

Duke Energy Carolinas, LLC  
Form 424B5  
November 12, 2008

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**Filed Pursuant to Rule 424(b)(5)  
Registration No. 333-146483-03**

The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer and sale is not permitted.

**Subject to Completion  
Preliminary Prospectus Supplement dated November 12, 2008**

**PROSPECTUS SUPPLEMENT  
(To Prospectus dated October 3, 2007)**

\$        **First and Refunding Mortgage Bonds, % Series due 2013**  
\$        **First and Refunding Mortgage Bonds, % Series due 2018**

Duke Energy Carolinas, LLC is offering \$        aggregate principal amount of First and Refunding Mortgage Bonds in two series. We are offering \$        First and Refunding Mortgage Bonds, % Series due 2013 ( 2013 Mortgage Bonds ) and \$        First and Mortgage Bonds, % Series due 2018 (the 2018 Mortgage Bonds, and together with the 2013 Mortgage Bonds, the Mortgage Bonds ). We will pay interest on the 2013 Mortgage Bonds at a rate of % per annum, payable semi-annually in arrears on        and        of each year, beginning on       , 2009. The 2013 Mortgage Bonds will mature as to principal on       , 2013. We will pay interest on the 2018 Mortgage Bonds at a rate of % per annum, payable semi-annually in arrears on        and        of each year, beginning on       , 2009. The 2018 Mortgage Bonds will mature as to principal on       , 2018. The Mortgage Bonds are secured by a continuing lien on certain of our properties and franchises.

We may redeem either series of the Mortgage Bonds at our option at any time and from time to time, in whole or in part, as described in this prospectus supplement under the caption Description of the Mortgage Bonds Optional Redemption. The Mortgage Bonds will also be redeemable for the Replacement Fund (as defined in the accompanying prospectus under Description of the First and Refunding Mortgage Bonds Replacement Fund ) or upon application of moneys arising from a taking of any of the mortgaged property by eminent domain or similar action at any time or from time to time at the special redemption price of 100% of their principal amount, together with accrued and unpaid interest to the redemption date. We have agreed not to apply any cash deposited with the trustee pursuant to the Replacement Fund to the redemption of the Mortgage Bonds so long as any of the First and Refunding Mortgage Bonds presently outstanding remain outstanding. See Description of the First and Refunding Mortgage Bonds Replacement Fund in the accompanying prospectus.

The Mortgage Bonds will not be listed on any securities exchange or included in any automated quotation system. Currently, there is no public market for the Mortgage Bonds. Please read the information provided under the caption Description of the Mortgage Bonds in this prospectus supplement and Description of the First and Refunding Mortgage Bonds in the accompanying prospectus for a more detailed description of the Mortgage Bonds.

**Investing in the Mortgage Bonds involves risks. See the sections captioned Risk Factors in our annual report on Form 10-K for the year ended December 31, 2007 and in our quarterly report on Form 10-Q for the quarterly period ended September 30, 2008, each of which has been filed with the Securities and Exchange Commission and is incorporated by reference in this prospectus supplement and the accompanying prospectus.**

**Proceeds to Duke**

|                           | <b>Price to Public(1)</b> | <b>Underwriting Discount(2)</b> | <b>Energy Carolinas, LLC before expenses(1)</b> |
|---------------------------|---------------------------|---------------------------------|---|
| Per 2013 Mortgage Bond    | %                         | %                               | %   |
| Total 2013 Mortgage Bonds | \$                        | \$                              | \$  |
| Per 2018 Mortgage Bond    | %                         | %                               | %   |
| Total 2018 Mortgage Bonds | \$                        | \$                              | \$  |

(1) Plus accrued interest, if any, from November , 2008, if settlement occurs after that date.

(2) The underwriters have agreed to make a payment to us in an amount equal to \$ , including in respect of expenses incurred by us in connection with the offerings. See Underwriting.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

We expect the Mortgage Bonds to be ready for delivery only in book-entry form through the facilities of The Depository Trust Company for the accounts of its participants, including Clearstream Banking, société anonyme, Luxembourg and Euroclear Bank N.V./S.A., on or about November , 2008.

***Joint Book-Running Managers***

**Barclays Capital**

**Citi**

**Credit Suisse**

***Co-Managers***

**BBVA Securities**

**KeyBanc Capital Markets**

**BNP PARIBAS**

**Mitsubishi UFJ Securities**

***Junior Co-Managers***

**Cabrera Capital Markets, LLC**

**Wells Fargo Securities**

The date of this prospectus supplement is November , 2008.

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**You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information that is different. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer is not permitted. You should not assume that the information provided by or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date of the document containing the information.**

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## ABOUT THIS PROSPECTUS SUPPLEMENT

## Edgar Filing: Duke Energy Carolinas, LLC - Form 424B5

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering.

If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in or incorporated by reference into this prospectus supplement.

Unless we have indicated otherwise, or the context otherwise requires, references in this prospectus supplement and the accompanying prospectus to Duke Energy Carolinas, we, us and our or similar terms are to Duke Energy Carolinas, LLC and its subsidiaries.

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**PROSPECTUS SUPPLEMENT SUMMARY**

*The following summary is qualified in its entirety by, and should be read together with, the more detailed information that is incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus. See "Where You Can Find More Information" in this prospectus supplement for information about how you can obtain the information that is incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus. Investing in the Mortgage Bonds involves risks. See the sections captioned "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2007 and our quarterly report on Form 10-Q for the quarterly period ended September 30, 2008.*

**Duke Energy Carolinas, LLC**

Duke Energy Carolinas, a wholly owned subsidiary of Duke Energy Corporation, generates, transmits, distributes and sells electricity. Its service area covers approximately 22,000 square miles with an estimated population of 6 million in central and western North Carolina and western South Carolina. Duke Energy Carolinas supplies electric service to more than 2.3 million residential, commercial and industrial customers over 99,000 miles of distribution lines and a 13,000 mile transmission system. In addition, municipal and cooperative customers who purchased portions of the Catawba Nuclear Station may also buy power from a variety of suppliers including Duke Energy Carolinas, through contractual agreements.

We are a North Carolina limited liability company. The address of our principal executive offices is 526 South Church Street, Charlotte, North Carolina 28202-1803. Our telephone number is (704) 594-6200.

The foregoing information about Duke Energy Carolinas is only a general summary and is not intended to be comprehensive. For additional information about Duke Energy Carolinas, you should refer to the information described under the caption "Where You Can Find More Information."

**The Offerings**

|                               |  |
|-------------------------------|--|
| <b>Issuer</b>                 | Duke Energy Carolinas, LLC   |
| <b>Securities Offered</b>     | We are offering \$ _____ aggregate principal amount of _____ % 2013 Mortgage Bonds and offering \$ _____ aggregate principal amount of _____ % 2018 Mortgage Bonds.                                      |
| <b>Maturity</b>               | The 2013 Mortgage Bonds will mature on _____, 2013.<br>The 2018 Mortgage Bonds will mature on _____, 2018.   |
| <b>Interest Rate</b>          | _____ % per year for the 2013 Mortgage Bonds.<br>_____ % per year for the 2018 Mortgage Bonds.   |
| <b>Interest Payment Dates</b> | Interest on the Mortgage Bonds shall be payable semi-annually in arrears on _____ and _____ of each year, beginning on _____, 2009.  |
| <b>Ranking</b>                | The Mortgage Bonds are two series of First and Refunding Mortgage Bonds of Duke Energy Carolinas, LLC. All of the outstanding First and Refunding Mortgage Bonds are equally and ratably secured without |

preference, priority or distinction.

**Collateral**

The Mortgage Bonds are secured by a lien that covers substantially all of our properties, real, personal and mixed, and our franchises, including properties acquired after the date of the mortgage as supplemented governing the Mortgage Bonds.

**Certain Covenants**

The Mortgage, which is described in this prospectus supplement under the caption Description of the Mortgage Bonds, contains

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certain covenants that, among other things, limit our ability and the ability of certain of our subsidiaries to create liens on our assets. See Description of the Mortgage Bonds in this prospectus supplement and Description of the First and Refunding Mortgage Bonds in the accompanying prospectus.

**Optional Redemption**

The Mortgage Bonds of each series are redeemable at the option of Duke Energy Carolinas, LLC at any time and from time to time, in whole or in part, at a redemption price equal to the greater of (1) 100% of the principal amount of the Mortgage Bonds being redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on such Mortgage Bonds being redeemed (exclusive of interest accrued to the redemption date), discounted to the redemption date on a semi-annual basis at the Treasury Rate plus basis points in the case of the 2013 Mortgage Bonds, and at the Treasury Rate plus basis points in the case of the 2018 Mortgage Bonds, plus, in each case, accrued and unpaid interest on the principal amount being redeemed to such redemption date. See Description of the Mortgage Bonds Optional Redemption .

The Mortgage Bonds will also be redeemable for the Replacement Fund or upon application of moneys arising from a taking of any of the underlying mortgaged property by eminent domain or similar action at any time or from time to time at the special redemption price of 100% of their principal amount, together with accrued and unpaid interest to the redemption date. We have agreed not to apply any cash deposited with the trustee pursuant to the Replacement Fund to the redemption of the Mortgage Bonds so long as any of the First and Refunding Mortgage Bonds presently outstanding remain outstanding. See Description of the First and Refunding Mortgage Bonds Replacement Fund in the accompanying prospectus.

**No Sinking Fund**

There is no sinking fund for the Mortgage Bonds.

**Use of Proceeds**

The aggregate net proceeds from the sale of the Mortgage Bonds, after deducting the respective underwriting discounts and related offering expenses and giving effect to the underwriters' payment to us, will be approximately \$ million. The net proceeds from the sale of the Mortgage Bonds will be used (i) to repay approximately \$260 million outstanding under our Amended and Restated Credit Agreement, which bears interest at a rate equal to the Prime Rate, currently 4%, and is payable on September 30, 2009; (ii) to repay \$200 million aggregate principal amount of our 5.375% Senior Notes due January 1, 2009, and (iii) to replenish a portion of the cash we used to repay \$300 million aggregate principal amount of our 4.20% Senior Notes at their maturity on October 1, 2008.

We expect that the sales of the 2013 Mortgage Bonds and the 2018 Mortgage Bonds will take place concurrently. However, the sales of the 2013 Mortgage Bonds and the 2018 Mortgage Bonds are not conditioned



upon each other, and we may consummate the sale of

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one series and not the other, or consummate the sales at different times.

**Book-Entry**

The Mortgage Bonds will be represented by one or more global securities registered in the name of and deposited with or on behalf of The Depository Trust Company ( DTC ) or its nominee. Beneficial interests in the Mortgage Bonds will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the global securities through either DTC in the United States or Clearstream, Luxembourg or Euroclear in Europe if they are participants in those systems, or indirectly through organizations which are participants in those systems. This means that you will not receive a certificate for your Mortgage Bonds and Mortgage Bonds will not be registered in your name, except under certain limited circumstances described under the caption Book-Entry System.

**Trustee**

The Bank of New York Mellon Trust Company, N.A.

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**RISK FACTORS**

You should carefully consider the risk factors under the headings **Risk Factors** in our annual report on Form 10-K for the year ended December 31, 2007 and our quarterly report on Form 10-Q for the quarterly period ended September 30, 2008, each of which is incorporated by reference in this prospectus supplement, as well as the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment decision.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This prospectus supplement and the accompanying prospectus contain or incorporate by reference statements that do not directly or exclusively relate to historical facts. Such statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can typically identify forward-looking statements by the use of forward-looking words, such as anticipate, believe, intend, estimate, expect, continue, could, may, plan, project, predict, will, potential, forecast, target, and other similar expressions. Those statements represent our intentions, plans, expectations, assumptions and beliefs about future events. Forward-looking statements involve risks and uncertainties that may cause actual results to be materially different from the results predicted. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

State and federal legislative and regulatory initiatives, including costs of compliance with existing and future environmental requirements;

State and federal legislative and regulatory initiatives and rulings that affect cost and investment recovery or have an impact on rate structures;

Costs and effects of legal and administrative proceedings, settlements, investigations and claims;

Industrial, commercial and residential growth in Duke Energy Carolinas service territories;

Additional competition in electric markets and continued industry consolidation;

The influence of weather and other natural phenomena on Duke Energy Carolinas operations, including the economic, operational and other effects of storms, hurricanes, droughts and tornados;

The timing and extent of changes in commodity prices and interest rates;

Unscheduled generation outages, unusual maintenance or repairs and electric transmission system constraints;

The performance of electric generation facilities;

The results of financing efforts, including Duke Energy Carolinas ability to obtain financing on favorable terms, which can be affected by various factors, including Duke Energy Carolinas credit ratings and general economic conditions;

Declines in the market prices of equity securities and resultant cash funding requirements of Duke Energy Carolinas for Duke Energy Corporation's defined benefit pension plans;

The level of creditworthiness of counterparties to Duke Energy Carolinas' transactions;

Employee workforce factors, including the potential inability to attract and retain key personnel;

Growth in opportunities for Duke Energy Carolinas' business, including the timing and success of efforts to develop power and other projects;

Construction and development risks associated with the completion of Duke Energy Carolinas' investment projects in existing and new generation facilities, including risks related to financing, obtaining and complying with terms of permits, meeting construction budgets and schedules, and satisfying operating and environmental performance standards, as well as the ability to recover costs from ratepayers in a timely manner; and

The effect of accounting pronouncements issued periodically by accounting standard-setting bodies.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements included or incorporated by reference in this prospectus supplement and the accompanying prospectus might not occur or might occur to a different extent or at a different time than we have described. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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The ratios of earnings to fixed charges have been calculated using the Securities and Exchange Commission guidelines.

|  | <b>Nine<br/>Months<br/>Ended<br/>September 30</b> |                 | <b>Year Ended December 31,</b> |                 |                 |                 |
|--|---|-----------------|--------------------------------|-----------------|-----------------|-----------------|
|  | <b>2008</b>                                       | <b>2007</b>     | <b>2006</b>                    | <b>2005</b>     | <b>2004</b>     | <b>2003</b>     |
|  | <b>(dollars in millions)</b>                      |                 |                                |                 |                 |                 |
| Earnings as defined for fixed charges calculation                      |   |                 |                                |                 |                 |                 |
| Add:   |   |                 |                                |                 |                 |                 |
| Pretax income from continuing operations(a)                            | \$ 879  | \$ 1,014        | \$ 890                         | \$ 980          | \$ 910          | \$ 783          |
| Fixed charges  | 297   | 329             | 502                            | 1,159           | 1,433           | 1,620           |
| Distributed income of equity investees                                 |   |                 | 215                            | 473             | 140             | 263             |
| Deduct:  |   |                 |                                |                 |                 |                 |
| Preference security dividend requirements of consolidated subsidiaries |   |                 | 7                              | 27              | 31              | 139             |
| Interest capitalized(b)  | 32  | 22              | 18                             | 23              | 18              | 58              |
| <b>Total earnings (as defined for the Fixed Charges calculation)</b>   | <b>\$ 1,144</b>                                   | <b>\$ 1,321</b> | <b>\$ 1,582</b>                | <b>\$ 2,562</b> | <b>\$ 2,434</b> | <b>\$ 2,469</b> |
| Fixed charges:   |   |                 |                                |                 |                 |                 |
| Interest on debt, including capitalized portions                       | \$ 278  | \$ 314          | \$ 481                         | \$ 1,096        | \$ 1,365        | \$ 1,441        |
| Estimate of interest within rental expense                             | 19  | 15              | 14                             | 36              | 37              | 40              |
| Preference security dividend requirements of consolidated subsidiaries |   |                 | 7                              | 27              | 31              | 139             |
| <b>Total fixed charges</b>   | <b>\$ 297</b>                                     | <b>\$ 329</b>   | <b>\$ 502</b>                  | <b>\$ 1,159</b> | <b>\$ 1,433</b> | <b>\$ 1,620</b> |
| <b>Ratio of earnings to fixed charges</b>                              | <b>3.9</b>  | <b>4.0</b>      | <b>3.2</b>                     | <b>2.2</b>      | <b>1.7</b>      | <b>1.5</b>      |

(a) Excludes minority interest expense and income or loss from equity investees.

(b) Excludes equity costs related to Allowance for Funds Used During Construction that are included in Other Income and Expenses in the Consolidated Statements of Operations.

**USE OF PROCEEDS**

The aggregate net proceeds from the sale of the Mortgage Bonds, after deducting the respective underwriting discounts and related offering expenses and giving effect to the underwriters' payment to us, will be approximately \$ million. The net proceeds from the sale of the Mortgage Bonds will be used (i) to repay approximately \$260 million outstanding under our Amended and Restated Credit Agreement, which bears interest at a rate equal to the Prime Rate, currently 4%, and is payable on September 30, 2009; (ii) to repay \$200 million aggregate principal amount of our 5.375% Senior Notes due January 1, 2009, and (iii) to replenish a portion of the cash we used to repay \$300 million aggregate principal amount of our 4.20% Senior Notes at their maturity on October 1, 2008.

We expect that the sales of the 2013 Mortgage Bonds and the 2018 Mortgage Bonds will take place concurrently. However, the sales of the 2013 Mortgage Bonds and the 2018 Mortgage Bonds are not conditioned upon each other, and we may consummate the sale of one series and not the other, or consummate the sales at different times.

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**DESCRIPTION OF THE MORTGAGE BONDS**

We will issue the Mortgage Bonds as two series of First and Refunding Mortgage Bonds under our First and Refunding Mortgage, dated as of December 1, 1927, to The Bank of New York Mellon Trust Company, N.A., as Trustee, as supplemented and amended from time to time, including by the Eighty-Eighth Supplemental Indenture (the Eighty-Eighth Supplemental Indenture ), to be dated as of November , 2008. The First and Refunding Mortgage is sometimes called the Mortgage and the First and Refunding Mortgage Bonds, % Series due 2013, together with the First and Refunding Mortgage Bonds, % Series due 2018, are sometimes called the Mortgage Bonds in this prospectus supplement. The term Bonds refers to all mortgage bonds from time to time issued under the Mortgage, including the Mortgage Bonds. The trustee under the Mortgage is sometimes called the Bond Trustee in this prospectus supplement. The following description of the Mortgage Bonds is only a summary and is not intended to be comprehensive. For additional information, you should refer to the accompanying prospectus and to the Mortgage, which is an exhibit to the registration statement, of which the accompanying prospectus is a part.

**General**

The Mortgage Bonds will be issued as two new series of Bonds under the Mortgage. The Mortgage Bonds being offered hereby will be issued in the aggregate principal amount of \$ . The amount of Bonds that we may issue under the Mortgage is unlimited subject to the provisions described in the accompanying prospectus under Description of the First and Refunding Mortgage Bonds Issuance of Additional Bonds. We may, without the consent of the holders of a series of Bonds, reopen such series of Bonds (including the Mortgage Bonds) and issue additional Bonds of such series under the Mortgage in addition to the Bonds of such series originally authorized.

We will issue the Mortgage Bonds only in fully registered form without coupons and there will be no service charge for any transfers and exchanges of the Mortgage Bonds. We may, however, require payment to cover any stamp tax or other governmental charge payable in connection with any transfer or exchange. Transfers and exchanges of the Mortgage Bonds may be made at The Bank of New York Mellon Trust Company, N.A., 101 Barclay Street, New York, New York 10286 or at any other office maintained by us for such purpose.

The Mortgage Bonds will be issuable in denominations of \$2,000 and multiples of \$1,000 in excess thereof.

**Interest**

The 2013 Mortgage Bonds and the 2018 Mortgage Bonds will mature on , 2013 and , 2018, respectively. Interest on the 2013 Mortgage Bonds will accrue at the rate of % per annum from November , 2008 or from the most recent interest payment date to which interest on the 2013 Mortgage Bonds has been paid or provided for. Interest on the 2018 Mortgage Bonds will accrue at the rate of % per annum from November , 2008 or from the most recent interest payment date to which interest on the 2018 Mortgage Bonds has been paid or provided for. We will make each interest payment on the Mortgage Bonds semi-annually in arrears on and of each year, commencing , 2009, to each holder of record at the close of business on and (whether or not a business day) preceding the applicable interest payment date until the relevant principal amount has been paid or made available for payment. Interest on the Mortgage Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

**Optional Redemption**

We will have the right to redeem the Mortgage Bonds, in whole or in part at any time and from time to time, at a redemption price equal to the greater of (1) 100% of the principal amount of the Mortgage Bonds being redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on such Mortgage Bonds (exclusive of interest accrued to the redemption date), discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the

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Treasury Rate plus    basis points in the case of the 2013 Mortgage bonds, and at the Treasury Rate plus    basis points, in the case of the 2018 Mortgage Bonds, plus, in each case, accrued and unpaid interest on the principal amount being redeemed to such redemption date.

*Comparable Treasury Issue* means the United States Treasury security or securities selected by the Quotation Agent as having an actual or interpolated maturity comparable to the remaining term of the Mortgage Bonds to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Mortgage Bonds.

*Comparable Treasury Price* means, with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Quotation Agent obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

*Quotation Agent* means one of the Reference Treasury Dealers appointed by us.

*Reference Treasury Dealer* means each of Barclays Capital Inc., Citigroup Global Markets Inc. and Credit Suisse Securities (USA) LLC, plus two other financial institutions appointed by us at the time of any redemption or their respective affiliates or successors which are primary U.S. Government securities dealers; provided, however, that if any of the foregoing or their affiliates or successors shall cease to be a primary U.S. Government securities dealer in the United States (a Primary Treasury Dealer ), we shall substitute therefor another Primary Treasury Dealer.

*Reference Treasury Dealer Quotations* means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

*Treasury Rate* means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

The Mortgage Bonds will also be redeemable for the Replacement Fund or upon application of moneys arising from a taking of any of the underlying mortgaged property by eminent domain or similar action at any time or from time to time at the special redemption price of 100% of their principal amount, together with accrued and unpaid interest up to, but not including, the redemption date. We have agreed not to apply any cash deposited with the Bond Trustee pursuant to the Replacement Fund to the redemption of the Mortgage Bonds so long as any of the First and Refunding Mortgage Bonds presently outstanding remain outstanding.

## **Redemption Procedures**

We will provide not less than 30 nor more than 60 days notice mailed to each registered holder of the Mortgage Bonds to be redeemed. If the redemption notice is given and funds deposited as required, then interest will cease to accrue on and after the redemption date on the Mortgage Bonds or portions of such Mortgage Bonds called for redemption. In the event that any redemption date is not a business day, we will pay the redemption price on the next business day without any interest or other payment due to the delay.

## **Release Provisions**

The Mortgage permits us to dispose of certain property and to take other actions without the Bond Trustee releasing that property. The Mortgage also permits the release of mortgaged property if we deposit cash or other consideration equal to the value of the mortgaged property to be released. In certain events and within certain limitations, the Bond Trustee is required to pay out cash that the Bond Trustee receives other than for the Replacement Fund or as the basis for issuing Bonds upon Duke Energy Carolinas application.

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We may withdraw cash that we deposited with the Bond Trustee as the basis for issuing Bonds in an amount equal to the principal amount of any Bonds that we are entitled to have authenticated and delivered on the basis of additional property (electric), on the basis of Bonds previously authenticated and delivered or on the basis of refundable prior lien bonds.

## **Security**

The Mortgage creates a continuing lien to secure the payment of principal and interest on the Bonds. All the Bonds are equally and ratably secured without preference, priority or distinction. With some exceptions, the lien of the Mortgage covers substantially all of our properties, real, personal and mixed, and our franchises, including properties acquired after the date of the Mortgage. Those exceptions include cash, accounts receivable, inventories of materials and supplies, merchandise held for sale, securities that we hold, after-acquired property not useful in our electric business, after-acquired franchises and after-acquired non-electric properties.

We have not made any appraisal of the value of the properties subject to the lien of the Mortgage. The value of the properties in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. In the event of liquidation, if the proceeds were not sufficient to repay amounts under all of the Bonds then outstanding, then holders of the Bonds, to the extent not repaid from the proceeds of the sale of the collateral, would only have an unsecured claim against our remaining assets. As of September 30, 2008, we had total senior secured indebtedness of approximately \$2.9 billion and total senior unsecured indebtedness of approximately \$4.0 billion.

The lien of the Mortgage is subject to certain permitted liens and to liens that exist upon properties that we acquired after we entered into the Mortgage to the extent of the amounts of prior lien bonds secured by those properties (not, however, exceeding 75% of the cost or value of those properties) and additions to those properties. Prior lien bonds are bonds or other indebtedness that are secured at the time of acquisition by a lien upon property that we acquire after the date of the Mortgage that becomes subject to the lien of the Mortgage.

## **Amendments of the Mortgage**

Subject to some exceptions, we may amend the Mortgage with the consent of the holders of 66 $\frac{2}{3}$ % in principal amount of the Bonds and we may amend the Mortgage for the benefit of the holders of any series of Mortgage Bonds offered hereby without the consent of the holders of such Mortgage Bonds. No amendment, however, which requires holder consent as aforesaid, may affect the rights under the Mortgage of the holders of less than all of the series of Bonds outstanding unless the holders of 66 $\frac{2}{3}$ % in principal amount of the Bonds of each series affected consent to the amendment. The covenants included in the Eighty-Eighth Supplemental Indenture for the Mortgage Bonds offered hereby are solely for the benefit of the holders of such Mortgage Bonds offered pursuant to this prospectus supplement.

## **Events of Default**

The Bond Trustee may, and at the written request of the holders of a majority in principal amount of the outstanding Bonds will, declare the principal of all outstanding Bonds due when any event of default under the Mortgage occurs. The holders of a majority in principal amount of the outstanding Bonds may, however, waive the default and rescind the declaration if we cure the default. We provide a statement from an officer each year to the Bond Trustee stating whether we have complied with the covenants of the Mortgage.

## **Concerning the Bond Trustee**

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The Bank of New York Mellon Trust Company, N.A., is the Bond Trustee. Duke Energy Carolinas and some of its affiliates have banking relationships with The Bank of New York Mellon, an affiliate of the Bond Trustee. The Bank of New York Mellon or its affiliate also serves as trustee or agent under other indentures and agreements pursuant to which securities of Duke Energy Carolinas and of some of its affiliates are outstanding.

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The Bond Trustee is under no obligation to exercise any of its powers at the request of any of the holders of the Bonds unless the holders thereof have offered to the Bond Trustee security or indemnity satisfactory to it against the cost, expenses and liabilities it might incur as a result. The holders of a majority in principal amount of the Bonds outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Bond Trustee, or the exercise of any trust or power of the Bond Trustee. The Bond Trustee will not be liable for any action that it takes or omits to take in good faith in accordance with any such direction.

### **CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS**

The following discussion summarizes certain U.S. federal income tax considerations relevant to the acquisition, ownership and disposition of the Mortgage Bonds, and does not purport to be a complete analysis of all potential U.S. federal income tax considerations. This discussion only applies to Mortgage Bonds that are held as capital assets, within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the Code), and that are purchased in the initial offering at the initial offering price, by Non-U.S. Holders (as defined below). This summary is based on the Code, administrative pronouncements, judicial decisions and regulations of the Treasury Department, changes to any of which subsequent to the date of this prospectus supplement may affect the tax consequences described herein. This discussion does not describe all of the U.S. federal income tax considerations that may be relevant to holders in light of their particular circumstances or to holders subject to special rules, such as certain financial institutions; tax-exempt organizations; insurance companies; traders or dealers in securities or commodities; persons holding Mortgage Bonds as part of a hedge or other integrated transaction; or certain former citizens or residents of the United States. Persons considering the purchase of Mortgage Bonds are urged to consult their tax advisors with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction. Furthermore, this discussion does not describe the effect of U.S. federal estate and gift tax laws or the effect of any applicable foreign, state or local laws.

We have not and will not seek any rulings or opinions from the Internal Revenue Service (the IRS) or counsel with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning the tax consequences of the acquisition, ownership or disposition of the Mortgage Bonds or that any such position would not be sustained.

**This summary of certain U.S. federal income tax considerations for non-U.S. Holders is for general information only and is not tax advice. Prospective investors should consult their own tax advisors with regard to the U.S. federal income tax considerations discussed below in light of their particular situations as well as the application of any state, local, foreign or other tax laws, including gift and estate tax laws.**

For purposes of this summary, a Non-U.S. Holder means a beneficial owner of a Mortgage Bond that, for U.S. federal income tax purposes, is not (i) an individual that is a citizen or resident of the United States; (ii) a corporation or other entity treated as a corporation for U.S. federal income tax purposes that is created or organized under the laws of the United States, any states thereof or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation; (iv) a trust if (A) a court within the United States is able to exercise primary control over its administration and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of such trust, or (B) the trust has made an election under the applicable Treasury regulations to be treated as a United States person.

If a partnership, or other entity or arrangement treated as a partnership for U.S. federal income tax purposes, holds Mortgage Bonds, the tax treatment of a partner in such a partnership will generally depend upon the status of the partner and the activities of the partnership. Partners in a partnership holding Mortgage Bonds should consult their tax advisor as to the particular U.S. federal income tax consequences applicable to them.



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**Interest**

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on payments of interest on the Mortgage Bonds provided that such holder (A) does not directly or indirectly, actually or constructively, own 10% or more of the total combined voting power of all classes of our or Duke Energy Corporation's stock entitled to vote, (B) is not a controlled foreign corporation that is related to us or Duke Energy Corporation directly or constructively through stock ownership, and (C) satisfies certain certification requirements. Such certification requirements will be met if (x) the Non-U.S. Holder provides its name and address, and certifies on an IRS Form W-8BEN (or a substantially similar form), under penalties of perjury, that it is not a United States person or (y) a securities clearing organization or certain other financial institutions holding the Mortgage Bonds on behalf of the Non-U.S. Holder certifies on IRS Form W-8IMY, under penalties of perjury, that such certification has been received by it and furnishes us or our paying agent with a copy thereof. In addition, we or our paying agent must not have actual knowledge or reason to know that the beneficial owner of the Mortgage Bonds is a United States person.

If interest on the Mortgage Bonds is not effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States, but such Non-U.S. Holder does not satisfy the other requirements outlined in the preceding sentence, interest on the Mortgage Bonds generally will be subject to U.S. withholding tax at a 30% rate (or lower applicable treaty rate).

If interest on the Mortgage Bonds is effectively connected with the conduct by a Non-U.S. Holder of a trade or business within the United States, and, if certain tax treaties apply, is attributable to a permanent establishment or fixed base within the United States, then the Non-U.S. Holder generally will be subject to U.S. federal income tax on a net income basis at the rate applicable to United States persons generally (and, with respect to corporate holders, may also be subject to a 30% branch profits tax or a lower applicable treaty rate). If interest is subject to U.S. federal income tax on a net income basis in accordance with these rules, such interest payments will not be subject to U.S. withholding tax so long as the Non-U.S. Holder provides us or our paying agent with the appropriate documentation (generally an IRS Form#1