

Reduce Our Environmental Footprint

Duke Energy's greatest sustainability risks and opportunities are in this environmental focus area. In 2007, we developed additional goals to reduce our air, water, and waste footprints; they can be found on page 11.

2007 CHALLENGES

- Ensure reliable and cost-effective energy supplies while minimizing impact on the environment
- Help address and meet the challenge of reducing greenhouse gases (GHGs)

WHAT WE DID IN 2007

- Completed NO_x and SO₂ emission control projects at several generating stations
- Obtained approvals to build two cleaner coal-fired power plants
- Proceeded with plans to build nuclear and combustion turbine power plants
- Issued requests for proposals for renewable energy supplies
- Acquired the wind assets of Tierra Energy
- Promoted federal policy mandating economy-wide reductions of GHGs
- Undertook voluntary actions to reduce our own GHG emissions

2007 OPPORTUNITY

- Share our expertise, ideas and leadership to demonstrate the need for multiple supply and demand options

WHAT WE DID IN 2007

- Pursued plans using all five fuels: coal, nuclear, natural gas, renewables and energy efficiency

POLICY PRIORITIES:

We are working with stakeholders to promote a climate change policy that will result in long-term greenhouse gas reductions that most climate scientists think are necessary. An acceptable policy must also protect customers in states that depend on coal-fired generation.

Twenty-five states receive more than half of their electric power from coal-fired sources. They must not bear an unfair share of the economic burden of the transition to a low-carbon economy.

Responding to global climate change

In last year's report, we shared our view on global climate change policy. In 2007, we continued to advance policy priorities designed to reduce greenhouse gas emissions while minimizing economic and social disruption to our customers and economies.

REDUCING GREENHOUSE GAS EMISSIONS

Duke Energy is the third largest emitter of carbon dioxide in the U.S. While we don't know the specific timing or requirements of federal carbon legislation, we do know that it is coming. And, we know that the decisions we make today about energy production and use can help build bridges to a low-carbon future.

As discussed earlier in this report, we are evaluating what it would take to cut our 2006 CO₂ emissions in half – by approximately 50 million tons – by 2030. Clearly, many things can happen between now and 2030, and a number of things *must* happen if we're going to be able to achieve this level of emission reduction while meeting projected demand and keeping electric rates competitive.

“Edwardsport Station could be one of the first demonstrations of carbon capture and storage at a power plant. This project is technologically important not just for Indiana, but for the nation.”
– Duke Energy Indiana President Jim Stanley



Building bridges with technology

We are working to reduce our greenhouse gas emissions with new technologies on both the supply and demand sides. The previous section reviewed some of our initiatives to reduce energy demand. On the supply side, we're looking at a number of different technologies – some proven, others emerging.

- We are building a cleaner-coal integrated gasification combined cycle (IGCC) plant – a plant that will replace a half century-old coal plant. The 630-megawatt (MW) plant is being built in Edwardsport, Ind., where the limestone geology is believed to be conducive to geologic sequestration of carbon. Sequestration involves securely storing CO₂ in deep underground formations such as saline reservoirs, depleted oil or gas fields, or unmineable coal seams.
- Duke Energy is also participating in three of the seven U.S. Department of Energy projects to test CO₂ capture and storage. These partnerships form the core of a nationwide effort to assess the technical and economic viability of capturing and permanently storing CO₂ through carbon sequestration.
- In the Carolinas, we're building an advanced, highly efficient 800-MW coal plant – Unit 6 – at the Cliffside Steam Station. Cliffside 6 is expected

to generate over twice the electricity of the existing five units, while emitting one-seventh of the sulfur dioxide, one-third of the nitrogen oxides and one-half of the mercury. Additionally, we have developed with N.C. regulators a plan to retire approximately 1,000 MW of older, less efficient coal-fired plants and take additional actions to make Cliffside 6 “carbon neutral” by 2018. We're not building an IGCC plant in North Carolina because the geology is not suitable for carbon sequestration. Cliffside 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.

- Also in North Carolina, we're planning to build more than 1,200 MW of natural gas-fired generation capacity to meet increasing demand. These lower-emitting natural gas units will also help us fill the need for electricity as we retire older coal units.
- We're using our more than three decades of experience in building and operating nuclear plants to plan a new, 2,234-MW nuclear power plant in South Carolina – a plant that will have zero greenhouse gas emissions.

THE NEW EDWARDSPORT IGCC STATION IS UNDER CONSTRUCTION ON THE BANKS OF THE WHITE RIVER. THE SITE WAS FIRST HOME TO A POWER PLANT IN 1918. THAT UNIT IS LONG GONE, BUT THREE ADDITIONAL UNITS WERE BUILT BETWEEN 1944 AND 1951.

LEADERSHIP ON CLIMATE DISCLOSURE

We have joined forces with other organizations – nationally and internationally – to report our emissions and associated risks and opportunities.

FEDERAL REPORTING

We have reported our GHG emissions to the U.S. Department of Energy and Environmental Protection Agency since 1995. Our Securities and Exchange Commission Form 10-K for 2007 included a detailed assessment of the climate policy debate in Washington and potential costs customers could see under specific legislative proposals.

CARBON DISCLOSURE PROJECT (CDP)

For the past five years, we have provided information to CDP, an independent organization that works with shareholders and companies to assess the business risks and opportunities due to climate change. www.cdproject.net.

THE CLIMATE REGISTRY

Duke Energy is a Founding Member of this U.S., Canadian and Mexican organization dedicated to providing an accurate, complete, consistent, transparent and verified set of greenhouse gas emissions data from reporting entities. www.theclimateregistry.org.

WILDLIFE AND INDUSTRY TOGETHER

Duke Energy's Riverbend Steam Station has seen its wildlife population thrive in recent years. The station is among several Duke Energy properties that have been certified as part of the North Carolina Wildlife Federation's Wildlife and Industry Together (WAIT) program. WAIT pairs companies with volunteers and community groups to develop company land into natural habitat. As part of Riverbend's five-year WAIT plan, Boy Scout troops from the surrounding Belmont, N.C. area are partnering with the station to complete 14 environmental projects, including erecting nature-trail bridges, bird houses and a wildlife feed plot that is ideal for deer, turkey and other animals.



Investing in renewables

Duke Energy launched several initiatives to bolster its renewable energy portfolio in 2007.

- In May, we acquired the wind power assets of Tierra Energy, a leading development company located in Austin, Texas. The purchase included more than 1,000 MW of wind assets under development in the western and southwestern U.S. Duke Energy plans to spend approximately \$430 million in 2008 to complete the first three wind development projects acquired from Tierra. We recently made purchase commitments for 155 wind turbines, with a total capacity of 240 MW, to support this effort into 2010.
- We issued a request for proposals (RFP) for up to 2,100 MW of renewable energy in the Carolinas in April 2007. Many bids were received, and the evaluations are underway.
- Duke Energy Indiana also issued an RFP in October 2007 for up to 200 MW of renewable energy. Those bids are due in early 2008 and will take several months to evaluate. This is in addition to the 100 MW of wind power that Duke Energy Indiana will begin purchasing in 2008 based on agreements that were finalized in 2006.
- Duke Energy Carolinas completed successful tests of biomass co-firing in 2007 and assessed the availability of commercial quantities of biomass near our fossil stations.

From its roots in 1904 as a hydroelectric station operator along the Catawba River, Duke Energy is today the second largest investor-owned hydroelectric operator in the U.S. And, we have more than 3,100 MW of hydroelectric capacity in South America.

Power plant options

With about 60,000 new Duke Energy customers each year, it will take time for the benefits of energy efficiency to significantly curb demand. We use four criteria to evaluate energy supply options: Is the supply affordable? Is it available? Is it reliable? Is it clean? This table summarizes the current state of power plant technology and economics for our service areas.

	PURPOSE	AFFORDABLE	AVAILABLE	RELIABLE	CLEAN
Cleaner Coal					
■ Supercritical Pulverized	Baseload	Yes	Yes	Yes	Yes, except for CO ₂ emissions
■ Integrated Gasification Combined Cycle (IGCC)	Baseload	Yes	Yes, but limited utility applications	Yes	Yes, except for CO ₂ emissions
Note: Future carbon capture and sequestration could address CO ₂ ; likely easier with IGCC.					
Nuclear	Baseload	Yes	Yes, but must restart nuclear industry	Yes	Yes, except for waste issues
Natural Gas					
■ Simple Cycle	Peaking	Yes, but volatile fuel prices	Yes	Yes	Yes, lower CO ₂ emissions than coal
■ Combined Cycle	Intermediate	Yes, but volatile fuel prices	Yes	Yes	Yes, lower CO ₂ emissions than coal
Renewables					
■ Solar	Intermittent	No, very expensive now	Yes, on small scale	Yes, if resource available	Yes
■ Wind	Intermittent	Among least cost renewables	Yes, but geographically limited	Yes, if resource available	Yes
■ Hydro	Peaking	Yes	Yes, but most sites have been developed	Yes, if resource available	Yes, except for stream flow impacts
■ Biomass	Baseload	Among least cost renewables	Yes, on small scale	Yes, if fuel available	Yes, but not as clean as other renewables
Energy Efficiency					
■ Demand Response	Peaking	Yes, less than generation alternatives	Yes, but customer response uncertain	Yes, once installed	Yes
■ Conservation	Baseload	Yes, less than generation alternatives	Yes, but customer response uncertain	Yes, once installed	Yes

Baseload – Large power plants that operate continuously at near full load (except for maintenance) to meet the 24/7 electric demand.

Peaking – Power plants that operate for short periods, often for just a few hours on especially hot or cold days, to meet spikes in demand.

Intermediate – Power plants that operate between the extremes of baseload and peaking electric demands.

Intermittent – Power plants that are expected to operate 15 to 30 percent of the time.



CHILDREN'S PROJECT GOES WILD

In 2007, approximately 2,000 students from Rowan-Salisbury Schools in Rowan County, N.C. participated in the outdoor classroom at Duke Energy's Buck Steam Station. This environmental education experience is part of Project WILD, a joint effort between Duke Energy, the North Carolina Wildlife Resources Commission, Horizons Unlimited of Rowan-Salisbury Schools and Ducks Unlimited. The program provides opportunities for fifth-graders to see and learn about wetlands, meadows, birds and animals in their natural settings.

GETTING OUR OWN "HOUSE" IN ORDER: ENERGY EFFICIENCY AT DUKE ENERGY OFFICES

We are improving energy efficiency in the office space we own or lease across our five-state service area. Lighting upgrades undertaken in 2007 and planned for 2008 are expected to save approximately 1.5 gigawatt-hours of electricity per year, which is equivalent to the total energy needs of about 125 homes.

Greenhouse gas reduction measures

GREENHOUSE GAS REDUCTION FUND – EFFICIENCY BEGINS AT HOME

Duke Energy promotes energy efficiency as an essential part of the solution for curtailing greenhouse gas emissions. To emphasize our commitment, we established a Greenhouse Gas Reduction Fund to stimulate innovation and energy efficiency within our own operations.

The fund's goal is to help reduce, avoid or sequester 10 million tons in CO₂ equivalents (CO₂e)* by 2015. In 2007, we awarded \$3 million to fund 46 efficiency projects at generating stations and office facilities, as well as renewable energy projects. Those projects resulted in the avoidance of approximately 300,000 tons of CO₂e in 2007. Many of the projects will accrue additional tons avoided in 2008 and beyond.

In 2008, another \$3 million has been allocated to fund 36 projects that will enhance efficiency and reduce the company's carbon footprint.

GREENHOUSE GAS REDUCTIONS IN GAS OPERATIONS

Duke Energy provides natural gas and electric service in the Greater Cincinnati region. For many years, we have purchased landfill gas that has been extracted from the Rumpke Landfill and processed. In 2007, the largest "landfill gas to pipeline" plant in the world was completed by GSF Energy LLC. The new plant significantly increases the productive capabilities at the landfill. Duke Energy will buy all of the landfill gas from this project, equivalent to the needs of about 17,500 homes.

Capture and sale of landfill gas, which is about half methane and half carbon dioxide, not only supplements gas supplies from traditional pipelines for Duke Energy customers; it also prevents a significant amount of greenhouse gas from being released to the atmosphere. The methane is piped to our customers and the captured CO₂ is sold to other businesses.

* **CO₂ equivalent:** CO₂e is a measure of the global warming potential over a period of time (typically 100 years) for different gases. CO₂ is given a reference value of 1 and all other gases are multiples of CO₂. For example, one ton of methane has the global warming potential of 23 tons of CO₂.



COWANS FORD DAM CREATED LAKE NORMAN, THE LARGEST MAN-MADE BODY OF FRESH WATER IN NORTH CAROLINA.

Water as a sustainability issue: The drought's effects on the Carolinas

Duke Energy owns and manages 13 hydro-power stations and 11 reservoirs on the Catawba-Wataree River system, covering over 200 river-miles in North Carolina and South Carolina. The river and reservoirs are the backbone of our generation fleet, providing over 830 megawatts of renewable hydropower and cooling water to more than 8,100 megawatts of fossil and nuclear generation, approximately 45 percent of Duke Energy Carolinas' generating capacity.

ELECTRIC GENERATION

In 2007, North Carolina experienced the driest year and South Carolina experienced the fifth driest year in the 113 years that rainfall records have been maintained. In total, the Duke Energy Carolinas service area received less than 28 inches of rainfall in 2007, or 40 percent below the long-term average. Despite the drought and record-high temperatures, Duke Energy Carolinas' employees kept our power plants operating and managed lake levels to keep municipal and industrial water intakes covered. When drought conditions intensified during April, we began to reduce our use of hydroelectric generation throughout the Duke Energy Carolinas service area to preserve water in the reservoirs. This resulted in a systemwide reduction in hydroelectric generation of 67 percent

during April-December compared to the average for the same months during the previous four years.

We also established an in-house Drought Mitigation Team to monitor and forecast drought effects on lake system storage throughout Duke Energy Carolinas' service area and to make plans if the drought continues through the summer of 2008. As a result, several equipment and procedural modifications are either under way or being planned at nuclear and fossil stations to reduce drought-related risks. We also purchased an option for additional generating capacity that can be used during 2008, as another step to help ensure that the energy needs of our customers are met.

REGIONAL WATER SUPPLIES

Many of the company's reservoirs in the Carolinas also provide raw water to public water systems and industrial process water. As part of our Comprehensive Relicensing Agreement for the Catawba-Wataree Hydroelectric Project, we joined with 24 public water systems, several large industrial plants and state and federal agencies to form a Drought Management Advisory Group. This group designed and implemented a regional drought response plan. For the first time, Duke Energy and the other water intake owners across

the Catawba-Wataree River Basin have coordinated their actions to reduce water consumption. The resulting savings have kept all large water intakes covered and operating. We also worked with public water systems that withdraw water from our other hydro reservoirs to encourage aggressive water conservation measures.

COORDINATED ACTION

To improve long-term management of water resources in our region, Duke Energy and 15 public water system owners formed a nonprofit corporation called the Catawba-Wataree Water Management Group (WMG). Supported by member dues and other funding, the WMG will take actions to enhance water quantity and quality in the Catawba-Wataree River Basin, such as:

- Establishing a groundwater monitoring network to improve the understanding of how groundwater affects surface water availability during droughts
- Modifying existing water intakes to allow operation at lower lake levels
- Optimizing water intake and return locations
- Establishing water demand-side management goals and a plan to achieve them

The WMG is a first-of-its-kind partnership for a power company and public water system owners to pool their resources to protect and enhance their common water supply.

For up-to-date information on the drought and our response to it, visit www.duke-energy.com/lakes/carolinas-drought-info.asp.

Investing in research and development

Duke Energy directs much of its research effort toward projects coordinated by the Electric Power Research Institute (EPRI). In 2007, we invested \$8.4 million in EPRI membership dues to pay for applied research and another \$2.1 million in supplemental projects. Duke Energy participates in 47 non-nuclear programs and the entire EPRI nuclear program.



NUCLEAR FLEET EXCELS

The Duke Energy-operated seven-unit nuclear fleet (McGuire Station shown above) set an all-time operating record in September 2007. All seven generating units operated continuously for 107 days, surpassing the previous record of 89 days. Additionally, three nuclear units set electric production records in 2007. The company

maintains its nuclear units around-the-clock by following a rigorous protocol to identify and repair problems before they impact operations. The nuclear fleet played an important role in the company's ability to respond to the summer-long heat wave in the Carolinas, which resulted in record-breaking customer demand.

REEL-LESS WIRE DELIVERIES



Duke Energy works with its suppliers to reduce environmental impacts in unlikely places. Wire and cable were traditionally delivered on large, heavy wooden reels (shown in background) that were returned to the

manufacturer, but had limited life-spans. We teamed up with Southwire, one of our major suppliers, to develop a delivery method that does not require reels. Now, we place the reel-less wire bundles on reusable steel spools (foreground) for mounting on our trucks. Since 2002, we have eliminated the need for almost 7.7 million pounds of wood and saved an estimated \$2.3 million.

CERTIFIED PAPER HELPS CONSERVATION EFFORTS.



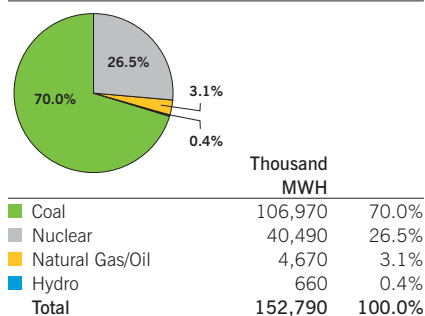
Duke Energy is reaffirming its commitment to preserve natural resources by increasing its use of Forest Stewardship Council (FSC)-certified paper. In 2007, Duke Energy developed guidelines to establish the use of FSC-certified papers across the company and make FSC certification mandatory for contract printers. Beginning in 2008, FSC-certified paper will be used for printed materials that carry the Duke Energy logo.

EPEAT COMPUTERS REDUCE HAZARDOUS WASTE

Duke Energy transitioned to fully EPEAT-registered (Electronic Product Environmental Assessment Tool) computer workstations and monitors in 2007. These business-class machines have reduced levels of cadmium, lead and mercury to better protect human health and the environment during manufacture and disposal. To achieve EPEAT registration, equipment must also comply with Energy Star, a program of the U.S. Environmental Protection Agency and Department of Energy.

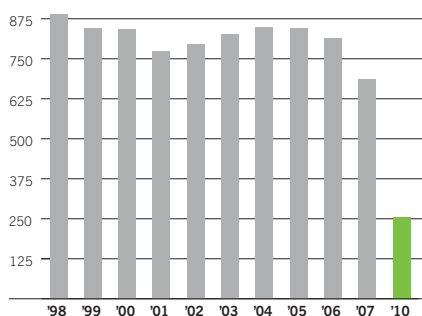
Electric generation statistics

2007 Net U.S. Megawatt-hour Generation¹



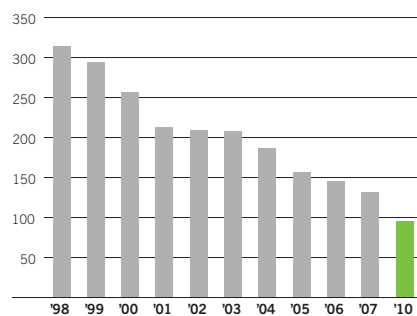
1 Data reflects output from fully-owned units and Duke Energy's share of output from co-owned units.

U.S. Sulfur Dioxide Emissions (Thousand tons)²



2010 emissions are estimates.

U.S. Nitrogen Oxides Emissions (Thousand tons)²



	2005	2006	2007
U.S. Sulfur Dioxide Emissions (Tons)²	844,500	812,600	684,000
U.S. Nitrogen Oxides Emissions (Tons)²	160,400	148,600	131,000
Carbon Dioxide Emissions (Thousand tons)³			
■ U.S.	104,600	102,200	108,500
■ Latin America	2,600	3,000	3,100
■ Total	107,200	105,200	111,600

2 SO₂ and NO_x reported from U.S. electric generation based on Dec. 31, 2007 ownership share of stations. Combustion turbines not equipped with continuous emission monitors and facilities operated or owned by Duke Energy Generation Services are not included.

3 CO₂ reported from U.S. electric generation and Duke Energy International operations, and based on Dec. 31, 2007 ownership share of stations. CO₂ emissions increased in 2007 versus 2006 due to U.S. electric generation being about 3.8% higher to meet increased customer demand. The additional generation came from coal and natural gas plants.

	2006	2007
Fuels Consumed for U.S. Electric Generation⁴		
■ Coal (Thousand tons)	46,500	46,779
■ Oil (Thousand gallons)	Not compiled	23,018
■ Natural Gas (Thousand decatherms)	Not compiled	33,652

	2006	2007
U.S. Coal Combustion Byproducts – CCB (Thousand tons)⁴		
■ Total CCB Produced	5,530	6,015
■ Permanently Disposed	1,990	3,962
■ Beneficial Use	3,540	2,052

4 Generating plants owned and operated by Duke Energy

	2005	2006
U.S. Toxic Release Inventory (Pounds)⁵		
■ Releases to Air	80,172,829	75,751,707
■ Releases to Water	247,542	195,247
■ Releases to Land	15,234,393	14,223,652
■ Off-Site Transfers	77,123	64,365
■ Total	95,731,887	90,234,971

5 2007 data will not be available before July 2008. Data pertains to facilities owned by Duke Energy.

	2006	2007
Regulatory Citations (Includes Duke Energy International)⁶		
■ Citations	13	12
■ Fines/penalties (Dollars)	\$12,713	\$15,500

6 Of the 12 citations, no fine was associated with eight. Three resulted in fines of \$15,500. Finally, the State Environmental Agency of Parana, Brazil has alleged improper maintenance of existing reforested areas. Duke Energy International believes it has properly maintained the areas and will contest the proposed fine of \$150,000.

	2006	2007
U.S. Reportable Oil Spills	75	79
Gallons	3,251	28,864

More information on our air emissions is available at www.duke-energy.com/environment/air-quality.asp.