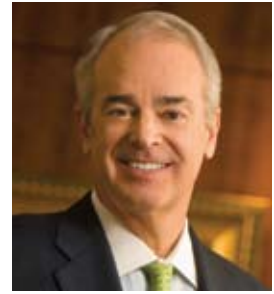


Letter from the Chairman



Dear Stakeholders:

This year, our *2007|2008 Sustainability Report* and *2007 Summary Annual Report* share a common theme: building bridges to a low-carbon future. I think this illustrates how integral sustainability has become to our company. Sustainability issues *are* bedrock business issues for Duke Energy.

A commitment to sustainability recognizes that our company is not measured by financial results alone. We must also be responsible stewards of the environment and responsive to the changing expectations of our stakeholders. We work hard to strike the right balance between economic, environmental and social considerations – a goal that is imprecise, subjective and essential to the continued viability of our company and our world.

From both a sustainability and business standpoint, global climate change is the most pressing and complex issue we are facing. It challenges our inventiveness and technology. It challenges our policies and diplomacy. It challenges the balance of our economies and environment. And it challenges our humanity.

As the third largest emitter of carbon dioxide (CO₂) in the U.S., we recognize our special responsibility to be part of the solution to global climate change. We have deep expertise in energy production, distribution and use, and a long legacy of leadership.

Conversations with you, our stakeholders, have challenged us to lead in this area. And at every level of our corporation – from our board of directors to our operating staff – we are challenging ourselves to respond.

From a policy perspective, we continue our leadership role in the U.S. Climate Action Partnership, a coalition of companies and other organizations committed to a cap-and-trade approach to lowering carbon emissions. We have also testified twice before Congress and have spoken at countless business and industry forums. Recognizing the global reach of the issue, I have had the opportunity to address the United Nations and the World Business Council for Sustainable Development to advance our policy priorities.

A BOLD CHALLENGE: CUT CO₂ EMISSIONS IN HALF BY 2030

While legislation is being debated, we are taking action within our company to prepare for a low-carbon future.

I have challenged our team to try to cut our CO₂ emissions in half by 2030 – while maintaining the reliability and competitive prices that our customers expect of us. It is a bold aspiration – an overarching sustainability objective – that I expect will spark breakthrough thinking by our employees and our business partners.

To be clear – no CEO can predict results two quarters from now – let alone two decades from now. What is also clear is that achieving significant carbon reductions over the next two decades will require more than incremental change. We need a whole new way of thinking about energy – how we generate it and how we use it. It will mean investing in new energy infrastructure, and redesigning our business model and our regulatory framework to span the gulf between today's conventional wisdom and tomorrow's possibilities. It will mean finding new ways to create value for our customers and other stakeholders in a low-carbon world.

Can we reduce our carbon emissions by more than 50 million tons by 2030 while preserving our customers' competitiveness and the strength of our business? We don't know the answer to that question... yet.

Beginning on page 8, we share one possible scenario where we can accomplish those objectives – *if* all of our planning assumptions prove true. The considerations and assumptions that guide our work vividly demonstrate both the complexity of the issue – and the need to consider all sustainability criteria – economic, environmental and social factors. In the months and years ahead, we will continue to collaborate with our many stakeholders to better inform our planning.

“A commitment to sustainability recognizes that our company is not measured by financial results alone. We also need to be responsible stewards of the environment and responsive to the changing expectations of our stakeholders.”

BUILDING BRIDGES TO A LOW-CARBON FUTURE

In our 2007 Summary Annual Report, you can read about some of the people who will be guiding Duke Energy through this transformative period of change. We believe the bridges to a low-carbon future will be built on new and improved technology, enabling public policy, and customers who use energy more efficiently and are “carbon literate” in all aspects of their lives. One measure of our commitment is that, over the next five years, we plan to invest approximately \$23 billion to make our system more efficient, retire inefficient plants and increase renewable generation.

On the pages that follow, we discuss our progress in each of these areas, using the framework of our sustainability goals and objectives.

DUKE ENERGY'S SUSTAINABILITY PLAN

While carbon reduction is the centerpiece of our sustainability plan, we affect our world in many other ways. Duke Energy's sustainability plan has five areas of focus:

- Provide innovative products and services for a carbon-constrained, competitive world
- Reduce our environmental footprint
- Attract and retain a diverse, high-quality workforce
- Help build strong communities
- Be profitable and demonstrate strong governance and transparency

Here are some highlights of our progress in 2007:

Products and Services

By the year 2030, U.S. demand for electricity is expected to grow by approximately 35 percent – even more in high-growth regions like the Carolinas. In deciding how to generate electricity to serve our customers, we ask ourselves four questions:

- Is the technology available?
- Is it affordable?
- Is it reliable?
- Is it clean?

Most of the electricity produced today comes from four fuels: coal, nuclear, natural gas and water. As we build bridges to a low-carbon future, we think we should focus as much on the demand side of the equation – how our customers *use* electricity – as we have traditionally focused on the supply side – how we *generate* it. That's why we've come to think of energy efficiency as the “fifth fuel.”

In 2007, we developed a business model around energy efficiency – the save-a-watt model – and filed for regulatory approval in North Carolina, South Carolina and Indiana. We will be filing the plan with state regulators in Ohio and Kentucky in 2008.

New York Times columnist Tom Friedman called our save-a-watt model “the mother of all energy paradigm shifts.” It creates a whole new business model for utilities – where we would be compensated for *saving* watts just as we are for *producing* them.

This sea change in our business model will be sparked by dramatic technological change – beginning with the transformation of our power delivery system. Over the next five years, we plan to invest almost \$1 billion in smart grid technology. These innovations in technology and regulatory policy support our vision of helping make the communities we serve the most energy efficient in the world.

Environmental Footprint

A key objective in last year's sustainability plan was to improve our environmental goals. This year, you'll see improved measures for air, water and waste that will drive reductions in our environmental footprint.

In 2007, we increased our ownership of renewable energy. In May, we acquired the wind assets of Tierra Energy. The purchase included more than 1,000 megawatts of wind assets under development in the western and southwestern U.S. Additionally, we issued requests for proposals in the Carolinas and Indiana to meet energy demand with a greater amount of renewable energy, including wind, biomass, solar power and hydro.

Indiana regulators approved our four-year plan to build a cleaner-coal integrated gasification combined cycle (IGCC) plant. The 630-megawatt (MW) 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.

“One measure of our commitment is that, over the next five years, we plan to invest approximately \$23 billion to make our system more efficient, retire inefficient plants and increase renewables generation.”

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 (NOx) and particulates than the plant it replaces – while providing more than 10 times the power of the existing plant. The current 160-MW plant emits about 13,000 tons of SO₂, NOx and particulates annually and runs about 30 percent of the time. By comparison, a new 630-MW 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.

I cannot write this letter without addressing the Cliffs Modernization Project and the new, 800-MW advanced pulverized coal unit – Unit 6 – at the site. In late January 2008, we received final approval from state regulators to proceed with construction.

During the approval process, we were criticized by some for proposing the plant in light of our views on climate change. While I recognize that it appears counter-intuitive to reduce emissions by building a new coal plant, here are some of the benefits of the Cliffs project:

- Once Unit 6 is completed, the modernized Cliffs plant is expected to generate over twice the electricity of the existing five units, but emit one-seventh

of the SO₂, one-third of the NOx and one-half of the mercury compared to the units there today.

- We have worked with state regulators to develop a first-of-its-kind carbon mitigation plan under which we will retire approximately 1,000 MW of older, less efficient coal-fired plants and take additional actions to make Cliffs 6 “carbon neutral” by 2018.
- The new unit’s air permit includes limits on SO₂ and NOx emissions that are stricter than current state and federal rules. The state’s mercury limits are already more stringent than federal mercury rules. The project will receive \$125 million in federal clean-coal tax credits.

We view the improved environmental efficiency of Cliffs 6, coupled with this carbon mitigation plan, as an important bridge to new technology. We’re not building an IGCC plant in North Carolina because the geology there is not suitable for carbon sequestration. Cliffs 6 will likely be the last new coal plant we build in North Carolina for at least 20 years. By then, we expect carbon capture technology to advance so it can be used on virtually any coal plant, regardless of the geology.

In 2007, we also announced plans to build more than 1,200 MW of natural gas-fired plants in North Carolina so that we can meet the region’s increasing demand and retire some of our older coal units.

We are also applying our more than 30 years of safe nuclear operations experience to plan a new, 2,234-MW nuclear

station in South Carolina. We applied for a construction and operating license for the plant with the U.S. Nuclear Regulatory Commission in December 2007. Nuclear energy produces no greenhouse gas emissions and it has a proven record for safety and reliability. But, the used fuel issue remains unresolved. While the U.S. government continues to debate a decision on long-term storage facilities for used fuel, we are exploring other alternatives, including fuel recycling.

For many of our customers, 2007 may be remembered as the year of the drought. It was one of the driest years on record in our Carolinas service area, which tested our ability to balance electric generating requirements with other community water needs. Under Duke Energy’s coordination, a new collaborative of municipalities, water utilities, large industrials and resource agencies was formed to manage through the drought by sharing information, responding with conservation measures and contingency planning. In the year ahead, we will conduct water balance surveys in the areas we serve with stressed water supply to improve our management and use of this increasingly scarce resource.

Quality Workforce

It is almost a corporate cliché to say “employees are our greatest asset,” but it is also true: Talent is a key differentiator.

With the major changes facing our industry and our estimate that we will have to replace about one-third of our workforce in the next five years, we are taking a number of aggressive actions to preserve Duke Energy’s talent advantage:

- We are building a corporate culture centered on sustainability. By making sustainability part of our “corporate DNA,” we believe it will spark innovation and aid in recruitment.
- We are rethinking the way we work and our workplace practices, broadening telecommuting, improving employee training, and promoting employee health and wellness.

Safety remains a cornerstone of our company and we measure our safety performance against a goal of zero fatalities.

- With sadness, I must report two fatalities in 2007. These fatalities overshadow every other aspect of our performance and deepen our resolve to improve.
- In that spirit, we completed 2007 with a 17 percent improvement in our Total Incident Case Rate – an important indicator of safety. This means that we ended the year with 65 fewer employee injuries than in 2006.

Strong Communities

The success of Duke Energy is inextricably linked to the success of the communities we serve.

In 2007, we worked with economic development officials to help attract approximately \$3.7 billion in capital investment and 15,270 new jobs to the five-state region we serve – vastly exceeding our goals. And, we awarded approximately \$18 million in charitable grants within our service areas.

Governance and Transparency

For a company to be sustainable over the long term, it must be profitable. We ended 2007 with \$1.24 in ongoing diluted earnings per share. Total shareholder return, that is, change in stock price plus dividends, was more than 9 percent.

We participate in a number of efforts to benchmark and improve our governance practices and company performance. In 2007, we saw significant improvement in our corporate governance ratings by RiskMetrics Group (formerly ISS Governance Services). We began the year with very low rankings and ended among the leaders, both among companies in general and within the utility industry. And, we were again included in the 2007 Dow Jones Sustainability Index for North America.

Collaboration, communication and stakeholder engagement are key attributes of a successful, sustainable business. Your feedback and diverse viewpoints make us better. I invite you to contact us via our Web site, www.duke-energy.com, to let us know what you think about our sustainability plan and progress. With your input and support, we can build stronger and more lasting bridges to a low-carbon and sustainable future.

Sincerely,



Jim Rogers
Chairman, President and CEO
March 25, 2008



World Business Council for Sustainable Development

WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT

Duke Energy was invited to become a member of the World Business Council for Sustainable Development. The Council provides a forum for companies to explore sustainable development; to share knowledge, experiences and best practices; and to advocate business positions on sustainable development issues.

EI ADVOCACY EXCELLENCE AWARD

In January 2008, Duke Energy received the prestigious Advocacy Excellence Award from the Edison Electric Institute, the trade association for investor-owned electric utilities. We were recognized for our comprehensive program to promote energy efficiency at the federal, state and local levels. A departure from traditional regulatory approaches, Duke Energy’s model rewards the company only for energy efficiency results. Customers who actively participate in the programs would reduce their power bills – enough to more than offset program costs.