

**Duke Energy Carolinas, LLC
Response to Department of Energy
Federal Loan Guarantee Application**

**PART I and II– SECTION E
Financial Plan
I-E-1 and II-E-1**

The data contained in response WLS/II/E/6 – Preliminary Credit Assessment of this document or electronic file which hereby forms a part of the Application have been submitted in confidence and contain trade secrets or proprietary information, and such data shall be used or disclosed only for evaluation purposes; provided that, if this applicant is issued a loan guarantee under Title XVII of the Energy Policy Act of 2005 as a result of or in connection with the submission of this Application, DOE shall have the right to use or disclose the data herein, other than such data that have been properly reasserted as being trade secret or proprietary in the loan guarantee agreement. This restriction does not limit the Government's right to use or disclose data obtained without restriction from any source, including the applicant.

WLS/I/E/1/Background and Legal Structure

E.I/1 Background and Legal Structure: Describe the applicant's history, ownership, and legal structure (e.g., state governmental agency, local governmental agency, corporation, or partnership) and the relationship between the applicant and the Borrower. Include a copy of the statutory authority under which the entity was created.

Response:

History of Duke Energy Carolinas, LLC and its holding company, Duke Energy Corporation

The roots of Duke Energy Carolinas, LLC and Duke Energy Corporation extend back to the early 1900s. Catawba Manufacturing and Electric Power Company, incorporated on December 06, 1904, was one of the original entities from which both companies developed. Less than a year after its incorporation, on June 30, 1905, the capital stock of Catawba Manufacturing and Electric Power Company was purchased by the Southern Power Company, which was incorporated on June 22, 1905. Another entity from which Duke Energy Carolinas, LLC and Duke Energy Corporation developed was the Wateree Electric Company, which was incorporated on May 1, 1917. The name of the Wateree Electric Company was changed to Duke Power Company on November 13, 1924. On November 2, 1927, Duke Power Company merged with the Southern Power Company and Great Falls Power Company under the terms of an Agreement of Merger and Consolidation filed in the office of the Secretary of State of New Jersey on or about December 2, 1927.

From 1927 on, Duke Power Company underwent a number of mergers. In 1935, the Southern Public Utilities Company, a New Jersey corporation, was merged into Duke Power Company upon the terms of an Agreement of Merger and Consolidation dated April 4, 1935 and filed in the office of the Secretary of State of New Jersey on or about May 1, 1935. Duke Power Company was reincorporated in North Carolina on November 27, 1963 via the creation of Duke Power Company of North Carolina (created solely for the purpose of establishing Duke in North Carolina). Subsequently, on June 15, 1964, Articles of Merger were filed merging Duke Power Company - New Jersey with Duke Power Company of North Carolina in order for the Company to become a North Carolina corporation. Once these two entities merged, the name was then changed back to Duke Power Company.

Upon its merger with PanEnergy Corp, a Houston-based company, Duke Power Company's name was changed to Duke Energy Corporation by Articles of Amendment filed in the office of the Secretary of State of North Carolina on June 17, 1997 (effective June 18, 1997). The Restated Articles of Incorporation of Duke Energy Corporation were dated June 18, 1997 and filed in the office of the Secretary of State of North Carolina on June 18, 1997. Duke Power Company changed its name to Duke Energy Corporation by filing Articles of Amendment in the office of the Secretary of State of North Carolina on June 17, 1997. The Restated Articles of Incorporation of Duke Energy Corporation were dated June 18, 1997 and filed in the office of the Secretary of State of North Carolina on that date.

Subsequent to these changes, Nantahala Power and Light Company merged into Duke Energy Corporation in accordance with Articles of Merger dated July 28, 1998 and filed on July 30, 1998 in the office of the Secretary of State of North Carolina. Duke Energy Corporation also acquired Westcoast Energy Incorporated on March 14, 2002.

On April 3, 2006, upon the merger between Duke Energy Corporation and Cinergy Corporation, a Delaware corporation, a new Delaware corporation was formed known as Duke Energy Corporation. The previous Duke Energy Corporation, a North Carolina corporation, was converted to a limited liability company, and renamed Duke Power Company, LLC as a wholly-owned subsidiary of the new Duke Energy Corporation. Subsequently, effective October 1, 2006, Duke Power Company, LLC changed its name to Duke Energy Carolinas, LLC.

Ownership and Legal Structure of Duke Energy Carolinas, LLC and its holding company, Duke Energy Corporation

Duke Energy Carolinas, LLC, is a limited liability corporation duly organized and existing under the laws of the State of North Carolina. It is engaged in the business of generating, transmitting, distributing and selling electric power and energy. It is a “public utility” under the laws of North Carolina and subject to the jurisdiction of the North Carolina Utilities Commission with respect to its operations in that State. Duke Energy Carolinas also transacts business and is an “electrical utility” under the laws of the State of South Carolina; accordingly, its operations in that State are subject to the jurisdiction of the Public Service Commission of South Carolina. Duke Energy Carolinas, LLC is also a public utility under the Federal Power Act, and certain parts of its operations are subject to the jurisdiction of the Federal Energy Regulatory Commission. Duke Energy Carolinas owns and operates regulated electric facilities, including seven (7) nuclear units licensed by the NRC, as well as electric distribution and transmission facilities. It is a wholly-owned subsidiary of Duke Energy Corporation.

Duke Energy Corporation, as the holding company of Duke Energy Carolinas, LLC, is one of the largest electric holding companies in the United States. Duke Energy Corporation is a limited liability corporation duly organized and existing under the laws of the State of Delaware. The Duke Energy Corporation’s general office, and principal place of business, is located in Charlotte, North Carolina, and it also transacts business on a regular basis in South Carolina, Kentucky, Ohio, and Indiana. It is an investor-owned corporation focused on electric power and gas distribution operations, and other energy services in both North and South America. Duke Energy Corporation, through its regulated electric and gas utility operating companies, Duke Energy Carolinas, Duke Energy Ohio, Duke Energy Indiana and Duke Energy Kentucky, operates more than 28,000 MW of regulated electric generation and 8,100 MW of unregulated electric generation in the United States. The shares of Duke Energy Corporation are publicly held and listed for trading on the New York Stock Exchange under the symbol DUK.

Relationship Between the Borrower and the Applicant

Duke Energy Carolinas makes this application for loan guaranty as both the Borrower and the Applicant. Duke Energy Carolinas requests that its rights and obligations as Borrower be assignable, upon written notice to the Department of Energy, to a special purpose project vehicle

subsidiary, which it intends to create, and which will own and finance the William States Lee III Nuclear Station. This structure is quite typical for dedicated project financings of generating stations and is often used to isolate credit and other risks associated with the project sponsors for the lenders to the project entity. In addition, special purpose project vehicle ownership of nuclear generating stations is quite typical in the industry in order to isolate the rights and responsibilities associated with the ownership of a nuclear power generating facility. Duke Energy Carolinas has refrained from creating the project entity at this stage, because, prior to structuring and implementation of the financing arrangements for the project entity, it is simpler and more direct for Duke Energy Carolinas to pursue the loan guaranty approval in its corporate name and its expense.

Duke Energy Carolinas anticipates creating the project entity as a limited liability corporation, corporation, or limited partnership under North Carolina law. Under current law it is expected that the limited liability company structure will be utilized. Duke Energy Carolinas will reevaluate the most desirable structure in the context of the law at the time the special purpose vehicle is created. Duke Energy Carolinas would create such an entity if it is selected to proceed further in the loan guaranty process.

The statutory authority under which Duke Energy Carolinas was created is provided in **Appendix 5. [File name: 14 Appendix 5 WLS/I/E/1.pdf]**

WLS/I/E/2/Legal Authority

E.I.2 Legal Authority: Describe the legal authority of the applicant to carry out the proposed project activities (e.g., issuing debt, charging fees, construction). Provide supporting documentation.

Response:

To issue debt, Duke Energy Carolinas must obtain the approval of the North Carolina Utilities Commission and the Public Service Commission of South Carolina. This process is governed by NC General Statute § 62-161 through § 62-171 and SC Code 58-27-1710 through 58-27-1740.

To charge fees (i.e., recover costs from customers), Duke Energy Carolinas must obtain the approval of the North Carolina Utilities Commission and the Public Service Commission of South Carolina. This process is governed by various sections in NC General Statute and SC Code.

To construct the proposed Lee Nuclear Station, and to recover the South Carolina allocable share of financing costs incurred during construction, the Company must obtain the approval of the Public Service Commission of South Carolina as governed by various sections in SC Code, including without limitation S.C. Code Ann. §58-33-10, *et. seq.* and 58-33-210 *et. seq.* In North Carolina, the Company intends to request that the North Carolina Utilities Commission determine the need for the out-of-state generating facility (intended to serve retail customers in North Carolina) and approve the construction cost estimate and schedule for the facility pursuant to N.C. Gen. Stat. §62-110.6.

Appendices 6 and 7 include supporting documentation (i.e., statutory authority related to issuing debt, charging fees and construct).

- **Appendix 6 [File name: 15 Appendix 6 WLS/I/E/2 NC.doc]: North Carolina:**
 - Authority to issue securities – pages 1-4
 - Authority to charge fees – pages 5-7
 - Rate recovery for construction costs for out-of-state generating facilities – pages 8-11
- **Appendix 7 [File name: 16 Appendix 7 WLS/I/E/2 SC.doc]: South Carolina:**
 - Authority to issue securities – pages 1-2
 - Authority to charge fees – pages 3-6
 - Authority to construct, and recovery of financing costs during construction – pages 7-15

The statutes referenced above related to the issuance of securities and the charging of fees have been successfully applied by Duke Energy Carolinas on many occasions. Other statutes referenced above were passed in 2007 (i.e., rate recovery for construction for out-of-state generating facilities, and recovery of financing costs during construction) and have yet to be implemented by electric suppliers in the Carolinas; however, these statutes contain sufficient clarity to provide a high degree of assurance regarding their value and ultimate applicability.

As discussed herein, it is currently anticipated that the project debt will be issued by a special purpose project vehicle subsidiary of Duke Energy Carolinas. Duke Energy Carolinas plans to work with state regulators and policymakers to ensure that appropriate regulatory frameworks are in place to address the unique aspects of this financing plan.

WLS/I/E/3/Financial Statements

E.I.3 Financial Statements: Provide audited financial statements and associated notes for the past three years (or during the full time in operation, if less), prepared in U.S. GAPP by an independent certified public accountant firm acceptable to DOE. Include the applicant's quarterly or interim financial statements and associated notes for the current fiscal year of applicant and parties providing applicant's financing backing, supported by a letter from the appropriate company financial official certifying their correctness.

Response:

Duke Energy Corporation and Duke Energy Carolinas, LLC Form 10-K's for the fiscal year ended December 31, 2007 are contained in **Appendix 8a [File name: 17 Appendix 8a WLS/I/E/3 2007 Form 10K.pdf]** and **Appendix 8b [File name: 18 Appendix 8b WLS/I/E/3 2007 Form 10K.pdf]** respectively.

Duke Energy Corporation and Duke Energy Carolinas, LLC Form 10-Q's for the quarterly period ended March 31, 2008 are contained in **Appendix 9a [File name: 19 Appendix 9a WLS/I/E/3 2008 Qtr1 Form 10Q.pdf]** and **Appendix 9b [File name: 20 Appendix 9b WLS/I/E/3 2008 Qtr1 Form 10Q.pdf]** respectively.

Duke Energy Corporation and Duke Energy Carolinas, LLC Form 10-Q's for the quarterly period ended June 30, 2008 are contained in **Appendix 10a [File name: 21 Appendix 10a WLS/I/E/3 2008 Qtr2 Form 10Q.pdf]** and **Appendix 10b [File name: 22 Appendix 10b WLS/I/E/3 2008 Qtr2 Form 10Q.pdf]** respectively.

Duke Energy Corporation and Duke Energy Carolinas, LLC Form 10-Q's for the quarterly period ended September 30, 2008 are contained in **Appendix 15a [File name: 25 Appendix 15a WLS/I/E/3 2008 Qtr3 Form 10Q.pdf]** and **Appendix 15b [File name: 26 Appendix 15b WLS/I/E/3 2008 Qtr3 Form 10Q.pdf]** respectively.

The special purpose project entityvehicle which will own the generating station and act as Borrower will be created specifically for the financing of the William States Lee III Nuclear Station and, consequently, has no historical financial statements or credit history.

WLS/I/E/4/Credit History

E.I.4 Credit History: Include a credit history of the applicant and any party owning or controlling, by itself and/or through individuals in common or affiliated business entities, a five percent or greater interest in the project or the applicant. Provide their full names (including middle name or initial), home or business address as appropriate (including zip code), date of birth and taxpayer identification/social security number. DOE will use such information to verify credit history of such applicant and party. DOE may also request additional documentation as part of the project evaluation process.

Response:

Duke Energy Credit Ratings as of June 30, 2008 are contained in **Appendix 11 [File name: 23 Appendix 11 WLS/I/E/4 DE Credit Rating as of 063008.pdf]**. Duke Energy Historical Credit Ratings are contained in **Appendix 12 [File name: 24 Appendix 12 WLS/I/E/4 DE Hist Credit Ratings.pdf]**.

| The special purpose project entityvehicle which will own the generating station and act as Borrower will be created specifically for the financing of the William States Lee III Nuclear Station and, consequently, has no historical financial statements or credit history.

WLS/I/E/5 Litigation and/or Conflicts

E.I.5 Litigation and/or Conflicts: Disclose any current, threatened, or pending litigation involving the applicant related to permitting, public involvement, environmental issues, construction defects, securities fraud, conflict of interest, failure to perform under a local, state or Federal contract, or other charges which may reflect on the applicant's financial position or ability to complete the project.

Response:

For purposes of this response, Duke Energy Carolinas assumes that the inquiry relates only to litigation directly associated with the William States Lee III nuclear project, with the exception of the portion of Duke Energy Carolinas' response related to "Other charges that may reflect on the Applicant's financial position or that could impact the Applicant's ability to complete the project." For this portion of the response, the Company is disclosing litigation deemed to be "material" as such term is defined and used for purposes of disclosure in the Company's periodic reports filed with the Securities Exchange Commission ("SEC"). Among the criteria considered for purposes of determining materiality, is the definition set forth in Item 103 of Regulation S-K of the Securities Act of 1933, as amended, which addresses disclosure requirements associated with legal proceedings. It states that no "information need be given with respect to a proceeding that involves primarily a claim for damages if the amount involved, exclusive of interest and costs, does not exceed 10 percent of current assets of the registrant and its subsidiaries on a consolidated basis." In addition, many other factors – both quantitative and qualitative – are considered for purposes of determining materiality to an investor. Consequently, Duke Energy Carolinas refers the Department of Energy to the Company's Form 10-Q for the quarter ended ~~September~~~~June~~ 30, 2008 (Appendix ~~1015~~b), as well as the Form 10-Q for the quarter ended ~~September~~~~June~~ 30, 2008 of the Company's holding company, Duke Energy Corporation (Appendix ~~1015~~a), for a comprehensive listing of all litigation that could impact materially the financial position of the Company if these matters were to result in an unfavorable outcome.

Current, Threatened, or Pending Litigation Involving the Applicant Related to Permitting That May Reflect on the Applicant's Financial Position or That Could Impact the Applicant's Ability to Complete the Project

Current NRC litigation related to the Lee COL application

There is some degree of legal risk, common to any combined license application, associated with the NRC adjudicatory process. This risk results from the fact that the Atomic Safety and Licensing Board ("ASLB") has the authority to condition or deny issuance of the COL. With respect to the Lee Nuclear Station COL, on April 28, 2008, the NRC published a Notice of Opportunity for Hearing related to the application in the Federal Register (73 Fed. Reg. 22,978 (April 28, 2008)). A petition to intervene was filed by the Blue Ridge Environmental Defense League ("BREDL") on June 27, 2008. The petition proposed ten contentions for hearing that focused on a number of different topics, including several environmental concerns. Duke Energy Carolinas and the NRC filed responses to this petition on July 22, 2008, opposing admission of all ten contentions. On September 3, 2008, the ASLB held a pre-hearing conference in Gaffney, South Carolina to hear oral argument on a select few contentions. The

ASLB issued an order on September 22, 2008, concluding that BREDL failed to submit an admissible contention as required by 10 C.F.R § 2.309(a). Consequently, BREDL's request for an evidentiary hearing was denied. BREDL has until October 2, 2008, to file an appeal of this decision with the NRC Commission, but at this point, there is no contested hearing for the Lee Nuclear Station. A small ongoing risk of an admitted late-filed contention exists, and under current regulations, a mandatory hearing will occur in any event. However as indicated above, these risks are common to all combined license applications, and Duke Energy Carolinas believes it is well-positioned to successfully defend its application in the NRC adjudicatory process.

Current, Threatened, or Pending Litigation Involving the Applicant Related to Public Involvement That May Reflect on the Applicant's Financial Position or That Could Impact the Applicant's Ability to Complete the Project

Other than the NRC litigation identified in the response above, Duke Energy Carolinas has not identified any such current, threatened, or pending litigation related to the Lee Nuclear Station project.

Current, Threatened, or Pending Litigation Involving the Applicant Related to Environmental Issues That May Reflect on the Applicant's Financial Position or That Could Impact the Applicant's Ability to Complete the Project

Other than the NRC litigation identified above, which involves several environmental contentions, Duke Energy Carolinas has not identified any other litigation related to the Lee Nuclear Station project.

Current, Threatened, or Pending Litigation Involving the Applicant Related to Construction Defects That May Reflect on the Applicant's Financial Position or That Could Impact the Applicant's Ability to Complete the Project

Duke Energy Carolinas has not identified any such current, threatened, or pending litigation related to the Lee Nuclear Station project.

Current, Threatened, or Pending Litigation Involving the Applicant Related to Securities Fraud That May Reflect on the Applicant's Financial Position or That Could Impact the Applicant's Ability to Complete the Project

Duke Energy Carolinas has not identified any such current, threatened, or pending litigation.

Current, Threatened, or Pending Litigation Involving the Applicant Related to Conflict of Interest That May Reflect on the Applicant's Financial Position or That Could Impact the Applicant's Ability to Complete the Project

Duke Energy Carolinas has not identified any such current, threatened, or pending litigation related to the Lee Nuclear Station project.

Current, Threatened, or Pending Litigation Involving the Applicant Related to Failure to Perform Under a Local, State, or Federal Contract That May Reflect on the Applicant's Financial Position or That Could Impact the Applicant's Ability to Complete the Project

Duke Energy Carolinas has not identified any such current, threatened, or pending litigation related to the Lee project.

Other Charges That May Reflect on the Applicant's Financial Position or That Could Impact the Applicant's Ability to Complete the Project

Duke Energy Carolinas refers the Department of Energy to the Company's Form 10-Q for the quarter ended ~~September~~~~June~~ 30, 2008 (Appendix ~~1540~~b), as well as the Form 10-Q for the quarter ended ~~September~~~~June~~ 30, 2008 of the Company's holding company, Duke Energy Corporation (Appendix ~~1540~~a), for a comprehensive listing of all litigation that could impact materially the financial position of the Company if these matters were to result in an unfavorable outcome.

WLS/I/E/6 Financial Model

E.I.6 Financial Model: Include a financial model (Microsoft Excel), with pro-forma financial statements in their preparation, range of revenue, operating cost and credit assumptions considered. The model must include detailed assumptions for the proposed term of the guaranteed portion of the Guaranteed Obligation, including income statements, balance sheets, and cashflows, which all will allow DOE to utilize the model for a wide range of sensitivity analysis.

Response:

This response, in its entirety, is replaced by WLS/II/D/1/Financial Analysis and the updated Duke Energy Carolinas model, Appendix 13 [File name: Lee Nuclear Project Model – Part II.xls]. The data contained in all schedules of the financial model file which hereby forms a part of the Application have been submitted in confidence and contain trade secrets or proprietary information. The updated Part II response has no impact on Duke Energy Carolinas Loan Guarantee Application proposed financing structure or Lee Nuclear Station COD.

WLS/II/E/1 Sources of Funds

E.II.1 Sources of Funds: List all proposed sources of funding by provider, aggregate amount and type. Include a schedule showing the expected amount and timing of disbursements.

Response:

Prior to receipt of the COL (estimated to be 1Q2012) and commencement of construction of safety-related concrete, Duke Energy intends to fund project development costs with owner(s)' equity contributions into Newco. Following COL, the owner(s) will contribute equity to fund on-going construction hard-costs on a proportional basis with the loan until the full amount of equity commitment corresponding to the estimated plant cost is contributed. Thereafter, 100% of project costs will be funded from the loan. This approach ensures that the owner(s)' equity will be funded prior-to or pro-rata with the loan as required by the LGPO guidelines. The project model (sheet "CWIP-Nuclear") depicts the monthly estimated funding of debt and equity in accordance with this approach (Note – there is a model scenario in which the initial funding of the loan reimburses the Sponsor for a portion of its prior equity contributions and funds subsequent expenditures pro-rata through COD, which is also permitted under the guidelines). As shown in the "CWIP-Nuclear" sheet of the project model, the expected total project cost at the time of commercial operation is [REDACTED], of which [REDACTED] is funded by [REDACTED] and [REDACTED] by [REDACTED].

The funding sources for the equity contributions into Newco may include the following sources; (i) debt issued at Duke Energy Carolinas (ii) debt issued by Duke Energy Corp., (iii) retained earnings at Duke Energy Corp. and, (iv) new equity issuance at Duke Energy Corp (including preferred equity). In order to preserve the rating of Duke Energy Carolinas, any debt issued at this entity in respect of this project is likely to be temporary and may utilize a portion of its borrowing sub-limit under the \$3.2B Duke Energy Corp. revolving credit facility. Permanent debt associated with this investment is expected to be limited to issues from Duke Energy Corp.

Following COD, the construction loans will "term-out" and mature semi-annually over the full 30 year term of the debt using a "level-payment" amortization method so that the period debt service roughly follows the declining (or "tipped") capacity payment profile. The amortization can be effected in three ways; (i) an amortizing FFB loan, (ii) Serial Bonds issued by FFB with varying maturities, or (iii) 30 year bonds with sinking fund. The model assumes an amortizing FFB loan.

WLS/II/E/2 Letters of Intent

E.II.2 Letter(s) of Intent: For financing other than from the Federal Financing Bank (FFB), provide an executed letter of intent from the applicant's debt and equity financing sources, which include the terms and the conditions precedent to funding. Submission of financing documents, and acceptance of terms and conditions by DOE, will be a condition precedent for closing of a loan guarantee transaction.

Response:

As reported in WLS/I/A/5/Equity Commitment Letters

Duke Energy Carolinas currently intends to fund the required equity investment for the project using internally generated funds and corporate borrowings and, potentially, future equity issuance. Duke Energy Carolinas may seek joint-venture partners, but will not rely on third-party equity as a condition to proceeding with development and construction.

WLS/II/E/3 Closing Checklist

E.II.3 Closing Checklist: Provide a copy of the financial closing checklist for all sources of financing to the extent available.

Response:

Given the current stage of Duke Energy Carolinas' interaction with the FFB, a financial closing checklist is not yet available. Duke Energy Carolinas will provide a copy of such checklist to the DOE as soon as it becomes available.

WLS/II/E/4 Information on Other Borrowed Funds

E.II.4 Information on Other Borrowed Funds: Provide information on the other types of expected borrowing financing the project, including type(s) of credit instrument(s) to be issued, security to be pledged for such borrowing, its priority with respect to the security pledged to the loan guarantee program instrument, and details of structuring.

Response:

Initially, the only financing expected for the project will be FFB senior-secured loans. However, Duke Energy Carolinas intends to explore “co-financing” options using foreign export-credit agency funds from the host nations of certain large vendors to the project (such as NEXI, JBIC, etc). It is premature at this time to speculate about the amount or terms of such financing and we believe that the existing loan guarantee provisions may have to be modified to incorporate such financing in a way that reduces the amount of guaranteed (or FFB) debt.

WLS/II/E/5 Collateral

E.II.5 Collateral: Describe and value all assets associated, or to be associated, with the project and any other assets that will serve as collateral for the Guaranteed Obligations. Valuations must be supported by independent, third-party appraisals for existing assets, and/or adequate cost substantiation for assets to be constructed for the purpose of the project, and in all cases acceptable to DOE. An appraisal of real property must be performed by a licensed or certified appraiser consistent with the Uniform Standards of Professional Appraisal Practice promulgated by the Appraisal Standards Board of the Appraisal Foundation. Provide information on the useful life of all physical assets, including a depreciation schedule (in accordance with Generally Accepted Accounting Principles in the United States (U.S. GAAP)), associated, or to be associated, with or to serve as collateral.

Response:

By agreement with the DOE, Duke Energy Carolinas will not be conducting an appraisal of collateral at this time, because it would be premature and speculative given the current project status; but furthermore, Duke Energy Carolinas does intend to conduct an appropriate appraisal of collateral at such time that there is adequate data and information available for filing with the DOE as a supplement to the Application; and further that in any event Duke Energy Carolinas intends to complete the appraisal well in advance of the proposed closing and execution of the Loan Guarantee.

See **Appendix 32**, [File name: **43 Appendix 32 Depreciation Schedule.xls**] for a depreciation summary (regulatory/GAAP and tax).

WLS/II/E/6 Preliminary Credit Assessment

E.II.6 Preliminary Credit Assessment: For projects where the estimated total Project Costs exceeds \$25 million, provide a preliminary credit assessment for the project (without giving effect to the DOE loan guarantee) from a nationally recognized rating agency. The assessment shall examine the project as structured but in the absence of a loan guarantee from DOE and shall identify any material assumptions utilized by the rating agency in its analysis. DOE will require, as a condition of financial close, a final credit rating no later than 30 days prior to closing, as required by Section 609.9(f) of the Final Regulations. For projects where the estimated total cost is \$25 million or less, in the sole discretion of the Department, DOE may require such an assessment as well.

Response:

A Preliminary Credit Assessment of Duke Energy Carolinas Lee Nuclear Project was prepared by S&P at the request of Duke Energy Carolinas and is provided in the Part II application as **Appendix 31 [File name: 42 Appendix 31 S&P Preliminary Credit Rating.doc]**. The Preliminary Credit Assessment contains data and information that includes trade secrets and proprietary information of Duke Energy Carolinas and therefore is submitted in confidence as part of this Application.

WLS/II/E/7 Eligible Lender or Holder Statement

E.II.7 Eligible Lender or Holder Statement: If funds are to be provided by lenders other than FFB, provide the name of each such lender, the amount, terms and conditions of their expected financing, documentation detailing their financial strength, experience with other federal programs, and any other information deemed material to the application. If such a lender intends to sell participations in the loan, include a plan of syndication giving the lender's approach and track record with similar transactions.

If such a lender contemplates a bond financing, include the lender's plan regarding size and timing of issuance, use of any registration with the U.S. Securities and Exchange Commission, key terms and conditions, and marketing strategy. Also provide the lender's qualifications and track record in undertaking similar size financings in the capital markets. Include with the application written affirmation from an officer of the Eligible Lender or other Holder: (i) describing its current involvement with DOE's and other federal agencies loan guarantee programs; and (ii) that it is in good standing with all such programs.

Response:

As reported in response WLS/I/A/4/ Eligible Lender/Holder Statement

Duke Energy Carolinas intends to seek Federal Financing Bank funds for construction of the project; therefore, no third-party financing is currently contemplated. The Company may seek export credit and development bank financing for a portion of the project cost, but until more procurement sourcing decisions have been made, it is too early in the development process to determine the most appropriate source of such funding.