

Chairman's Letter to Stakeholders

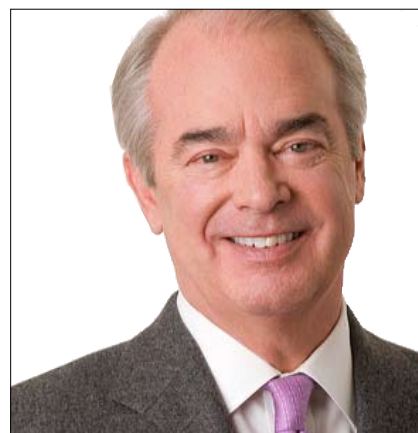
Dear fellow investors, customers, employees and all who have an interest in our success — our partners, suppliers, policymakers, regulators and communities:

We believe that all companies should have great aspirations. At Duke Energy, we have two aspirations that guide our planning and serve as a bridge to the future: (1) Modernize and decarbonize our generation fleet, and (2) Help make the communities we serve the most energy efficient in the world.

These aspirations are grounded in our commitments to provide our customers with clean, affordable and reliable electric and gas services, and to allocate capital over the long term to grow earnings for investors.

Our aspirations are also shaped by the ongoing debate over how to address global climate change. They are action-based. They recognize our intent to ensure that rules limiting greenhouse gas (GHG) emissions will fairly balance the needs of all of our stakeholders.

In this letter I will describe how we are building bridges to a low-carbon future. My confidence in our ability to succeed is based on the dedication of our people. Their hard work and perseverance was evident in our 2007 results.



JAMES E. ROGERS
*Chairman, President and
Chief Executive Officer*

“Most of the electricity generated in this country is fueled by four natural resources: coal, uranium, natural gas and water. We include a fifth fuel — energy efficiency. By helping our customers use power more efficiently, we can help them save money and reduce the need for new power plants.”

2007 — A STRONG, PRODUCTIVE YEAR

Last year, we faced weather-related challenges of record-setting summer heat throughout our service territory and a persistent drought in the Carolinas. We continued to make progress in integrating our 2006 merger with Cinergy, and we completed the spinoff of our natural gas businesses. The people of Duke Energy met these challenges while achieving solid results in customer service and operations.

- **We increased earnings per share and total return:** Ongoing diluted earnings per share of \$1.24 in 2007 exceeded 2006 ongoing diluted earnings per share of \$0.99. Duke Energy's total shareholder return (TSR) — a combination of the change in stock price plus dividends paid out — was more than 9 percent in 2007. This beat the S&P 500 index TSR of 5.5 percent.
- **We achieved constructive legislative and regulatory outcomes:** We received approvals to build two new advanced coal plants in Indiana and North Carolina. Thanks to the diligent work of our teams, we received final air permits for both in January 2008. We helped pass comprehensive energy legislation in North Carolina and South Carolina. The legislation enables the more timely recovery of certain operating costs, such as the reagents and chemicals we use in our environmental equipment on our coal plants. And it allows more timely recovery of the financing costs associated with the construction of new baseload generation. In North Carolina, we settled our rate case, which reduced industrial, commercial and residential

rates without a material impact on 2008 earnings. In Ohio, we continue to support legislation that will ensure future rate certainty for our customers in that state.

- **We grew our renewable energy portfolio:** Our Commercial Businesses acquired 1,000 megawatts of wind power assets planned or under development in the western and southwestern United States. We also began construction of two small hydroelectric power plants in Brazil.
- **We dedicated ourselves to customer service and economic development:** We achieved improvements in our key internal satisfaction measures for all customer classes. Economic development efforts helped stimulate new capital investments and new jobs in our five-state service territory.
- **We met productivity targets:** Our nuclear and coal plants performed superbly when we needed them the most. Our nuclear fleet had its third-best year ever for capacity. Despite the drought, careful management of our coal and hydro units enabled us to successfully meet our customers' record demand for both peak and baseload power.

BUILDING BRIDGES TO A LOW-CARBON FUTURE

In 2008, we'll continue to focus on delivering results for both customers and investors in our basic business. At the same time, we will continue to chip away at the most difficult challenge in the history of our industry: global climate change.

Demand for electricity is growing locally and globally. Each year, Duke Energy alone is adding approximately 40,000 to 60,000 new customers in the Carolinas, and 11,000 to 16,000 new customers in the Midwest. This means we will need more than 6,000 megawatts of new generating capacity by 2012. According to the U.S. Department of Energy, nationwide power demand will grow approximately 35 percent by 2030.

At the same time, evidence is growing that carbon dioxide (CO₂) released into the atmosphere from burning fossil fuels is creating conditions that could change our way of life. Scientists know climate change is a problem, yet they aren't able to accurately predict its full scope. I leave the science to the scientists, but as an energy company CEO, I have a responsibility to protect our assets against such risks — to meet the need for power, without risking our children's futures.

We must plan ahead. It takes five or more years to build a new baseload coal plant, and 10 to 15 years to build a new nuclear plant. To ensure we can deliver reliable and affordable power to our customers, we have to start now. But today, we lack advanced technologies that can achieve this seemingly impossible dual mission: high growth and low carbon. Consequently, we have developed a multi-pronged strategy to bridge the gap between our current high-carbon economy and a low-carbon future.

Let me explain in this letter how the people of Duke Energy are building four bridges: (1) from “production” (making watts) to “efficiency” (saving watts); (2) from conventional to unconventional generating technologies; (3) spanning

investor expectations and new regulatory rules; and (4) from following the status quo to leading with forward-looking policies.

THE FIRST BRIDGE: FROM PRODUCTION (MAKING WATTS) TO EFFICIENCY (SAVING WATTS)

Most of the electricity generated in this country is fueled by four natural resources: coal, uranium, natural gas and water. We include a fifth fuel — energy efficiency. By helping our customers use power more efficiently, we can help them save money and reduce the need for new power plants. In aggregate, energy efficiency investments are the least expensive and most environmentally benign source of energy for our customers.

Why isn't more being done to promote energy efficiency? As co-chair of the National Action Plan on Energy Efficiency and the Alliance to Save Energy, I reviewed state regulatory plans for energy efficiency. We found that many utilities don't invest in such programs, because the current regulatory framework is biased against investments in energy efficiency in favor of putting steel in the ground. Our goal is to change that regulatory paradigm so that earnings from energy efficiency are on a par with earnings from investments in new power plants.

In 2007, we introduced Duke Energy's energy efficiency plan, which is designed to set investment returns for the costs and savings of energy efficiency programs. Customers would benefit because they would pay 10 to 15 percent less for energy efficiency than for a new power plant. We filed for regulatory approval of this plan in Indiana, North Carolina and South Carolina. As I was writing this letter, we reached

2007 MAJOR ACHIEVEMENTS

FIRST QUARTER

- Completed the spinoff of Spectra Energy.
- Received approval to build an 800-megawatt advanced coal-fired unit at our Cliffside station in western North Carolina (final air permit received in January 2008).

SECOND QUARTER

- Issued first Sustainability Report.
- Filed energy efficiency plan in North Carolina.
- Helped pass comprehensive energy legislation in South Carolina that provides for the recovery of new nuclear plant financing costs during the construction phase and allows recovery of costs of certain reagents used in emission removal.
- Acquired 1,000 megawatts of wind energy assets under development in the western and southwestern United States.

THIRD QUARTER

- Met customers' demand for electricity during record-setting summer heat throughout the service territory and record-setting drought in the Carolinas.
- Helped pass comprehensive energy legislation in North Carolina that enables the recovery of new plant financing costs during the construction phase and allows recovery of costs of certain reagents used in emission removal. The legislation includes a workable renewable energy and energy efficiency portfolio standard.
- Filed energy efficiency plan in South Carolina.

FOURTH QUARTER

- Filed energy efficiency plan in Indiana.
- Received remand order affirming the Ohio rate stabilization plan. The ruling maintains the current price and provides for the continuation of existing rate components.
- Received approval to build a 630-megawatt cleaner-coal integrated gasification combined cycle (IGCC) power plant in southwestern Indiana (final air permit received in January 2008).
- Settled rate case in North Carolina, which reduced industrial, commercial and residential rates with no material impact on 2008 earnings.
- Filed applications with state regulators for certificates of public convenience and necessity to add two 620-megawatt combined cycle, natural gas-fired units at two existing power plants in North Carolina.
- Submitted a combined construction and operating license application to the U.S. Nuclear Regulatory Commission for the proposed 2,234-megawatt Lee Nuclear Station in Cherokee County, S.C.
- 2007 ongoing diluted earnings per share of \$1.24 exceeded 2006 ongoing diluted earnings per share of \$0.99.

FULL YEAR

- Continued push for federal cap-and-trade legislation limiting greenhouse gas emissions.

“In aggregate, energy efficiency investments are the least expensive and most environmentally benign source of energy for our customers.”

a partial settlement in South Carolina for our plan. We expect to file similar plans in Ohio and Kentucky in 2008.

We were pleased that in February 2008, the Alliance to Save Energy, the American Council for an Energy-Efficient Economy and the Energy Future Coalition endorsed our energy efficiency model as “an innovative and promising new direction for the company and its customers.”

Building the smart grid — the backbone of reliability

In 2007, we began installing smart meters in Charlotte, N.C., Cincinnati, Ohio, and northwestern South Carolina. Turning analog meters into digital or smart meters enables real-time communication between our power grids and our customers' homes. This will help our customers monitor and manage their power consumption. We have about 7,500 smart meters in place today. With appropriate regulatory recovery, we expect to install an additional 60,000 by the end of 2009.

Over the next five years, we plan to spend about \$1 billion to digitize our distribution system. These improvements will help us better balance supply and demand, pinpoint trouble sooner, and restore outages faster or avoid them altogether.

THE SECOND BRIDGE: FROM CONVENTIONAL TO UNCONVENTIONAL GENERATING TECHNOLOGIES

Our energy efficiency focus is vital to providing reliable and cost-effective electricity in the future. But efficiency alone cannot satisfy growing demand and at the same time reduce our CO₂ emissions. We must do more. Instead

of looking for a “silver bullet” strategy, we are taking a “silver buckshot” approach. Using new technologies, we plan to build an efficient generation portfolio powered by coal, nuclear, natural gas and renewables. Over the next five years, we plan to invest approximately \$23 billion (almost equal to our current market cap) to make our entire system more efficient, retire inefficient plants and increase renewable generation.

Advanced coal technologies

When people ask, “How can a company committed to a low-carbon future continue to build new coal plants?” I remind them of these key facts: Today, coal accounts for about 50 percent of our nation's total electric generation. In the United States, Duke Energy's system is about 70 percent coal. We burn coal today because it is the most abundant and economical fuel available for large-scale reliable power generation. We are finding ways to use coal more efficiently and cleanly.

Indiana regulators approved our four-year plan to build a cleaner-coal integrated gasification combined cycle (IGCC) plant. The 630-megawatt Edwardsport plant is currently expected to cost approximately \$2 billion. To encourage this new technology, the project will receive \$460 million in local, state and federal tax incentives and credits.

The new plant will be one of the cleanest and most efficient coal-fired power plants in the world. It will emit less sulfur dioxide (SO₂), nitrogen oxides (NO_x) and particulates than the plant it replaces — while providing more than 10 times the power of the existing plant. The current 160-megawatt plant emits about 13,000 tons of SO₂, NO_x and particulates

annually and runs about 30 percent of the time. By comparison, a new 630-megawatt IGCC plant running 100 percent of the time will emit about 2,900 tons of the same pollutants. It will also use about 11 million gallons of water a day, compared to the current plant, which uses almost 190 million gallons daily.

Eventually we hope to be able to capture and permanently store the CO₂ emitted from this plant in nearby underground formations, keeping it out of the atmosphere.

North Carolina regulators approved our plan to build a new 800-megawatt unit at our Cliffside Steam Station. At a cost of approximately \$2.4 billion, this plant will use supercritical coal-combustion technology, which is 30 percent more efficient than the units it will replace. As a result, it will generate twice the amount of electricity of the existing plant with only one-seventh of the SO₂, one-third of the NO_x and one-half the mercury emissions. The new unit's air permit includes limits on SO₂ and NO_x emissions that are stricter than current state and federal rules. The state's mercury limits are already more stringent than federal rules. The project will receive \$125 million in federal clean-coal tax credits.

We also agreed to implement a unique CO₂ mitigation plan for Cliffside. As part of that plan, we will retire the plant's four older coal units by 2012 and shut down 800 megawatts of other older coal units by 2018. In addition, we agreed to invest 1 percent or approximately \$50 million of our North Carolina revenues from our regulated operations each year in energy efficiency, pending appropriate regulatory approval.

Natural gas

Natural gas emits less CO₂ than coal, but it is more expensive — so we use it judiciously in our portfolio. We filed with our regulators to build two 620-megawatt gas-fired units, one each at our Buck and Dan River steam stations in North Carolina. Last year, we purchased nearly 1,300 megawatts of gas-fired generation in the Midwest and North Carolina, adding to our existing gas assets.

Non-fossil fuel: nuclear and renewable energy

Today, approximately 28 percent of the power we generate in the United States comes from zero CO₂-emitting nuclear and renewable energy — about 5,000 megawatts of nuclear capacity and about 3,200 megawatts of hydroelectric capacity. We also have more than 3,100 megawatts of hydroelectric capacity in South America.

To reduce CO₂ emissions and meet demand growth, nuclear power must play an even larger role in our portfolio. In December, we filed an application with the Nuclear Regulatory Commission for a combined construction and operating license for our proposed two-unit, 2,234-megawatt Lee Nuclear Station in South Carolina. We also filed with South Carolina regulators to invest and recover up to \$230 million in the plant's upfront development costs. We saw similar cost recovery assurance legislation pass in North Carolina. Assuming timely regulatory approvals, we would anticipate unit 1 coming on line in 2018.

We will also increase our use of renewable energy, by adding wind, solar and biomass to our hydroelectric capacity. We will add up to 200 megawatts from renew-

able sources to serve our Indiana customers, and we are purchasing renewable energy capacity to supply our North Carolina customers starting in 2012. As noted earlier, our nonregulated business is also building a renewable energy portfolio. When completed, these projects will sell wholesale power to other utilities. We expect the first 240 megawatts of these nonregulated assets to come on line in 2008 and 2009.

THE THIRD BRIDGE: SPANNING INVESTOR EXPECTATIONS AND NEW REGULATORY RULES

During the 1970s and 1980s, the industry invested trillions of dollars to build new baseload generation. The result was a sobering demonstration of the limitations of traditional rate-of-return regulation — for both customers and investors. This construction binge resulted in rate shocks for customers, cost overruns, the cancellation of half-finished plants and ultimately red ink for shareholders.

In the 1990s, we turned to the deregulation of power markets, relying on market signals to build new generation cost-effectively. But these experiments produced other undesirable outcomes: overbuilding in premium fuels such as natural gas and the under-recovery of true investment costs.

The lessons are clear to customers, investors, regulators and policymakers. We need new rules based on what we learned from both building eras. Customers and investors can both benefit when regulators reduce the time between when we invest and when we start recovering our investments.

OUR MISSION, OUR VALUES

Our Mission

At Duke Energy, we make people's lives better by providing gas and electric services in a sustainable way. This requires us to constantly look for ways to improve, to grow and to reduce our impact on the environment.

Our Values

- **Caring** — We look out for each other. We strive to make the environment and communities around us better places to live.
- **Integrity** — We do the right thing. We honor our commitments. We admit when we're wrong.
- **Openness** — We're open to change and to new ideas from our co-workers, customers and other stakeholders. We explore ways to grow our business and make it better.
- **Passion** — We're passionate about what we do. We strive for excellence. We take personal accountability for our actions.
- **Respect** — We value diverse talents, perspectives and experiences. We treat others the way we want to be treated.
- **Safety** — We put safety first in all we do.

“As the third largest emitter of CO₂ in the United States, I believe we have a responsibility to provide policy leadership. We must imagine a low-carbon future for our grandchildren and act to lower CO₂ emissions now. Achieving a low-carbon future will require rigorous engineering solutions, continuing technological discoveries, the political will to bridge local interests and global needs, and leaps of imagination.”

In 2007, South Carolina passed comprehensive energy legislation that includes provisions allowing recovery of new nuclear plant financing costs during the construction phase. Similarly, North Carolina lawmakers passed legislation that allows us to seek plant financing costs through a rate case. This legislation enables us to synchronize capital spending and rate cases associated with our major investments. The North Carolina law also provided a workable renewable energy and energy efficiency portfolio standard requiring investor-owned utilities to supply 12.5 percent of their power from renewable energy sources by 2021.

This far-thinking leadership will allow us to build new plants so we can deliver reliable and affordable service to our customers while reducing the risk of regulatory lag.

Our strong balance sheet allows us to fund our ambitious five-year building program without issuing public equity. Beginning in 2010, we expect to raise equity of about \$200 million per year through our dividend reinvestment and internal benefit programs.

THE FOURTH BRIDGE: FROM FOLLOWING THE STATUS QUO TO LEADING WITH FORWARD-LOOKING POLICIES

I've described actions we are taking in our service territory to meet our growing demand for power and reduce our carbon footprint. With these steps, we will achieve our aspirations of modernizing and decarbonizing our fleet and making our communities more energy efficient.

But we must do more. As the third largest emitter of CO₂ in the United States,

I believe we have a responsibility to provide policy leadership. We must imagine a low-carbon future for our grandchildren and act to lower CO₂ emissions now. Achieving a low-carbon future will require rigorous engineering solutions, continuing technological discoveries, the political will to bridge local interests and global needs, and leaps of imagination.

In 2007, we worked to win Congressional support of cap-and-trade rules to control GHG emissions, so that all businesses can calculate the investment needed to reduce their carbon footprints. We advocated for legislation that treats all industries and regions of the nation fairly and ensures that utility customers in high coal-using states aren't penalized. We believe a cap-and-trade approach is the fairest and most equitable and practical way to achieve a 60 to 80 percent reduction in our nation's GHG emissions by 2050.

We also need new ways to fund research, development and deployment of CO₂-reducing technologies. Without such funding, we won't make it across the bridge to a low-carbon future.

More business, political and community leaders are stepping forward to cross that bridge. They're not waiting for others to act. Such leaders are also emerging in our company. They and their colleagues know it's easier not to rock the boat. Yet they've chosen to act and to take personal responsibility for their results. They've chosen to lead with integrity, discipline, vision and compassion — and help prepare and develop our workforce for the future.

During the next five years, we expect almost a third of that workforce to retire. This presents both a recruitment challenge

and a great opportunity to grow talent within the company. One of my team's top priorities is development of a highly talented workforce that has the skill and the will to position us for a low-carbon future.

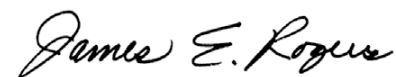
FOCUSED ON GROWTH

Based on current assumptions, we expect to grow ongoing diluted earnings at 5 to 7 percent compounded annually through 2012. We've set our 2008 employee incentive target at \$1.27, based on ongoing diluted earnings per share. Our growth objectives are supported by our commitment to balance the needs of our stakeholders, including future generations.

Our many accomplishments this past year were possible because of the diligence, hard work and imagination of the people of Duke Energy. I thank them on your behalf, and mine.

The catalysts to increase future earnings will be continuing cost management, execution on our investment-recovery strategy and steady organic growth. This represents a strong value proposition for our investors, and one that allows us to honor commitments to all of our stakeholders.

We will focus on these priorities as we continue to build bridges to a low-carbon future. I look forward to working together with you to achieve that goal.



JAMES E. ROGERS
*Chairman, President and
Chief Executive Officer*

March 7, 2008