before Interest and Income Taxes (EBIT). In 2007, EBIT of \$2,734 million was derived 1) 84% from the US Franchised Electric and Gas in North and South Carolina, Ohio, Indiana and Kentucky, 2) 10%-Commercial Power, 3) 14%-International, 4) 2%-Crescent Resources, and 5) minus 11%-Other. For 2008, management forecasts a 10% increase in EBIT to \$2,995 million, including +5%-US Franchise, +38% Commercial Power, a 2% decline in International, and a 23% increase in Crescent Resources. Other parent and other expenses and losses are projected to decline to \$265 million versus \$298 million.

Table 1
Management on-going EBIT
(2008-2006)

	2008E		2007		2006	
	\$-mil	% total	\$-mil	% total	\$-mil	% total
U.S. Franchised EG	2,420	81	2,305	84	1,811	94
Commercial Power	385	13	278	10	47	2
International Energy	380	13	388	14	313	16
Crescent	75	3	61	2	286	15
EBIT Ongoing	3,260	109	3,032	111	2,457	128
Other	(265)	(9)	(298)	(11)	(537)	(28)
Total EBIT & Other	2,995	100	2,734	100	1,920	100

Source: Management Presentation

We've never been proponents of EBIT or EBITDA reporting. In our experience too many companies have reported rising EBIT and EBITDA and at the same time had deteriorating financials. Besides, in the case of Duke Energy, detailed financials of US Franchise (84% of 2007 EBIT) are readily available in the 10Ks. Why not report along business lines according to earnings per share, book values and returns? Table 2 is our attempt to do just that.

Statements for the regulated Carolinas, Indiana and Kentucky (columns 2,4,5) are lifted directly from reported filings and require no adjustments. The Ohio 10K includes Kentucky regulated and Commercial Power. Ohio regulated (column 3) is Ohio Consolidated in the 10K less Kentucky (column 5), and less our estimate for Commercial Power (column 7). International (column 8) is as presented in the 10K plus our allocation of interest expense and implied tax rates. Crescent Resources (column 9) is as stated in the 10K and Other is what's left.

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Management EBIT includes pretax operating income plus other income and equity in subsidiaries. Table 2 separates those items. Consolidated book value of \$13.08 excludes \$3.67 of goodwill. Book value allocation is taken from the 10K or allocated based on net investment and an overall common equity ratio net of goodwill.

Consolidated earnings of \$1.20 a share included \$0.81 a share (67%) from franchised electric and gas (Carolinas-\$0.53 a share, Ohio-\$0.06, Indiana-\$0.18, and Kentucky-\$0.03). Non-regulated Commercial Power earned \$0.12 a share, International-\$0.23 a share, Crescent Resources \$0.03 a share and all Other-\$0.03 a share.

Return on consolidated year-end book was 9.2%. US Franchise earned 9.8%, including Carolinas-10.1%, Ohio-7.5%, Indiana-9.9%, and Kentucky 8.7%. Non-regulated Commercial Power earned a 5.4% return, International-13.3%, Crescent-1% and Other-3%.

Table 2
Duke Energy
Estimated Income Statement & Return Profile
2007

Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
\$-millions				Reg.				Non-Reg		
Shares millions	Consol.	Carol.	Ohio	Ind.	Ky.	Total	CP	Intl	Cres.	Other
1,266	\$-Mil.	\$-Mil.	\$-Mil.	\$-Mil.	\$-Mil.	\$-Mil.	\$-Mil.	\$-Mil.	\$-Mil.	\$-Mil.
Revenues	12,720	5,812	1,211	2,223	493	9,739	1,751	1,060	0	170
Operating Inc.	2,498	1,226	170	451	65	1,912	256	165	0	165
Interest Expense	685	292	33	109	17	441	50	62	0	122
Pretax Inc.	1,813	934	137	342	48	1,471	206	103	0	43
Tax Rate	39.3%	36.6%	38.6%	45.0%	38.5%	39.0%	38.6%	39.3%	0	57.0%
Taxes	712	342	53	154	18	571	80	40	0	25
Inc. After Tax	1,101	592	84	188	29	900	127	62	0	19
Other Income	264	78	(2)	44	4	124	22	104	0	14
Equity. Subs.	157							119	38	
Bal. to Com.	1,522	670	82	232	33	1,024	149	285	38	33
EPS	1.20	0.53	0.06	0.18	0.03	0.81	0.12	0.23	0.03	0.03
% Total		44%	5%	15%	2%	67%	10%	19%	2%	2%
Book Yr-end	13.08	5.24	0.86	1.85	0.30	8.26	2.16	1.70	0.16	0.81
% Total		40%	7%	14%	2%	63%	17%	13%	1%	6%
Return	9.2%	10.1%	7.5%	9.9%	8.7%	9.8%	5.4%	13.3%	19.0%	3.2%

Source: SEC statements, other company statements and Shields' Estimates

Duke Ohio

Duke Ohio results include Ohio franchise (Cincinnati Gas & Electric transmission and distribution businesses), Kentucky (Union Light & Heat) and Commercial Power, consisting of generation separated from T&D under deregulation legislation. Under an energy bill signed in May 2007, Ohio will have the option of placing generation under 1) an Electric Security Plan (ESP) having profit oversight - in effect a return to quasi regulation or 2) a Market Rate Option (MRO) with fully competitive pricing. Management has opted to place 4000 megawatts, once part of the Cincinnati G&E rate base, in an ESP. The 3600 megawatts of gas generation transferred from a Duke subsidiary following the Cinergy acquisition was never under Ohio jurisdiction and will be placed in a fully competitive MRO.

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Table 3 is an estimated 2007 earnings profile of consolidated Duke Ohio (column 1), Kentucky (column 2), Ohio only (column 3), regulated Ohio (column 4) and Commercial Power (column 5). Columns 6 and 7 allocate Commercial Power assets by MRO (column 6) and ESP (column 7).

Consolidated Duke Ohio earned \$0.21 a share on net book of \$3.32 a share for a return of 6.3% (column 1). Column 3 is total Ohio less Kentucky. Investments net of Kentucky according to the Ohio 10K approximate 40% regulated and 60% non-regulated. Net investment and interest expense (columns 4 and 5) are allocated accordingly. Commercial Power operating earnings (\$256 million) and other income (\$22 million) are taken directly from the 10K. Regulated Ohio is the difference between Ohio only (column 3) and Commercial Power (column 5).

Consolidated Ohio earnings of \$0.21 a share were derived \$0.03 a share (13%)-Kentucky, and \$0.06 a share (31%)-regulated Ohio. Commercial contributed \$0.12 a share (56%). Return on regulated common works out to 7.5% and Commercial Power, 5.4%. Commercial Power has two components 1) ESP assets once under traditional regulation and 2) MRO assets. MRO assets (Midwest generation), representing \$1,400 million equity, posted operating losses of \$14 million in 2007, or \$(0.01) a share (\$9 million) net of taxes. ESP assets earned a return of 11.8%, while MRO posted a negative 0.6% return.

Table 3
Duke Ohio
2007 Estimated Earnings Profile

Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Consol.	Ky	Ohio Only	Reg 40%	CP 60%	MRO	ESP
\$-millions			(1-2)				(5-6)
Net Investment*	7,480	882	6,598	2,639	3,959	1,400	2,559
Operating Earnings	491	65	426	170	256	(14)	270
Interest*	100	17	83	33	50	0	50
Pretax	391	48	343	137	206	(14)	220
Taxes	151	18	133	53	80	(5)	85
Tax Rate	38.6%	38.5%	38.6%	38.6%	38.6%	38.6%	38.6%
After Tax	240	29	211	84	127	(9)	135
Other Income	24	4	20	(2)	22		22
Earnings (loss)	264	33	231	82	149	(9)	157
Per Share	0.21	0.03	0.18	0.06	0.12	(0.01)	0.12
% total Ohio		13%	87%	31%	56%	-3%	60%
Book Net of Goodwill	3.32	0.30	3.02	0.86	2.16	1.11	1.05
Return Book	6.3%	8.7%	6.0%	7.5%	5.4%	-0.6%	11.8%

* Col 4 = 40% of Col 3, Col 5 = 60% of Col 3

Sources: SEC Statements, Company Statements and Shields' Estimates

Management forecasts a 38% increase in Commercial Power EBIT results (Table 1) for 2008. The pluses and minuses for year-to-year comparisons include a catch up in un-recovered fuel costs in 2007 (\$40 million), removal of mark-to-market earnings, and reduced non-cash amortization stemming from the purchase cost accounting in the Cinergy acquisition (\$105 million). The remaining \$55 million increase in general business reflects increases in generation services, tax credits from wind generation coming on line and business in general.

Analyst's Certification

I Raymond E. Moore certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. Other Duke Energy reports issued by me are: 5/17/05 (\$28) – Hold.

Important Disclosures

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Buy Total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

Market Perform & Hold Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

Sell Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.

Analyst's Ratings Distribution

		% Investment Banking
Buy	17%	0%
Hold	83%	0%
Sell	0%	0%

The principal risks to the achievement of our price targets include general market trends, disappointing earnings and lower energy prices and adverse regulatory developments

Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings ratio in line with the company's historical valuation or those of other companies with similar businesses and prospects.



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