CARBON CAP AND TRADE

We need to get it right

We need to solve climate change. But the fix has to be fair, and work for all Americans.

Currently, the federal government is working on a plan to reduce our collective carbon footprint – the amount of greenhouse gas emitted by industries, power plants, transportation and other sources.

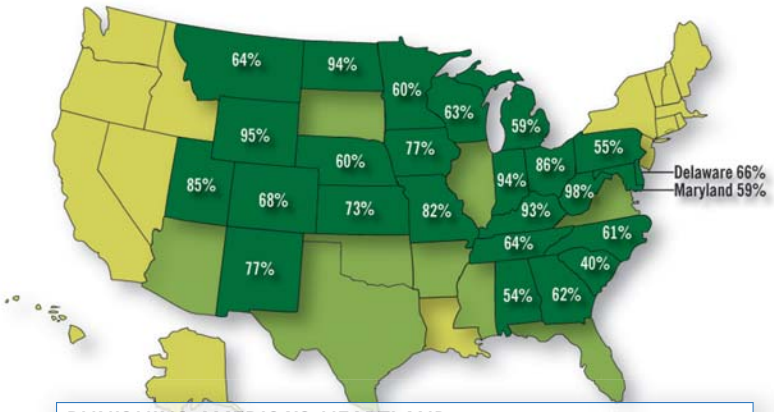
There is more than one way to get there. We must be sure the approach we take treats all Americans fairly – including those in America's heartland – and especially in these tough economic times.

A 100% AUCTION WOULD HURT THOSE ALREADY STRUGGLING.

Everyone will benefit from a reduction in greenhouse gas emissions. But not everyone will pay equally under a plan proposed by some in Congress. Under their plan, electric utilities would have to buy allowances (the right to emit one ton of carbon) from the government, through an auction process, in order to continue to operate.

Here's the problem with that proposal. Half of the states in the U.S. rely on coal generation for most of their electric power. Under the auction approach to carbon cap and trade, consumers in those states, which make up the nation's industrial heartland, would pay more, due to coal's higher emissions.

PERCENT OF ELECTRICITY PRODUCED FROM COAL



PUNISHING AMERICA'S HEARTLAND

Half of the states in the U.S. rely on coal generation for most of their electric power. Most of those states also fall below the national median for household income.

Sources: Energy Information Administration, March 2008 Fastfactscensus.gov – Estimated Median Household Income (2007) (Note: 61% of the electricity used in the state of South Carolina was generated from coal, based on a 2008 analysis by the S.C. Office of Regulatory Staff.)

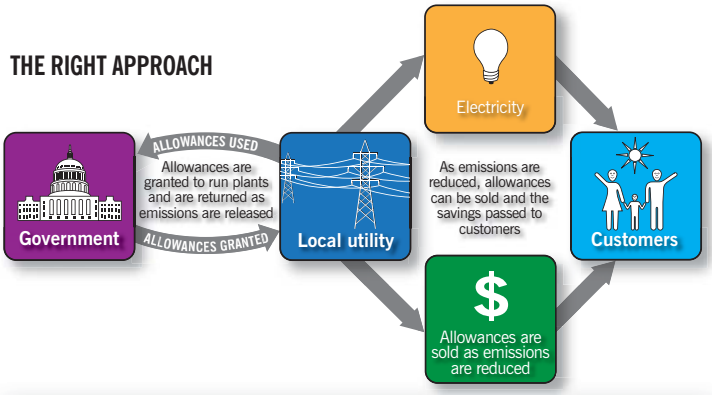
In fact, they would get a double hit. They would pay twice through their electric rates – once for the investments required to build new low-carbon technologies, and again for the allowances the utilities would need to continue providing electricity.

As an example, rates would increase for Duke Energy's industrial customers by up to about 35 percent in our Midwestern states, if we had to purchase all of our carbon allowances at $20 per ton – and that's a conservative price estimate. Industries, businesses and individual consumers in America's heartland are already bearing the brunt of the economic downturn. They don't need another economic hit – and more job losses – timed to occur just as the recovery begins.

This approach is just plain bad policy. Instead, we need a program that provides a fair transition period for all states and regions, including those that rely on coal.

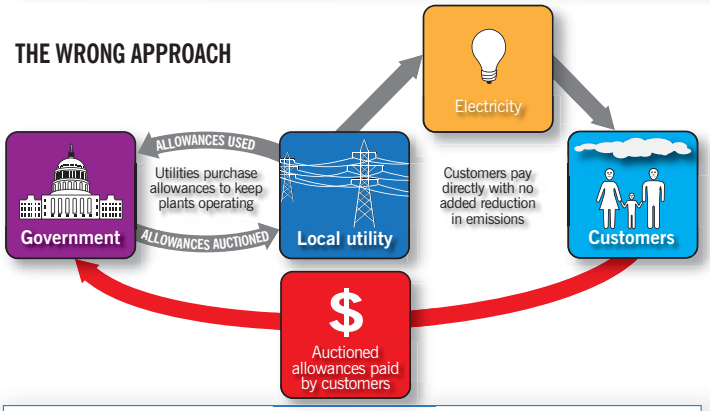
THERE IS A BETTER WAY.

Tackling climate change should be one of our highest priorities. It won't be cheap or easy, but we can ease the financial burden on businesses, industries and individual consumers by granting carbon emission allowances to local electric utilities at the program's outset. That will give us a transition path to a clean, low-carbon future.



NO WINDFALL FOR UTILITIES

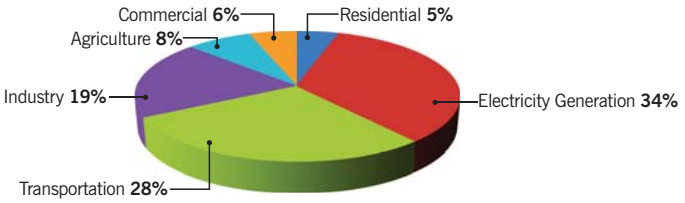
The value of allowances granted to local utilities would be passed on directly to customers.



A BURDEN ON CUSTOMERS

If local utilities are forced to buy all of their allowances, customers will pay twice to reduce emissions – once for allowances, and again for new technology – with no added environmental benefit.

Customers will pay the cost of cap and trade through their power bills. It's only fair that the benefits flow directly to them as well. Granting allowances to local electric utilities will ensure that the value of the allowances benefits customers without a windfall for utilities.



WHERE GREENHOUSE GASES COME FROM
Greenhouse gas emissions come from many sources – primarily power generation, transportation and industry.
Source: EPA: Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2006

THIS APPROACH HAS WORKED IN THE PAST.

You don't hear much talk these days about smog or acid rain. That's because the Clean Air Act – as amended in 1990 – has reduced sulfur dioxide and nitrogen oxide emissions by more than 50 percent nationwide, as utilities continue to spend billions to install equipment to reduce emissions.

The Clean Air Act, also a "cap-and-trade" program, granted a number of allowances to utilities, based on their emissions. A similar approach can work again to address climate change.

OUR GOAL MUST BE CLEAR: TO BUILD A BRIDGE TO A LOW-CARBON ECONOMY.

Climate change legislation can't be considered a success if consumers can't afford to heat or cool their homes, or if businesses can't afford to keep the lights on and the machinery humming.

Done right, it won't do further harm to our economy. Done wrong, customers will see their power bills spike, the program will ultimately fail, and we will be forced to go back to square one.

The world is watching to see how the U.S. handles the climate change issue. We hope these facts help you better understand and compare potential legislation, as decision makers grapple with the details.

For more on Duke Energy's position on climate change legislation, visit www.duke-energy.com.

Learn more.

The U.S. Climate Action Partnership, a coalition of environmental groups and large businesses, has a Blueprint for Legislative Action on climate change. Go to **www.us-cap.org**.

The National Association of Regulatory Utility Commissioners says that customers would benefit if no-cost allowances are given to local electric utilities. Visit **www.naruc.org**.

The National Rural Electric Cooperative Association has voiced strong objections to the government's plan. See **http://www.nreca.org**.