

THE STATE OF SOUTH CAROLINA
In the Court of Appeals

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SC Court of Appeals

Appellate Case No. 2014-001514

APPEAL FROM THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

Docket No. 2013-392-E

In The Matter of Joint Application of Duke Energy Carolinas, LLC
and North Carolina Electric Membership Corporation for a
Certificate of Environmental Compatibility and Public Convenience
and Necessity for The Construction and Operation of a
750MW Combined Cycle Generating Plant Near Anderson, SC.

**BRIEF OF RESPONDENTS DUKE ENERGY CAROLINAS, LLC
AND NORTH CAROLINA ELECTRIC MEMBERSHIP CORPORATION**

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STATEMENT OF ISSUES ON APPEAL

1. Was the decision of the South Carolina Public Service Commission (“Commission”) to grant a Certificate of Environmental Compatibility and Public Convenience and Necessity (“Certificate”) for a natural gas-fired electricity generating facility supported by substantial evidence?
2. Did the Commission properly consider and reject Appellants’ recommendation that it condition approval of the Certificate on the solicitation of proposals for a solar facility to be operated in tandem with the natural gas-fired generating facility?

STATEMENT OF THE CASE

This is an appeal from orders of the Commission granting a Certificate for the construction of the Lee Combined Cycle Project (“LCCP”), a natural gas-fired electricity generating plant in Anderson County. The proceeding before the Commission was initiated by the filing of an application by Duke Energy Carolinas, LLC (“DEC” or “the Company”) and the North Carolina Electric Membership Corporation (“NCEMC”) (collectively “Applicants” or “Respondents”). (R. Vol. I, p. 40.) The application was filed on October 24, 2013 pursuant to the provisions of the Utility Facility Siting and Environmental Protection Act (“the Act” or “the Siting Act”) (codified at Chapter 33 of Title 58, S.C. Code of Laws Ann.) The application sought approval for a 750 megawatt (“MW”) natural gas-fired combined cycle electricity generating plant to be located at the site of an existing generating facility operated by DEC in Anderson County, South Carolina. The Act requires notice of applications be provided to affected local governments and to agencies charged with protecting the environment. The Applicants certified that such notice was given.

The South Carolina Coastal Conservation League (“SCCCL”) and the Southern Alliance for Clean Energy (“SACE”) (collectively “Appellants”) petitioned for and were granted leave to participate in the proceedings before the Commission. Also participating in the proceeding before the Commission was the Office of Regulatory Staff (“the ORS”). The ORS is a state agency created by Act 175 of 2004 and it is charged with the responsibility of representing the public interest in matters before the Commission. See S.C. Code Ann. § 58-4-10. On January 3, 2014 DEC, NCEMC and the ORS filed a settlement agreement with the Commission. (R. Vol. I, p. 20.) In the settlement

agreement the ORS endorsed and supported the issuance of the Certificate as requested in the application.

The Commission conducted hearings on the application on January 7, 2014 and February 4, 2014. Testimony and exhibits were submitted by Applicants, the ORS and Appellants. In their testimony Appellants did not ask the Commission to deny the application but instead made several different arguments that the Certificate be delayed or issued only with conditions attached. (R. Vol. I, p. 305.) On May 2, 2014 the Commission issued Order No. 2014-408 approving the application and issuing the Certificate. (R. Vol. I, p. 4.) Appellants filed a petition for rehearing on May 15, 2014. (R. Vol. I, p. 88.) In their petition for rehearing Appellants focused solely on an argument that the Commission should condition the issuance of the Certificate on a requirement that DEC solicit proposals for a 375 MW solar facility to be operated in conjunction with the LCCP. The Commission voted to deny the petition on June 4, 2014 and Appellants filed a notice of appeal with this Court on July 3, 2014. (R. Vol. I, p. 111.) The Commission issued Order No. 2014-546 denying the petition for rehearing on July 30, 2014. (R. Vol. I, p. 28.)

STATEMENT OF FACTS

Lee Combined Cycle Project

In their application DEC and NCEMC asked the Commission to issue a Certificate to allow the construction of the LCCP. In support of the application DEC and NCEMC presented evidence of the need for the facility, the suitability of the LCCP to meet that need and the environmental impact of the project. The Applicants submitted the DEC 2013 Integrated Resource Plan (“IRP”) in support of the application. (R. Vol. II, p. 342.) The IRP is prepared by DEC pursuant to the provisions of S.C. Code Ann. § 58-37-40. The development of the DEC IRP is a detailed multi-step process that assesses various relevant planning considerations, including load forecasts, the impact of existing and likely environmental regulations, fuel costs and potential appropriate generation and efficiency resources to meet the needs that are identified. (R. Vol. I, p. 175.)

The DEC 2013 IRP showed an expected growth in demand of 1.5 percent per year over a 15 year planning period and a need for an additional 317 MWs in 2017, growing to 573 MW in 2018 and an additional 3400 MWs by 2028. (R. Vol. I, p. 157.) Through its IRP planning process DEC determined that the LCCP would best meet the identified needs. (R. Vol. I, pp. 157, 181-184, 193.) In particular the planning process and analysis showed that construction of the LCCP was the lowest cost approach for meeting the needs of DEC’s customers. (R. Vol. I, p. 167.)

The need for the additional generation represented by the LCCP is driven in part by retirements of 1297 MWs of coal generation and 350 MWs of aging combustion turbine generation and additional planned retirements of 370 MWs of coal generation in

2015. (R. Vol. I, p. 180.) These retirements are driven largely by environmental considerations as the older plants are not able to meet newer air permit requirements. (R. Vol. I, pp. 180-181.) The proposed LCCP is expected to emit 69% less carbon dioxide, 98% less nitrogen oxide and 100% less sulfur dioxide than the coal units that are currently located on the same site in Anderson County. (R. Vol. I, pp. 157-158.)

The DEC and NCEMC application was also supported by testimony and exhibits showing the probable environmental impact of the LCCP. A siting study performed in 2011 and updated in 2013 was submitted. (R. Vol. I, pp. 274, 561.) The siting studies evaluated various factors including land availability, cultural and land use, natural gas availability, water availability, electric transmission and air permitting. (R. Vol. I, p. 273.)

The application by DEC and NCEMC for a Certificate for the LCCP was supported by ORS witness Gene Soult. Soult testified that the application met all of the requirements of the Act, (R. Vol. II, p. 333); that the overall environmental impact of the project will be positive (R. Vol. II, p. 335); and that the public convenience and necessity will be served by construction of the LCCP. (R. Vol. II, p. 336.)

The Appellants' Solar Proposal

The Appellants have not challenged DEC's need for the additional capacity the LCCP will provide or the appropriateness of the LCCP to provide this capacity. At the hearing on the DEC/NCEMC application Appellants made three different suggestions to the Commission for altering or conditioning the issuance of the Certificate. (R. Vol. I, p. 305.) However, in their petition for rehearing and on appeal they have focused on arguing that the Certificate should be conditioned upon DEC issuing an RFP for a 375

MW solar facility to be operated in conjunction with the natural gas facility.

Neither of the Appellants' witnesses who made the suggestion have any experience in the construction or operation of any type of electricity generation facility: one of the witnesses is a lawyer and the other is a public policy advocate. (R. Vol. I, pp. 302-303.) A 375 MW solar facility would be the largest such facility in the world, exceeding by 85 MW the size of a facility currently under construction in Arizona. (R. Vol. I, p. 319.) A 375 MW facility solar facility would require 2,625 acres of land. (R. Vol. I, p. 207.) No evidence was presented to the Commission to suggest where such a facility would be located. In fact, the Appellants suggested that the Commission might alternatively require a series of smaller solar installations across the State. (R. Vol. I, p. 320.)

The Appellants' witnesses estimated that their proposed solar facility would have a capacity factor of approximately 22% as compared to a 90% capacity factor for the proposed LCCP. (R. Vol. I, p. 317.) Appellants do not suggest that the solar facility they propose would replace or reduce the need for the natural gas facility. Instead they want both facilities built. (R. Vol. I, p. 316.) The Appellants' proposal is heavily dependent on the cost of their proposed solar facility, yet their witnesses offered two cost estimates that varied by a factor of 100% - from approximately \$2000 per kilowatt to \$4000 per kilowatt. (R. Vol. I, p. 317.)

ARGUMENT

I. Standard of Review

The South Carolina Supreme Court has recently had occasion to review the appropriate standard of review for appeals from the Commission. In Friends of the Earth v. Public Service Commission of South Carolina, 387 S.C. 360, 692 S.E.2d 910 (2010) the Court considered a decision by the Commission approving the construction of a nuclear generating plant. That decision was made under the Base Load Review Act which is similar to, and closely associated with, the Siting Act under which the Commission approved the LCCP. In the Friends of the Earth decision the Court rejected an argument that a stronger standard of review should be applied and instead applied its familiar standard of review for appeals from Commission decisions:

Consequently, “[t]his Court employs a deferential standard of review when reviewing a decision of the Public Service Commission and will affirm that decision when substantial evidence supports it.” Duke Power Co. v. Public Service Comm’n of South Carolina, 343 S.C. 554, 558, 541 S.E.2d 250, 252 (2001) (citing Porter v. South Carolina Public Service Comm’n, 333 S.C. 12, 507 S.E.2d 328 (1998)). In applying a substantial evidence test, an appellate court may not substitute its judgment for the judgment of the agency as to the weight of the evidence on questions of fact, unless its findings or conclusions are clearly erroneous in view of the reliable, probative and substantial evidence on the whole record. Lark v. Bi-Lo, Inc., 276 S.C. 130, 276 S.E.2d 304 (1981); S.C. Code Ann. § 1–23–380 (Supp. 2009). Substantial evidence is not a mere scintilla; rather, it is evidence which, considering the record as a whole, would allow reasonable minds to reach the same conclusion as the agency. Lark at 135–36, 276 S.E.2d at 306–07.

Furthermore, the Court may not substitute its judgment for the Commission’s on questions about which there is room for a difference of intelligent opinion. Duke Power Co., 343 S.C. at 558, 541 S.E.2d at 252. Because the Commission’s findings are presumptively correct, the party challenging a Commission order bears the burden of convincingly proving the decision is clearly erroneous, or arbitrary or capricious, or an abuse of discretion, in view of the substantial evidence on the whole record. Id.

Friends of the Earth v. Public Service Commission, 387 S.C. at 365-366.

As is discussed more fully below, this is a substantial evidence case. The Commission's orders were amply supported by substantial evidence and should be affirmed. However, Appellants argue the Commission committed errors of law in interpreting the Siting Act. In assessing such arguments it is important that the Commission be given deference with respect to its interpretation of that legislation.

We have traditionally given the PSC, just as any other agency, respectful consideration in their interpretation of a statute. Where an agency is charged with the execution of a statute, the agency's interpretation should not be overruled without cogent reason.

Nucor Steel, a Division of Nucor Corporation v. South Carolina Public Service Commission, 310 S.C. 539, 426 S.E.2d 319 (1992), citing South Carolina Cable Television v. Southern Bell, 308 S.C. 216, 417 S.E.2d (1992); Dunton v. South Carolina Board of Examiners in Optometry, 291 S.C. 221, 353 S.E.2d 132 (1987). As discussed below, the Commission's rejection of Appellants' solar proposal reflected a correct and entirely reasonable interpretation of the Siting Act and that interpretation is entitled to deference based on the Commission's role in implementing the provisions of the Act.

II. The Commission's Decision to Grant the Certificate for the Lee Combined Cycle Project Was Supported by Substantial Evidence.

In the Siting Act there are six specific findings that the Commission must make in order to issue a Certificate. These are set out in S.C. Code Ann. § 58-33-160. The Commission made specific findings regarding each requirement in its order granting the Certificate. (R. Vol. I, pp. 9-18.) A brief review of the evidence supporting the findings of the Commission follows.

a. The basis of the need for the facility. DEC submitted its 2013 IRP to support the need for the facility. (R. Vol. II, p. 342.) DEC witness Janice Hager, who oversaw the preparation of the IRP, testified in support of the IRP and explained how it was prepared and how it demonstrated that the LCCP met the need identified in the IRP. (R. Vol. I, pp. 166-169.) DEC witness Clark Gillespy, State President South Carolina, explained the need for additional resources in the 2017-2018 time period and the Company's conclusion that a 750 MW combined cycle natural gas-fired facility best met those needs. (R. Vol. I, p. 157.) ORS witness Gene Soult also testified about the ORS review of the 2013 IRP and the conclusion reached by the ORS that the need for the facility had been established. (R. Vol. II, p. 334.)

b. The nature of the probable environmental impact. DEC presented the testimony of Mark Landseidel, Director of Project Development and Initiation in support of its application. (R. Vol. I, p. 270.) Mr. Landseidel sponsored and explained two siting studies that DEC performed that explored potential sites for new generation. (R. Vol. I, p. 273; R. Vol. II, p. 503.) He testified that the studies reviewed various siting criteria including land availability, cultural and land use, natural gas availability, water availability, electric transmission, air permitting and proximity to existing facilities. (R. Vol. I, p. 273.) Landseidel also testified that the siting studies concluded the Anderson County site of the existing Lee Steam Station (a coal fired facility scheduled to be retired) was the best location for the proposed LCCP, taking into account all of these various factors including the probable environmental impact. (R. Vol. I, p. 273.)

- c. **The impact of the facility upon the environment is justified, considering the state of available technology and the nature and economics of the various alternatives and other pertinent considerations.** In reaching its conclusion that the environmental impact of the LCCP was justified the Commission relied on the testimony of Gillespy, Hager and Landseidel and the 2013 IRP and siting studies. (R. Vol. I, p. 15.) The Commission explained why the resource need identified by the IRP could not be met by a solar facility:

In the joint testimony of Mr. Davis and Mr. Wilson they advocate for a 375 MW solar facility to be located at or near the Lee site. Mr. Davis testified that, when conditions exist for economic solar energy production, the solar energy could offset generation from the LCCP. This Commission appreciates the desire for renewable sources of energy; however, in this instance, the need is for a specified level of capacity in conjunction with energy production and the two are not synonymous. Mr. Soult testified that the Company is expecting the LCCP to produce sufficient electricity to meet base or intermediate load requirements at an expected capacity factor between 50% to 75% for a period of 20 to 30 years. Solar energy has a much lower operating capacity factor due to its limited availability, making it not an optimal source for base or intermediate load.

(R. Vol. I, pp. 15-16.) There was substantial evidence supporting the Commission's conclusion that the LCCP was the right resource to meet the need that was identified.

- d. **The facilities will serve the interests of system economy and reliability.** The testimony of Hager and Landseidel and the 2013 IRP show that the LCCP is the right resource to meet the needs of DEC's customers as demand grows and older plants are retired. ORS witness Soult offered this testimony on system economy and reliability: "The proposed power block is a proven design that is already in use in the Company's system. These existing units have demonstrated high

capacity factors and availability factors, which provides a good indication of the reliability of the LCCP when properly operated and maintained.” (R. Vol. II, p. 335.)

- e. There is reasonable assurance that the proposed facility will conform to applicable State and local laws and regulations.** DEC witness Landseidel testified at length about the Company’s experience with the operation of the combined cycle facility of the type proposed for the LCCP. (R. Vol. I, pp. 271-273; 276-279.) Mr. Soult confirmed and supported the Landseidel testimony that the Company had a track record of successful operation of the proposed facility. (R. Vol. II, p. 335.)

- f. The public convenience and necessity support the construction of the facility.**

The Commission’s decision that the LCCP will serve the public convenience and necessity is supported by the evidence described above that showed the need for additional generation resources, that the LCCP was the best, least cost choice to meet that need, and that its environmental impact is reasonable given the other factors.

The Commission’s decision to issue a Certificate for the LCCP was clearly supported by substantial evidence. The Applicants submitted thorough and persuasive evidence on every element required by the Siting Act. The ORS, charged by statute with the responsibility of protecting the public interest, entered into a settlement agreement with DEC and NCEMC and supported issuance of the Certificate. Appellants have failed to make any showing that would support a reversal of the decision by the Commission to issue the Certificate.

III. The Commission Properly Considered and Rejected Appellants' Solar Proposal.

Appellants argue the Commission did not understand their solar proposal and therefore failed to properly consider it. Appellants argue the Commission therefore committed errors of law that require the orders granting the Certificate to be reversed. In fact the Commission's orders show it did understand the Appellants' solar proposal and that the Commission rejected it for compelling reasons. The Commission's decision to reject Appellants' proposal was based on the Commission's interpretation of the Siting Act and related provisions of the statutes governing the regulation of utilities in South Carolina. The Commission's interpretation of those statutory provisions was coherent, consistent and far more reasonable than the interpretation urged by Appellants.

The LCCP Addresses the Need Identified in the Application; Appellants' Solar Proposal Does Not.

The Siting Act provides a detailed process for the review of proposed major utility facilities. S.C. Code Ann. § 58-33-120 sets out the requirements for a Siting Act application including a statement of the need for the proposed facility and summaries of studies done to show how the proposed facility will meet those needs. S.C. Code Ann. § 58-33-160 sets out the findings the Commission must make in order to issue a certificate under the Siting Act. Those requirements focus on the need shown for a facility and how the proposed facility addresses that need. The likely environmental impact of the proposed facility is required to be weighed against the availability of other options to meet the need identified in the application.

In its orders that are now under review the Commission properly focused on the demonstrated need for the facility in rejecting Appellants' solar proposal.

Solar energy has a much lower operating capacity factor due to its limited availability, making it not an optimal source for base or intermediate load. This Commission understands SCCL's and SACE's idea of having solar generation in lieu of LCCP electricity generation when solar conditions are right; however the LCCP could not be built with lower than the Company needed 650 MWs, since the Company has demonstrated a need for this additional capacity in the 2017-2018 time frame. The reliability and operating capacity of the proposed solar facility is below the required need; therefore, it is not appropriate to meet the capacity needs of the proposed project.

(R. Vol. I, pp. 15-16.) This analysis is exactly right and what is called for by the Siting Act. In their application DEC and NCEMC demonstrated a need for a facility to provide a level of capacity and reliability that no solar facility can provide. The Commission correctly determined that accepting the Appellants' solar proposal would be approving or ordering DEC to move forward on a facility for which no need had been demonstrated, a result that is at odds with the entire structure of the Siting Act.

Accepting the Appellants' Solar Proposal Would Have Meant Approving a Facility Different from the Facility for Which Notice Was Given.

The Siting Act contains several provisions designed to ensure that state environmental agencies and affected local governments are informed about proposals for utility facilities. S.C. Code Ann. § 58-33-120(2) requires that any Siting Act application be served on "...the Office of Regulatory Staff, the chief executive officer of each municipality, and the head of each state and local government agency, charged with the duty of protecting the environment or of planning land use, in the area of the county in which any portion of the facility is to be located." S.C. Code Ann. § 58-33-140(1)(b) automatically makes the ORS, the Department of Health and Environmental Control ("DHEC"), the Department of Natural Resources ("DNR") and the Department of Parks Recreation and Tourism ("PRT") parties to any proceeding under the Act.

In the present proceeding, as required by the Act, the Applicants certified that the application and supporting materials were served on all statutorily required entities. (R. Vol. I, pp. 48-49.) Those entities therefore received documents explaining the resource need identified by the Dec 2013 IRP and the Applicants proposal for meeting those needs, the LCCP. Attached to the application was the testimony of Mark Landseidel and his exhibits, including the siting studies that he described in the testimony. (R. Vol. I, pp. 42, 269; Vol. II, p. 561.) Recipients of these documents would have been informed in detail about the proposed LCCP and its potential environmental impact. What the recipients would not have received was any information whatsoever about a proposal for the largest solar facility in the world that would require approximately 2625 acres. (R. Vol. I, pp. 207, 319.) The Commission correctly pointed out that accepting the Appellants' solar proposal would be expanding the scope of the application without notice to the public in contravention of the notice provisions of the Act. (R. Vol. I, pp. 15-16.)

Appellants' argument seems to be based on the assumption that the only environmental impact at issue in this Siting Act proceeding is the impact of carbon emissions from a natural gas facility. The Siting Act clearly contemplates a much wider range of potential impacts to be considered, as evidenced by the fact that local governments and planning agencies, as well as DNR and PRT are statutorily required to be given notice. The Commission was clearly correct when it determined that an order in this proceeding requiring the development of a giant solar facility without notice would not be consistent with the provisions of the Siting Act.

The Appellants' Solar Proposal is Inconsistent with the Commission's Approach to Least Cost Planning under S.C. Code Ann. § 58-27-865(F).

In its order denying Appellants' petition for rehearing the Commission addressed a different aspect of the solar proposal, specifically Appellants proposal that the solar facility would be operated in conjunction with the LCCP such that the LCCP would be operated only when the solar facility was not able to generate electricity. The Commission found this aspect of Appellants' proposal to be inconsistent with the requirements of S.C. Code Ann. § 58-27-865(F) which requires that "[t]he Commission shall disallow recovery of any fuel cost that it finds without just cause to be the result of failure of the utility to make every reasonable effort to minimize fuel costs or any decision of the utility resulting in unreasonable fuel costs..." As the Commission pointed out, that provision requires the Commission to examine the Company's operations on a much broader basis than proposed by the Appellants:

For instance, the proposition of setting a benchmark price for solar energy bids that is at or below the long term operating cost of the gas facility is an appealing argument from the perspective of displacing gas power with solar power, but that benchmark price is outside the statute's criteria if wholesale power can be purchased below the benchmark. In this regard, the price of solar power is required to compete with the price of all fuel options.

(R. Vol. I, p. 33.)

The Commission's analysis is exactly right: Appellants propose to operate the LCCP and the hypothetical solar facility without consideration for all of the other generation assets on the DEC system. At the time of the hearing Janice Hager listed the various generation resources of DEC: 7,172 MW of coal generation; 1,240 MW of combined cycle; 2,770 MW of combustion turbine; 5,965 MW of nuclear; 3,229 MW of hydro; 251 MW of purchases; 911 MW of DSM and 185 MW of renewables. (R. Vol. I,

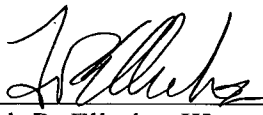
p. 180.) S.C. Code Ann. § 58-27-865(F) requires that the Commission review the Company's use and management of all of these resources as a whole in an effort to minimize fuel costs. The Appellants' solar proposal, which would require a separate review of two generating facilities, is antithetical to the statutorily required approach. It was appropriately rejected by the Commission.

CONCLUSION

DEC and NCEMC presented thorough and compelling evidence supporting their application for the Certificate under the Siting Act. The Commission's decision to issue the Certificate was supported by substantial evidence and should be affirmed pursuant to the standard of review described by the Friends of the Earth v. Public Service Commission, *supra*. The Commission's decision to reject the Appellants' solar proposal was also correct as a matter of law and amply supported by substantial evidence. The Commission's analysis reflected a clear understanding of the proposal and the reasons why it was inconsistent with the Siting Act, as well as the least cost planning provisions of S.C. Code Ann. § 58-27-865(F).

Respondents DEC and NCEMC ask that the Commission's orders be affirmed in all respects.

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Rule 211(b) Certificate

I hereby certify that Respondents' Brief being filed contemporaneously herewith
complies with Rule 211(b) of the SC Appellate Court Rules.

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CERTIFICATE OF SERVICE

This is to certify that I, Toni C. Hawkins, a paralegal with the law firm of Robinson, McFadden & Moore, P.C., have this day caused to be served upon the persons named below a copy of the Brief of Respondents Duke Energy Carolinas, LLC and North Carolina Electric Membership Corporation in the foregoing matter by placing a copy of same in the United States Mail, postage prepaid, in an envelope addressed as follows:

J. Blanding Holman, Esquire
Christopher K. DeScherer, Esquire
Southern Environmental Law Center
463 King Street, Suite B
Charleston, SC 29403

Jacquelyn S. Dickman, Esquire
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SC Court of Appeals

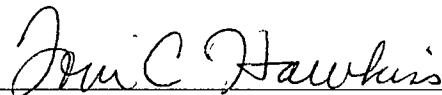
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Dated this 11th day of March, 2015.



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