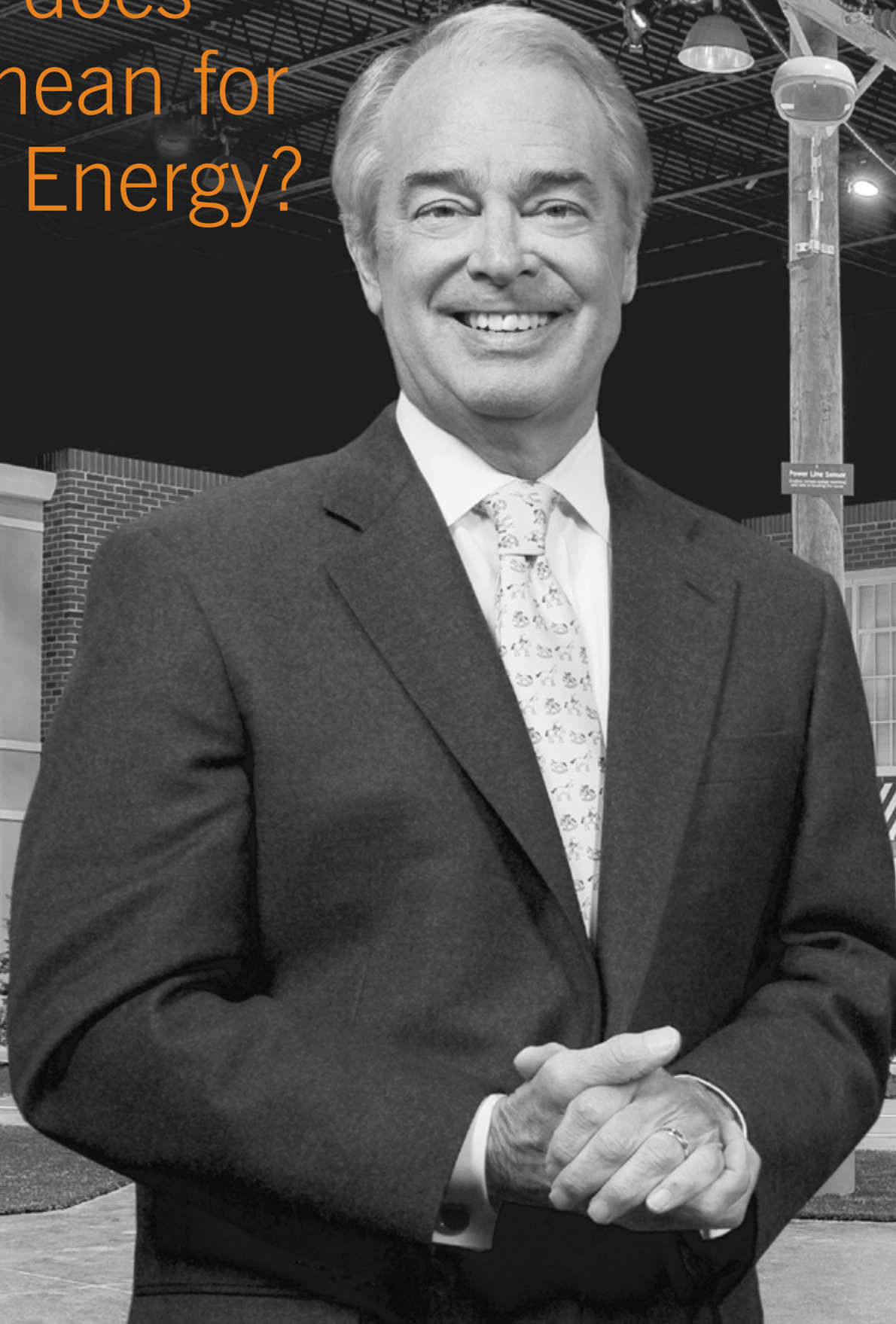


What does
this mean for
Duke Energy?



Redefining Our Boundaries

Jim Rogers

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Charlotte, N.C.

Jim Rogers stands in the Envision Center by Duke Energy. Located near Cincinnati, Ohio, the center showcases the vision for and educates stakeholder groups about the company's future utility efforts, including the smart grid and the save-a-watt energy efficiency program. Since opening last fall, the center has hosted diverse public and private groups, including manufacturers of plug-in hybrid electric vehicles, who have used the center's "smart garage" to demonstrate their prototypes.

The interviews on the preceding pages illustrate the importance of diverse perspectives in exploring ways to redefine our boundaries and successfully transition to a low-carbon future. I'd like to discuss what the insights of these leaders mean for Duke Energy. Let's consider them in the context of the two key aspirations I described in last year's summary annual report:

1. Modernize and decarbonize our generation fleet, and
2. Help make the communities we serve the most energy efficient in the world.

Twenty years from now, when our children and their children look back at energy efficiency, they will probably marvel at some of the ways we tried to save energy, including using compact fluorescent light bulbs, caulking windows and installing insulation. Today, the policies we propose and new technologies we develop to further energy efficiency are designed to achieve one goal: to ease the transition to a new energy-efficient society in which future generations can thrive and raise their families.

As Larry Makovich noted (on page 10), technology is key to achieving greater energy efficiency in the future. But we must not lose sight of our near-term mission: to help our customers better monitor and manage their energy use in their homes and businesses. To do this, we will partner with our customers by installing sensors, switches and other devices on their appliances and equipment, and also help to write the software to operate this equipment.

But as we develop new technologies, it is essential that we remain flexible. Unlike other current smart grid programs, our plan doesn't focus exclusively on the meter. Sure, advanced metering is essential to greater energy savings, but we view the smart meter as only one of the many "endpoints" for providing more energy information for customers. We're also working with our partners to keep technology standards open to allow plug-and-play compatibility with equipment across multiple systems.

Recently, the Gridwise Alliance, a consortium of public and private

stakeholders, acknowledged Duke Energy in a report. The group, which is dedicated to modernizing our nation's electric grid, applauded our comprehensive efforts to fully integrate advanced metering and smart grid technologies.

As Kateri Callahan observed (on page 12), we also need a new regulatory model to realize our children's and grandchildren's legacy. This system must give us the right energy efficiency incentives for customers and provide a fair return on capital investments for investors.

That's the goal of our save-a-watt model. It will provide incentives to create energy efficiency similar to incentives we have to build new power plants to meet growing customer demand for electricity. Using this approach, we would earn revenue based on a discounted amount of what it would cost us to build an equivalent amount of new generation.

Our customers save money, our investors earn a return and there is no environmental impact because, with the increase in energy efficiency, we don't need to build a new power plant.

Finally, as Fred Krupp commented (on page 14), we stand a good chance of seeing federal climate change legislation pass in 2009. It is vital that such legislation treats all sectors of the economy fairly. To effectively stem carbon emissions without further weakening our economy, legislation must provide for significant investments in the research, development and deployment of new lower-emitting technologies.

While that is going on, we must be able to expand our use of cleaner coal, nuclear, natural gas, renewables and energy efficiency to meet the increasing demand for electricity. Keeping everything in the mix gives us the time we need to decarbonize and modernize our generation fleet for a carbon-constrained world, and without huge price hikes for our customers.

Next up is a glimpse of how we are redefining our business model to address these 21st century challenges. You'll also meet several of our employees who are working to achieve our two key aspirations above.