

# Being (and Staying in Business): Sustainability from a Corporate Leadership Perspective

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This has been a big week for me. Saturday was my birthday. Monday we closed on our \$9 billion merger with Cinergy, and Jim Rogers and I rang the bell at the New York Stock Exchange. Then Tuesday, I chaired the first meeting of the new Duke Energy Board. Today is only Thursday, and here I am at CERES. It just doesn't get any better!

It is a special pleasure to be with you here in California. I fell in love with the Bay Area when I was at Stanford Business School in the late 1960s. While I was there, they introduced the first course on corporate social responsibility. It was an elective course and no one took it – except for a few suspected communists. The prevalent feeling then was that business was only responsible to the shareholder.

We've come a long way since then. While there is still a spectrum of views regarding social responsibility, most business leaders now accept that it is in their best interest to "do the right thing."

Over time, "doing the right thing" has evolved. Back in my Stanford days, it meant little more than obeying the law. At some point, businesses began to realize that getting out in front of issues was better than being strong-armed by new legislation.

But, it was when social responsibility became important to customers – when customers rewarded good companies and punished the bad – that social responsibility became a smart business strategy. And, companies discovered that being socially responsible was not only good for customer support; it also helped to recruit and retain employees. Good citizenship was actually good business.

And it still is. Today, most business leaders would acknowledge that a business which ignores social responsibility is not a sustainable business.

At Duke Energy and BHP, I've had the privilege of leading two companies that have been in business for over a century each. I think that's pretty remarkable, and the data would confirm this. A recent study of companies in Europe and Japan put the average lifespan at just over 12 years. I doubt that it is much different in the U.S.

What makes some companies thrive for over a century while others come and go? I think it comes down to building sustainability from the inside out.

In my view, the companies that succeed for the long term are able to achieve “inner sustainability.” They are able to strike the right balance between profitability, social responsibility and environmental stewardship. When the equation gets out of balance, the company is heading towards crisis. That’s when business leaders need to make a course correction. Take the right actions and stay in business. Take the wrong action – or no action at all – and the company commits corporate suicide.

Of course, no company achieves inner sustainability on its own. It needs the support of others: Investors who don’t punish a company for missing a quarter’s earnings. Customers who reward companies with their business. Employees who bring fresh ideas to the workplace. Communities that provide access to resources and a skilled workforce. NGOs that offer constructive input. And policymakers who create the rules and who are willing to change the rules for the right reasons.

The better a company is at balancing the concerns of all of these constituents – and engaging them in dialogue when collective action is needed – the more sustainable it becomes. And, a sustainable business can be a tremendous force for change.

Achieving inner sustainability and building value for the long term is more art than science. Good leaders look at their balance sheets – for sure. But they also listen. They listen to their colleagues, to their customers, to their communities and to their conscience.

Building sustainability from the inside out takes real dialogue – both in the Board Room and with stakeholders. It requires collaboration, compromise, creative thinking, and often, a dose of courage.

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I’ve been asked to provide some real life examples of how business addresses social issues. I’ll describe two very different examples: one that I faced when I joined BHP and one that we are working through today at Duke Energy.

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High in the Star Mountains of Papua New Guinea is the Ok Tedi copper mine, a major producer of copper concentrate for the world’s smelting market. BHP owned 52 percent of the mine, and its partners included the PNG government.

Since the Ok Tedi mine began operating in 1984, it became the single largest business in Papua New Guinea. That created a complex interdependency between the mine, the people of the Western Province and the national government.

The mine's original design required a dam to be built to capture all of the waste tailings. Midway through its construction, work on the tailings dam stopped when two massive landslides hit the area. The steep terrain, high rainfall and seismic activity in the region made it impossible to safely build a dam anywhere near the site. So BHP and the project's co-owners were left with two choices: Dispose of the mine tailings in the near-by Ok Tedi River, or abandon the project altogether. Based on environmental studies that showed the river could recover from the tailings, the decision was made to proceed with construction.

Of course, we now know that the effects on the river and surrounding eco-system were profound. By the time I arrived at BHP, it was obvious that the issue needed to be addressed. Not only was it an environmental issue in PNG, but it was rapidly becoming a global issue for BHP as it impacted its "license to operate" in other countries.

The BHP Board agreed that the Ok Tedi mine should be shut down. It seemed like a straightforward decision, but it wasn't. We quickly learned that shutting the mine was unacceptable to the government. Ok Tedi had become too important to the economy, and there was no other economic development in the area available to the people of the Western Province.

And so began a two-year process to reach resolution. We collaborated. We compromised. We sought advice from NGOs in the area and the PNG government, and we asked the World Bank to weigh in. In the end, we took some creative actions.

BHP ended up transferring its ownership interest to an independent organization – the PNG Sustainable Development Program Company – which benefits the people of PNG while responsibly overseeing the mine's operation within constraints established to reduce its environmental impacts. Dividends from the mine's operation are used to underwrite sustainable development projects that serve the people of the region both in the near-term and after the mine closes.

Perhaps more significantly, the process BHP went through on Ok Tedi resulted in the formation of a permanent forum to bring together senior BHP executives (including the CEO) and members of the NGO community. This forum is intended to provide input before the fact and identify issues before they become problems.

I believe this is an example of the constructive problem solving that can happen when all stakeholders work towards a common goal.

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Today, at Duke Energy, we are focused on another sustainability issue: Global Climate Change. From a personal perspective I can think of no more pressing global issue.

From a business perspective, the need for mandatory federal policy in the U. S. to manage greenhouse gases is both urgent and real. In my view, voluntary actions will not get us where we need to be. Until business leaders know what the rules will be – which actions will be penalized and which will be rewarded – we will be unable to take the significant actions the issue requires.

At Duke Energy, we are making investment decisions today about new power plants which may cost billions of dollars and will likely operate for more than 50 years.

We are focusing on the next generation of nuclear plants – moving forward with the license application that allows us to maintain the nuclear power option. In my view, nuclear power is the only real alternative to displace coal for base load generation for the foreseeable future.

And, more and more people are starting to reach that same conclusion. Even groups who have historically opposed nuclear energy are changing their view. I was pleasantly surprised to see the nuclear energy workshop on yesterday's agenda. While I know there are still some groups here today that oppose nuclear energy, I appreciate the dialogue and hope you are at least persuaded to take another look at the technology.

In my view, nuclear energy must be an important part of a comprehensive response to global climate change. And, while renewables and conservation are also critical components of our energy future, even the most optimistic scenario doesn't have them eliminating the need for base load generation.

So nuclear power is a great solution, but one that will take at least 10 years to bring on line. For our customers' nearer-term needs, Duke Energy has taken initial steps to build one or two state-of-the art pulverized coal units in North Carolina. The efficiency of these plants would result in a reduction of greenhouse gases per megawatt hour by as much as 20 percent versus older plants.

In the Midwest, where the geology may be favorable to sequester CO<sub>2</sub> below ground, we are exploring the potential for an integrated gasification combined cycle plant, or IGCC plant. But IGCC will initially cost about 20 percent more than pulverized coal, so we will be seeking tax credits or other incentives to justify investment in this new technology.

But why can't we do more? Let's say we had the physical capability to install a large amount of solar power. Today, solar energy costs 3 to 4 times more per kilowatt-hour than conventional generation. Without regulatory approval to recover the additional costs in rates, we'd soon be out of business.

But what if our regulators allow us to reflect the increased cost in rate base? That would dramatically increase the price of electricity, which means our customers would be at a disadvantage in pricing their products. Some of our customers might relocate to a lower cost region. Some might go out of business altogether. As demand for electricity in our service territory dropped, our earnings and stock price would drop as well. Investors – even the most sympathetic and socially responsible investors – would quickly abandon us.

Whether you look at this from the supply side – the electricity provider – or the demand side – the electricity customer – a company simply cannot address climate change voluntarily, unilaterally or locally. The issue needs to be addressed gradually within the larger market framework through mandatory economy-wide federal policy and ultimately, through a global response.

That's why I am deeply concerned about the current state of the U. S. policy response to global climate change. In the absence of federal mandatory policy, several states have enacted their own climate change legislation. Some have proposed to address climate change through a rifle-shot approach – by regulating carbon dioxide emissions only from power plants.

Targeting the electric sector is a simplistic response, and one that I think is inherently flawed. With power plants operating for 40 and 50 years or more – and the long lead time to build new power plants – it could be decades before we see any real reductions. The industry may be a sitting duck, but it moves more like an albatross.

If we are going to have a significant impact on reducing greenhouse gases, we need a phased approach. In the short term, we need federal policy that encourages conservation and energy efficiency improvements. In the longer term, we need an approach that promotes new technology development for long-lived assets such as cars, buildings and power plants. And for any time frame, we need to clarify what the rules will be.

In my opinion, any approach that regulates sources of emissions in only some states or in only some sectors is fundamentally flawed. The result of any patchwork approach will be inefficient, inequitable and ineffective. This is a global issue, and piecemeal policymaking will do more harm than good.

At Duke Energy, we believe that U.S. policy on climate change should encourage a transition to a lower carbon-intensive economy through a broad-based, mandatory federal approach.

In our view, federal policy should have four components:

- The policy should be economy-wide in its coverage;
- The policy should reduce emissions gradually – reflecting the long-term nature of the issue;
- The policy should be market-based, economically efficient and provide price certainty; and
- The policy should align with other energy and environmental policy objectives such as energy independence.

There are several ways to get there. But in my view, the best policy approach is a carbon tax applied to all sectors of our economy. It would operate like a consumption tax on the sale of fossil fuels – principally coal, petroleum products and natural gas – based on their carbon content.

A well-crafted carbon tax would do four things to reduce emissions:

- **First**, it would provide broad-based and immediate incentives for conservation;
- **Second**, it would promote higher utilization of existing infrastructure – such as factories, power plants and vehicles that are relatively low emitters of carbon dioxide;
- **Third**, it would encourage low-carbon fuel choices for the future; and
- **Fourth**, it would encourage the development of new technologies.

The beauty of a carbon tax is that it would efficiently distribute the costs of reducing greenhouse gas emissions across all sectors of the economy – minimizing the disruption in any one.

Over the past year, I have taken every opportunity to advance the concept of a carbon tax. It was a lonely position for a while. I remember being vilified on national radio by Rush Limbaugh. And, I received some letters that questioned everything from my sanity to my heritage. But something interesting is starting to happen. In the media, in business circles, and even in the halls of Congress, we are hearing serious discussion about a carbon tax.

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Clearly, I am not so focused on a carbon tax to preclude other policy options. The goal is to enact sound federal policy and to put a cost on carbon. But in my view, an economy-wide, phased-in carbon tax should be the yardstick against which other climate change policy is measured.

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Global climate change is the ultimate sustainability issue. I credit CERES and groups like it for raising our collective conscience, but we need to do more. We need the best technologies and the best minds of business, government, and NGOs working together on practical, comprehensive solutions. We need your voice to call for mandatory federal policy on global climate change. And we need action now.

Thank you.