

Green is Good for Business Conference
Keith Trent, Chief Strategy, Policy and Regulatory Officer
Keynote Address

Oct. 7, 2008
Columbia, S.C.

The Power of Green

Thank you, Mayor Coble, for inviting me here to share Duke Energy's vision of a greener tomorrow.

The one green issue that's top of mind at Duke Energy these days is energy efficiency. As my boss Jim Rogers likes to say – we call it the “fifth fuel,” but it's first in our hearts!

Like many of you, I don't always leave my work at work. At home, around the dinner table, the discussion usually turns to what each of us has been doing that day.

When it's my turn – sometimes the family is interested; most of the time they're not! But one of the more interesting conversations occurred about two years ago – when I explained that Duke Energy was launching a plan to help customers become more energy efficient.

When I brought this topic up, my 17-year old son, Garrett, looked at me and said, “Let me get this straight, Dad. You sell electricity, and you're working on a plan that will encourage your customers to buy less of your product? Who came up with that brilliant idea?”

I think Garrett was a little concerned about his future college plans, and whether the tuition money would be there when he needed it!

But efficiency really is a good idea for Duke Energy and, more importantly, for our customers. I'll explain why in a minute.

Before I talk more about energy efficiency – and even more specifically about a program we call save-a-watt – first, let me first back up and talk about what “going green” means to us at Duke Energy.

To really do “green” the right way – we need to balance what I call the “three Es”:

- Environmental security
- Energy security
- Economic security

Put another way, that means pursuing all affordable, reliable and clean sources of energy.



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Focusing on energy efficiency and renewables is something we absolutely must do. But to achieve the three Es, we also must find new ways to use the tried-and-true sources of electric power that have kept our prices down in this region for decades.

We've been successful on that front so far – our rates are about 30 percent lower than the national average, and 23 percent lower than the rest of the Southeast.

Customers elsewhere are not so lucky.

Florida, for example, has relied too heavily for too long on one fuel – natural gas. They made a bet that its low cost in the '90s would continue. But now, some Florida customers pay an average of more than 10.5 cents per kilowatt-hour, while our customers pay about 6.5 cents, on average.

We believe the secret to low rates – and to a green future – is balance.

This isn't just us talking to ourselves – in the executive suite, or the board room, or around the water cooler.

We hear this message loud and clear from our customers.

We recently completed an independent poll of our customers in the Carolinas.

What matters to customers

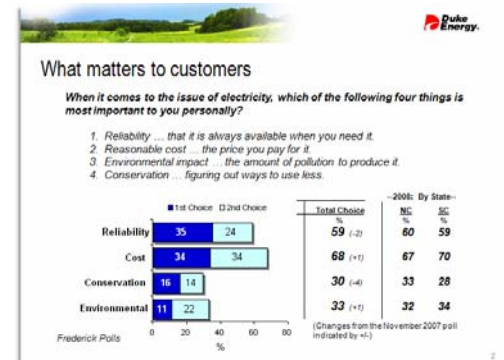
We asked them to tell us what the most important factors are to them when it comes to their electricity.

Cost and reliability of service top the list for most customers. But about a third of them in both states rank energy conservation and the environment as their first or second concern.

So it's clear our customers also want us to strike a balance.

How do we do that?

For starters – we don't put all of our power generation eggs in one basket. I recently saw an interview of Dukes Scott [executive director, S.C. Office of Regulatory Staff] in the Upstate Today. Dukes was asked, in effect, should we pursue nuclear or gas or coal or renewables or conservation? Dukes was quoted as saying “the answer is all these things.”



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I agree with Dukes. We need it all – coal, nuclear, natural gas, hydro and other renewables, and energy efficiency, the “fifth fuel.”

Let’s start with efficiency – the most cost-effective “green” solution to meet growing energy demand.

Our goal – and the goal of every utility, every business, every community, every city, every state, and our entire nation – should be to become the most efficient energy users in the world.

We have tremendous potential for energy efficiency – especially here in the South. With our air conditioners humming six months of the year, energy use per capita is high.

We’re pursuing our save-a-watt model in all five states where we operate.

I’m curious – how many of you have heard about save-a-watt?

Simply stated – it’s a mechanism to give the utility as much incentive to create energy efficiency as it now has to build new generation.

The plan has several unique features.

The first feature is a unique cost recovery mechanism. Under save-a-watt, we would earn revenue based on a discounted amount of what it would cost us to build an equivalent amount of new generation.

Here’s a simple example:

Say it would cost \$100 million to build a new plant with a generating capacity of 800 megawatts. Instead, Duke invests in energy-efficiency programs that would save 800 megawatts. Our allowable return would be based on a set percentage of the avoided cost of a plant – let’s say 85 percent, or \$85 million. Right off the bat, that would save our customers 15 percent off a “just build more plants” scenario.

The second unique feature is that it is entirely performance based. If the investments we make don’t save energy – which would be verified by an independent third party – we don’t get paid.

So all of our customers would save – and those who take full advantage of the energy-saving programs we offer (such as energy audits, rebates on efficient appliances, weatherization, etc.) would save even more on their monthly bills.

To put a finer point on it – we estimate that for the average residential customer it would cost \$1 per month to pay for energy efficiency programs. But for those who participate, their bills would go down by \$5 per month. That’s a pretty fantastic return.

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Our earnings stream would be roughly equivalent to what we would earn if we built the plant – so it's neutral from a shareholder's perspective.

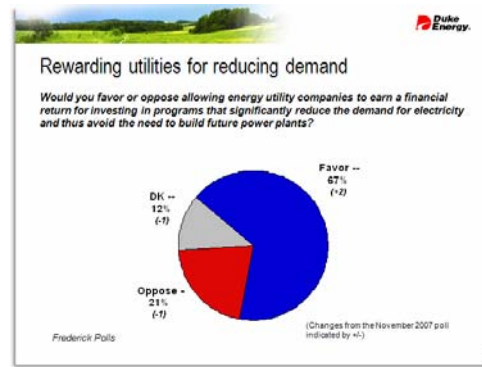
Now throw in the environmental impact – or more accurately, lack of impact – and you have a win-win-win proposition.

Some of the media and some environmentalists are still cynical. But what do our customers think?

Rewarding utilities for reducing demand

Through our independent poll, we went directly to our Carolinas customers and asked them what they thought.

More than two-thirds favored a program that would allow their utility to earn a financial return for energy efficiency programs that would avoid the need to build new power plants.



Perhaps more telling, we have several customers who are signed up and ready to participate right here in South Carolina.

Our hope is that we soon will get the order from the Commission here, and then we'll be ready to launch our save-a-watt program.

By the way, if you want to see firsthand what an energy-efficient home looks like – we worked with Furman University to build the Cliffs Cottage on their campus. It demonstrates how an energy-management system, high-efficiency appliances and solar energy can combine to create an ultra-energy-efficient home. Cliffs Cottage will be open to the public through June of next year. After that – it will serve as Furman's Center for Sustainability.

Speaking of solar – we are also pursuing the development of renewable energy.

Renewable energy must be part of the mix

We have an agreement to buy the entire output from the nation's largest solar photovoltaic farm in Davidson County, N.C.

We've also contracted to buy the methane gas output from landfills in Durham, N.C. and Enoree, S.C. (near



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Greenville).

We've also filed for approval in North Carolina to invest up to \$100 million in rooftop solar installations on customers' homes and businesses.

We have 5,000 megawatts of wind power in operation or in development in the U.S. Our newest commercial wind farm opened last week in Happy Jack, Wyoming.

And we just announced a joint venture with Areva, to develop and operate commercial biomass plants that will use waste wood left over from timber operations to generate power.

We were supportive of the Renewable Energy Portfolio Standards we now have in North Carolina.

I mentioned the need for balance previously, and I think that North Carolina did a pretty good job of achieving that. The legislation requires us to deliver 12.5% of our energy from a combination of renewables and energy efficiency by 2020, but it also includes price caps to hold costs down for our customers.

We are supporting discussions of similar standards in South Carolina.

Renewables today are expensive and not a perfect solution. In fact, there is no perfect solution. But, as we invest in new technologies and deploy renewables on a larger scale, the prices will come down. That is part of what we are trying to achieve with our \$100 million solar rooftop plan.


Even if we drive prices down, the wind doesn't always blow – and the sun doesn't always shine. For reliability's sake, we need to maintain that sense of balance by using our traditional sources of generation more efficiently.

So the third way we are “going green” is the modernization of our generation fleet and our power grid – to be cleaner and more efficient.

Duke Energy's challenges in the Carolinas

Some might argue that there is nothing green about building new power plants. I strongly disagree.

If I told you we discovered a way to create more electricity, significantly reduce mercury, sulfur dioxide and nitrogen oxide emissions, and remain carbon-neutral – would you consider that a green solution?



Duke Energy's challenges in the Carolinas

- Approximately 40,000 new customers each year
- Significant need for new generation
- Need to modernize our generation fleet and distribution system
 - Aging infrastructure
 - 1960s vintage distribution system
- Rising fuel costs
- Coming carbon legislation

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Those are the facts about Cliffside, the new coal-fired plant we are building in North Carolina.

This environmentally-advanced and highly-efficient 800-megawatt unit will enable us to retire 1,000 megawatts of old, inefficient generation at Cliffside and elsewhere.

Our proposed Lee Nuclear Station in Cherokee (near Gaffney), S.C., is also part of our plan for a greener future.

Nuclear power is the only 24/7 emission-free source of power that we have available. It has zero NO_x, SO₂ and CO₂ emissions. That's green in my book.

In fact – let me state this very clearly, if we're not serious about developing more nuclear energy in this country – then we're not really serious about addressing climate change.

We are pushing forward with the federal and state regulatory processes for the Lee station at this point. The big challenge here is the cost. Most recently, we submitted our loan guarantee application to take advantage of the federal loan guarantee program.

And again – our customers seem to agree with our direction. According to our recent poll, 69 percent of our customers in the Carolinas agree that nuclear – and specifically the Lee station – are right for us to pursue.

And by the way, 70 percent of the customers surveyed also agree that using coal to generate electricity makes sense, because it's close-by, it's reliable and it's affordable.

Besides the need to modernize our fleet – we must modernize our power grid.

We're adding upwards of 40,000 customers each year in the Carolinas, and we're trying to serve their needs with a 1960s-vintage distribution system.

We are working to build a "Smart Grid" that will be self-healing, more reliable, safer, and more efficient – and that will empower our customers to use electricity more efficiently.

We are currently piloting Smart Grid technologies both in the Carolinas and in the Midwest. Not only will that be great for reliability – it will also enable us to give our customers much more information and many more options than they have today.

But the question you may be asking is – can we afford all of this? Put better – can our customers afford it?

In truth, you'll find very few products that have risen in cost as little as the price of power in recent years.

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But I won't try to kid you – all of this will cost money, and yes, that will be reflected in our customers' bills.

But they will also get greater efficiency, higher reliability and a cleaner environment in the bargain.

A balanced approach, which includes efficiency, will help keep those increases in check.

Any “green” discussion is incomplete without talking about climate change legislation.

There is a lot of uncertainty around the future of carbon legislation – especially considering the upcoming elections and the current downturn in the economy.

But we believe legislation is coming. I used to say its coming in 2009 – now, with the problems with the economy, I think it might get pushed out. But nevertheless, it is coming.

Duke Energy's vision is to reduce our carbon emissions in half by 2030.

Cap-and-trade will be part of that vision. McCain and Obama support a cap-and-trade solution to climate change – and we do also. But not all cap-and-trade solutions are created equal.

Here's how it works.

Under cap and trade, electric utilities and other emitters would be assigned a cap or a limit on their carbon emissions, and for each ton of carbon we would need to turn in an allowance. The amount of CO₂ that would be emitted is controlled by the cap, but the method by which allowances will be distributed will affect the cost.

If the utility has to buy the allowances through an auction process, that cost is passed through to our customers, just like fuel is today. That cost is really a tax, and on top of the tax, our customers will have to also pay to modernize our power plants.

You may have heard politicians say “let's make the polluters pay,” by making them buy all of their allowances through a government auction. What they're really saying is “let's make the customers pay,” those who have historically depended on coal for their electricity. We think that's a short-sighted approach, and it could seriously hamper our efforts to make our fleet more efficient, and carbon-free.

In spite of what you may have heard, allocations will not result in a windfall to utility companies. Rather—they would protect customers from dramatic price increases. In fact, we've made it clear that we're perfectly comfortable with federal legislation that specifically requires that the value of the allowances must go to our customers.

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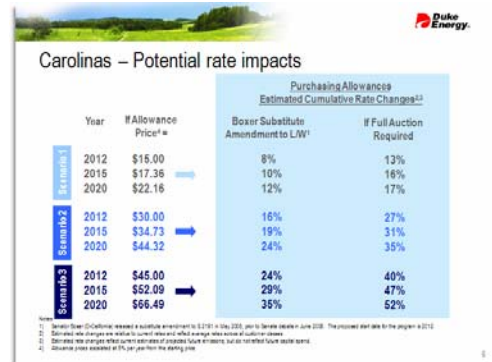
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Carolinas – Potential rate impacts

I should put this issue in context for you.

This slide shows the potential impact in the Carolinas of Lieberman-Warner legislation, which relied heavily on government auction of allowances.

Customers will pay for carbon-reducing technology, including generation and grid modernization, through rates. They should not also have to pay for government-auctioned allowances.



Lieberman-Warner did not advance to the Senate floor for a vote. But some version of it is likely to be introduced in Congress next year.

We believe there is a better way – and that is to follow the acid-rain model for reducing emissions.

The first cap-and-trade program, the Clean Air Act Amendments of 1990, gave us allowances which declined over time. This gave us a transition period to spend money on scrubbers and other equipment to reduce air emissions.

By 2010, we expect that Duke Energy will have reduced our generation fleet’s SO₂, NO_x and mercury emissions by more than 70 percent. That’s a proven success story – and we believe it’s the model to follow in dealing with carbon as well.

Please keep these thoughts in mind when the national debate on climate change resumes next year – once the new administration is in place and once we resume some degree of normalcy in the economy.

Let me close with this thought.

We’re serious about green – and we’re serious about approaching green issues in a way that helps and does not harm our customers.

Duke Energy’s commitment

Sometimes that is quite a balancing act.

It means working for climate change legislation that is fair to customers in all regions of the country – including the customers who depend heavily on coal.



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It means ensuring that we have a diversity of supply – in much the same way that you diversify your financial investments.

And yes, Garrett, it means using our resources wisely, even if that means we sell less of our main product – and finding ways to do that that don't hurt your bottom line for your shareholders.

But mostly, it means doing whatever it takes to provide our customers with energy that is affordable, reliable and clean and that meets the three Es:

- Environmental security
- Energy security
- Economic security

That's our commitment – to keep prices low, to work continuously to improve reliability, and to do our part to protect the environment.

Now – I'm happy to take your questions.

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