

Taking Responsibility

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Thank you, and good morning. It's a pleasure to address such a distinguished cross-section of leaders from our community, particularly at this early hour!

My theme today is familiar to the Charlotte business community – corporate social responsibility.

But the idea hasn't always been familiar. While I was at Stanford Business School in the late 1960s, they introduced the first course on corporate social responsibility. It was an elective course and no-one took it except a few suspected Communists! Today, it's an accepted part of the curriculum.

It's really amazing when you think how far we've come from the "us-against-them" attitude business had toward environmentalists and social activists back then. We're much more likely today to realize that we're all in this together – and what's good for the environment and the community, is ultimately good for business.

Look around at this civic center in our vibrant city, and you are seeing the tangible results of corporate social responsibility and political vision at work. When I first came to Charlotte in 1996, I was impressed by the community commitment I experienced. When I returned at the end of 2003, after five years in Australia, I was awestruck by the progress that had been made.

The fact that we have the downtown we have today reflects your earlier commitment to a goal beyond the traditional bottom line. In the days when investment in the city center looked like less than the best business bet, Charlotte's corporate and political leaders invested anyway – true to their vision that a world class city must have a world class downtown. (Or "uptown" if I must be politically correct!)

You invested in redevelopment of Fourth Ward, and later First Ward, to create residential neighborhoods that would attract people back to the city center. Today, rarely a week goes by when we're not reading about a new condo project going into downtown.

You put your money into Spirit Square, and later the Performing Arts Center, to bring first class entertainment downtown. There are free shuttle rides, free parking after 6 and the trolley to bring visitors from the suburbs.

Finally, our largest corporate citizens added new office towers downtown, transforming the skyline instead of creating more suburban sprawl.

The successful development of Charlotte's downtown is just one example of how good citizenship and good leadership – both from the private and public sectors – can become good business. Increasingly, businesses are defining success in terms beyond short-term profit – what's been called the “triple bottom line.”

As most of you know, the triple bottom line includes environmental and social goals in addition to traditional economic profit. It creates a balanced score card that redefines corporate success.

But let's be clear — corporations cannot do this alone. All of the stakeholders affected by business must buy into the concept of the triple bottom line.

You are here today in your role as business, community and political leaders, but you also have other roles. At one time or another you have been, or are, shareholders, employees, and customers. I'd like you to think about those roles and how your personal behavior encourages a company to be socially responsible – or not.

A major problem for companies committed to the triple bottom line is the largely short-term focus of the investment community. Let's face it; Wall Street is more concerned about your profits than about the investment you're making to improve the environment, enhance employee safety, or strengthen society for the long term.

In truth, we've gone from a nation of stock owners to a nation of stock traders. In 1960, individual investors held stock for an average of eight years. By 2001, that had shrunk to 11 months. So much for the long view!

I'm sure all of you are investors. I'd ask you to consider what you care about from the companies you own – and what corporate behavior you reward when you invest your dollars. What message are you sending when you move from Fund A to Fund B, because Fund A had a bad couple of quarters? What behavior are you encouraging when you trade in stocks rather than investing in them?

When I returned to Duke, most of Wall Street wanted the company to cut the dividend. We chose not to, because that would have played directly into the hands of the traders. By maintaining the dividend, we rewarded those investors who had stuck with the company through the bad times as well as the good times.

Of course, you know, investors can be a bit schizophrenic – as I found at my first shareholder

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meeting upon becoming CEO at BHP in Australia. At that meeting, a shareholder castigated me for shutting some of our operations and not creating jobs. Later, that same shareholder demanded that the dividend be raised!

I guess her mother never taught her that classic wisdom: "You can't have your cake and eat it too!"

How many of your mothers said that? "You can't have your cake and eat it too." Let's see a show of hands.

How about: "There's no such thing as a free lunch?" Raise your hand if your parents told you that!

I'd say most of us grew up hearing the theme of trade-offs expressed in one old saying or another.

But I'm afraid that we've forgotten it – or not taken it to heart. That's all too clear when you look at the environment.

Let me ask you for another show of hands. How many of you would like to see a cleaner environment?

How about a dirtier environment? I'm sure we won't get any hands up for that!

But my next question is harder: Ask yourself what you're willing to pay – or to give up – to have a better environment? Because the truth is, we have some hard choices to make. And the hardest choices will be presented to us when we, as a society, face the issue of global climate change.

Global climate change is one of the most pressing issues of our time. Few scientists disagree that the climate is changing, though there is much debate about the cause and effect. Nevertheless, there is general agreement that climate change is likely being influenced by human activity. Specifically, in the use of fossil fuels that emit greenhouse gases like carbon dioxide — fossil fuels that are used in transportation, in manufacturing and in power generation.

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Whatever the final state of the science is, reducing greenhouse gases has become a worldwide political and social imperative. It is an imperative where American leadership is not just needed; American leadership is required.

I imagine all of you are aware that the United States consumes more energy than any other country in the world. We account for less than 5 percent of the world's population, but consume more than 23 percent of its energy. We are also the largest emitter of greenhouse gases, accounting for more than 20 percent of the world's annual total. That's not a number-one ranking to be proud of. China, with its population of 1.3 billion is number two, accounting for more than 14 percent of emissions.

It frustrates me to hear some folks say, "Why should we spend money to reduce emissions when China and India aren't part of the effort?" That is akin to begrudging a modest meal to a neighbor while you are sitting down to a sumptuous feast!

So there's work to be done at the global level. But what about locally? You may have read about North Carolina's Clean Smokestacks Act and the \$1.5 billion Duke Power is spending on state-of-the-art pollution controls at its coal-fired power plants. The good news is that this will result in lower emissions of sulfur dioxide and nitrogen oxide. The bad news is this technology will not reduce carbon dioxide.

In fact, no technologies are currently available to cut carbon dioxide emissions. It's going to take money to develop those technologies, and their impacts will not be significant for decades. In the meantime, the only way to reduce carbon dioxide emissions is to reduce our use of fossil fuels – either through conservation and improved energy efficiency or by switching to fuels that emit less — or no — carbon dioxide.

That's where the "no free lunch" comes in.

We say we want a better environment, but we also want reliable, low-cost electricity.

We say we want a better environment. But some resist nuclear energy and don't want to use our rivers for hydropower.

We say we want a better environment. But we don't want to invest in public transportation – much less take it. Instead, we want to commute to work all alone in our big SUVs! I want to drive a car with an oversized engine myself – I'm part of the problem!

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We say we want a better environment, but not at the expense of our lifestyle. Well, I would be hard pressed to argue to a developing nation that a decent lifestyle requires SUVs, gas-fired leaf blowers and over-sized air-conditioned second homes!

So, yes, we say we want a better environment, but we demand cheap energy as an American birthright.

It's no coincidence that as the world's largest consumers of energy, we also pay the lowest price for gasoline of any developed nation. Gas prices in England, France, Germany and Italy last year were at least three times higher than ours. That's because our gas taxes are so much lower. For some reason, we fail to see the link between low gasoline costs and high costs for energy security.

We need to face up to the inconsistency of our demands. It's time to recognize that if we want a better environment, we're going to have to pay more for energy.

The question facing us is this: Will we put our money where our mouths are?

Personally, I feel the time has come to act – to take steps as a nation to reduce the carbon intensity of our economy. And it's going to take all of us to do it.

In the debate about global climate change, you hear a lot about power plants, but that's only one piece of the story. Sixty percent of U.S. carbon dioxide emissions are from other sources. So we shouldn't kid ourselves that we can address the issue through the electric sector alone.

In fact, the U.S. emissions reduction that would have been required under the Kyoto Protocol is almost as much as the total 2002 emissions from U.S. power plants.

In other words, for the electric sector to achieve this reduction alone, we'd essentially have to shut down all of the country's fossil-fueled plants! Imagine the consequences of that to a nation that gets about 70 percent of its electricity from fossil fuels. We cannot eliminate the use of coal or other fossil fuels for power generation in the near-term without serious disruption to our economy. That's why a viable solution to global climate change must encourage reduced carbon emissions from all sources and all segments of our economy — not just a few.

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Thirty percent of U.S. carbon dioxide emissions come from the transportation sector. And just like with power plants, there's no existing pollution control device that can cut the carbon dioxide coming from our gasoline engines.

The only way to reduce emissions is to consume less fuel. Yet U.S. government fuel efficiency standards for cars haven't changed since 1990. And, the average fuel efficiency for new cars and trucks fell from 22.1 miles per gallon in 1988 to 20.4 miles per gallon in 2001. We're heading in the wrong direction!

The remaining 30 percent of carbon dioxide emissions comes from other segments of the economy – segments as varied as high-tech manufacturing to residential heating. That's why the only way to achieve reductions is through broad-based incentives – not additional regulation.

What we need is an economy-wide solution that provides incentives for companies and individual consumers alike to reduce the carbon they emit from all sources.

Duke Energy has long supported voluntary measures to reduce greenhouse gases. But it's clear to me now that we have to move to mandatory measures to get real results in a fair manner.

If you own Duke Energy stock and have received our 2004 annual report, you may have read about our current view. In my letter to shareholders, I promise we will be proactive on the issue of climate change. We will be active in three areas: policy development, power generation and promoting awareness.

I believe U.S. public policy on global climate change should encourage a transition to a lower-carbon-intensive economy through a broad-based, mandatory approach.

And, I believe the best approach is a carbon tax, which addresses greenhouse gas emissions from all sectors of the economy. Here's why:

If the country is going to consider some sort of consumption tax at the federal level, why not base it on carbon? A well-crafted carbon tax would do three things: First, it would provide incentives for conservation for everyone. Second, it would promote higher utilization of today's power plants that are low emitters of carbon and encourage low-carbon fuel choices for the future. And third, it would encourage the development of new technologies.

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The greatest attraction of a carbon tax is that it allows us to share the cost of reducing greenhouse gas emissions across all sectors of the economy – minimizing the disruption in any one area. Even if science proves that climate change isn't a major problem, a carbon tax is a "no regrets" policy that still results in less CO₂ emissions and greater energy conservation.

You can imagine the reaction I get when I say "carbon tax" in the halls of Duke Energy! One employee wrote me that as a shareholder, he couldn't fathom why I would advocate a position that would discourage use of our product by potentially increasing its price!

Because, of course, a carbon tax would cut emissions by increasing the cost of fossil fuels in proportion to their carbon content — thereby encouraging both conservation and shifts to lower-carbon fuels.

That's where a long-term view of economic and environmental issues is important. If we don't take constructive action on global climate change, others will. From a business standpoint, it makes more sense to advocate a carbon tax – even if it costs our business more and is harder to sell politically – than to accept alternatives that fall short of achieving real results in an equitable, efficient manner.

Let me underscore an important point on global climate change: We have great faith in American innovation. The mandate to become less carbon-intensive will spur the kind of technological innovation that we saw in the last century. Innovation that propelled us to become the world's leading economy. Set the right goals, and Americans can — and will — lead the way.

I'm troubled that our international competitors – motivated by mandatory emissions reductions – have gotten a head start. Business Week reported last month that Japan is the world leader in solar and hybrid cars, and Europe leads in wind power.

Finally, let me emphasize that climate change policy needs to be developed at the federal and global levels. We don't need a patchwork of inconsistent state or local regulations to complicate and increase the cost of compliance. I'm sure many of you can relate to that! Yet a patchwork is exactly what we are getting, due to federal inaction. Today, four states have already enacted greenhouse gas legislation and others are considering following suit.

So let me sum up our public policy priorities for managing greenhouse gas emissions in the U. S. Any actions must be mandatory, economy-wide and Federal in scope.

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Since power generation is a core business for Duke, you may wonder what we are doing in this area beyond trying to shape policy. As customers of Duke Power, you should know that we are committed to taking steps that will eventually lower our own greenhouse gas emissions.

We will do that through a balanced portfolio of nuclear, gas, hydro and coal – yes, even coal. It's worth noting that a new coal facility reduces carbon dioxide emissions by close to 20 percent when compared to today's average coal plant, just due to greater efficiency.

Electricity demand is critical to our economy, and to meet growing demand in the short term, we are looking at third party purchases and the construction of gas or coal-fired plants. Relatively higher fuel cost for gas plants will drive up power prices, as will controls associated with coal plants.

Our long-term strategy for reducing greenhouse emissions includes adding a new nuclear plant, but the lead time won't make it available in time to meet our customers' most immediate needs. Our near-term alternatives are gas and coal. At the same time, we will be working with others in industry to evaluate new technologies – both in generation and efficiency.

As a company, we want to be part of the solution to global climate change. What we need from our regulators and legislators is to understand what the rules are going to be – which behaviors will be rewarded and which will be penalized. Only then will we know how to invest in the right solutions so that we do not disadvantage our customers or our shareholders.

Our final area for action on global climate change is promoting awareness and understanding. That's why I couldn't resist this meeting today.

Many of you came for a nice breakfast and to hear about Duke Energy's remarkable turnaround. Instead, I served up a lesson in climate change and social responsibility.

But, it felt right to start working towards awareness and action on global climate change right here in our own backyard; in this community of visionaries and doers.

There's no question that reducing our nation's greenhouse gas emissions will cost all of us more in the short-run. But, the long-term benefits to the economy and the environment will be worth the short-term pain.

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To return to my original example, the investment in reducing greenhouse gases is like the investment that Charlotte's political and business leaders made to create the city center we're proud of today. Your commitment to a long-term vision for the city overcame short-term challenges and nay-sayers, and created benefits that continue to grow.

In the same way, investing to improve our environment will show us again how good citizenship coupled with good leadership can become good business.

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