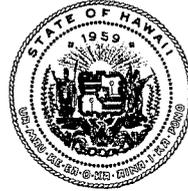


✓BKK/LYK

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



MARK E. RECKTENWALD
DIRECTOR

JOHN E. COLE
EXECUTIVE DIRECTOR

STATE OF HAWAII
DIVISION OF CONSUMER ADVOCACY
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

335 MERCHANT STREET, ROOM 326
P.O. Box 541
HONOLULU, HAWAII 96809
Phone Number: 586-2800
Fax Number: 586-2780
www.hawaii.gov/dcca/dca

June 21, 2006

The Honorable Chairman and Members of
the Hawaii Public Utilities Commission
Kekuanaoa Building
465 South King Street, 1st Floor
Honolulu, Hawaii 96813

2006 JUN 21 P 3: 30
FILED
PUBLIC UTILITIES
COMMISSION

Dear Commissioners:

RE: Docket No. 03-0372 – In the Matter of the Public Utilities Commission
Instituting a Proceeding to Investigate Competitive Bidding for New
Generating Capacity in Hawaii

During the oral arguments held on June 19, 2006 letter, Commissioner Kawelo asked the Consumer Advocate why it supported a “closed bidding” process. The attached is a response to the inquiry.

Sincerely yours,

Cheryl S. Kikuta
Utilities Administrator

CSK:dl
Enclosure

cc: Kent D. Morihara, Esq.
Thomas W. Williams, Jr., Esq.
Peter Y. Kikuta, Esq.
Warren S. Bollmeier II

Q: Please explain why the Consumer Advocate supports a “closed bidding process” as described in Section III H (3) of the Stipulation Regarding Proposed Competitive Bidding Framework (“Stipulation”).

A. In answering this question, it is important to be clear on the meaning of closed bidding process and the Consumer Advocate’s expectations of the process associated with closed bidding.

Stipulation Section III H (3) explains that a closed bidding process provides considerable information to the prospective bidders, but does not provide bidders with access to the utility’s evaluation models or the information submitted by other bidders. The purpose of these restrictions is to reduce gaming of the system where a project can score well, but may not actually serve the needs of the RFP very well. The evaluation of bids submitted in response to an RFP requires substantial judgment. The use of an open bid process which relies on self-scoring does not allow for the use of necessary judgment. As a result, completely open bidding processes have some history of producing top scoring projects that are not realistic.

The Consumer Advocate supports the use of a closed bidding process as long as it is accompanied by transparency. By transparency, the Consumer Advocate means that bidders will be afforded a full explanation regarding which project(s) were selected, and independent parties such as the independent observer, the Commission and the Consumer Advocate will be able to review the utility’s evaluation of bids. Individual bidders should also be afforded the opportunity to verify that their bids were accurately evaluated.

To further address transparency, the Stipulation provides that in situations where the utility or its affiliate will bid, an independent observer is required. It will be important for the independent observer to understand the model that is being used to evaluate the bids.

Based on these premises, the Consumer Advocate concluded that a closed bidding process would generally be preferred as a way of producing viable projects and reducing gaming of the scoring system. This is the approach that is used in most RFPs of which the Consumer Advocate is aware.