08-12-05

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

---- In the Matter of ----	)	
	)	
PUBLIC UTILITIES COMMISSION	)	DOCKET NO. 03-0372
	)	
Instituting a Proceeding to Investigate Competitive Bidding for New Generating Capacity in Hawaii.	)	
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PUBLIC UTILITIES COMMISSION

FINAL STATEMENT OF POSITION

OF

HAWAII RENEWABLE ENERGY ALLIANCE

AND

CERTIFICATE OF SERVICE

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I. INTRODUCTION AND SUMMARY

The Hawaii Renewable Energy Alliance hereby submits this document, including our Final Statement of Position, dated August 12, 2005, to the Public Utilities Commission (PUC), in accordance with the PUC's Prehearing Order Number 20923 (Reference Docket No. 03-0372).

HREA supports competitive bidding for all new generation in Hawaii and believes there will be overall benefits to Hawaii's utilities and their ratepayers and Hawaii's economy. These include the potential to stabilize utility rates in the near term and reduce rates in the long term.

The implementation and impact of competitive bidding will be paced, in part, on: (1) how rapidly Hawaii's electricity market is opened to increased competition, (2) getting the implementation of competitive bidding right, (3) encouraging innovation in the market place, and (4) the ease of market entry to independent power producers.

HREA's final statement of position ("Final SOP"), including our response to the issues as presented in this docket's Prehearing Order, is included in section II.

II. HREA's FINAL STATEMENT OF POSITION

To facilitate discussion of the specific issues raised in the PUC's Prehearing Order No. 20923, dated April 23, 2004, HREA requests that the PUC adopt the following common jargon for the purpose of this Docket.

A. A Common Jargon

HREA suggests the following terms be defined for the purposes of this docket: back-up power, central generation, cogeneration facility, combined heat and power, decentralized generation, demand-side, demand-side management, distributed generation, energy service provider, energy storage, hybrid renewable energy systems, independent power producer, renewable energy resources and supply-side.

Back-up power is a stand-by generator for a home or commercial building. Traditionally, these devices, e.g., reciprocating engines, are used to meet electrical load requirements when electric utility power is not available. Back-up power also means electric energy or capacity supplied by an electric utility to replace energy ordinarily generated by a facility's own generation equipment during an unscheduled outage of the facility[1].

Central Generation (CG) is typically large conventional, fossil-fueled facilities (one or more units of one or more types of prime movers/electrical generators) which are designed to provide electricity to all customers on the grid via a transmission and distribution network. Note: in Hawaii CG is located in one or two key locations on each of the island grids, e.g., Kahe/ Barbers Point, and Waiau on Oahu, Hilo and Kona on Hawaii, Kahului and Maalaea on Maui, and Lihue and Port Allen on Kauai. CG is interconnected to the grid at transmission voltage (for example, 138 kV and 46 kV on Oahu; 138 kV, 69 kV, and 34.5 kV on Hawaii; 69 kV and 23 kV on Maui, and 57 kV on Kauai).

Cogeneration Facility means equipment used to produce energy and forms of useful thermal energy (such as heat or steam), used for industrial, commercial, heating, or cooling purposes, through the sequential use of energy. Note: see Public Utility Regulatory Policies Act (PURPA)[1].

[1] Source: FERC: http://www.ferc.gov/docs-filing/hard-filing/form-556/part292.asp#skipnavsub. Cogeneration facility is the legal definition under the Public Utility Regulatory Act (PURPA).

Combined Heat and Power (CHP) (also referred to as cooling, heating and power or cogeneration) is the sequential production of electricity and useful thermal energy such as steam, hot and chilled water, refrigeration and humidity control.

Decentralized generation (DCG) is facilities (fossil and renewable) that are generally larger than 10 MW and are interconnected to the grid at transmission or sub-transmission voltages. DCG are typically sited to be closer to new load centers than CG. Examples of DCG are the Honolulu Power Plant on Oahu; Hamakua Energy Partners and the 20 MW South Point windfarm on Hawaii; and the proposed 30 MW Kaheawa Pastures windfarm on Maui.

Demand-Side refers to activities conducted on the customer's side of the customer meter. Activities are designed to meet load though energy efficiency measures or on-site generation on the customer side of the meter[2].

Demand-Side Management (DSM) is planning, implementation, and evaluation of utility-sponsored programs to influence the amount or timing of customers' energy use[3].

Distributed generation (DG) means supply- and/or demand-side devices that provide electricity, thermal and/or mechanical energy. These resources, generally 10 MW or less, can be located on-site or nearby load centers. They can be used to meet baseload power, peaking power, backup power, remote power, power quality, and cooling, heating and power needs. DG includes energy supply devices ("prime movers") for providing electricity, thermal, and/or mechanical energy to users from on-site or nearby locations, and energy storage and interconnection equipment needed to interconnect with customers and/or the utility grid.

Examples of DG are wind turbines, biomass cogeneration, hydroelectric plants, photovoltaics, fuel cells, microturbines, reciprocating engines, CHP, and pumped hydro storage. HREA believes the differences between supply-side and demand-side DG needs further clarification as follows:

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[2] Adapted from NARUC's definition of Supply-Side.
[3] Reference: NARUC: http://www.naruc.org/displaycommon.cfm?an=1&subarticlenbr=275.

- Demand-Side DG. DG that are installed on the customer-side of the meter, are designed to serve a limited number of identifiable customers, and are typically interconnected at customer voltage levels (i.e., 110 v to 480 v), and
- Supply-Side DG. DG that are installed on the utility-side of the meter, designed to serve all customers in one portion of the grid, and are typically interconnected at sub-transmission or distribution voltage levels (e.g., 4 to 34.5 kV).

  Note: HREA believes the distinction between supply-side DG and DCG may blur over time as DG become more prevalent.

Energy Service Provider is an entity that provides energy service to a retail or end-use customer. Energy services include delivery of electricity, thermal energy (e.g., to heat or chill water), and energy-efficiency measures.

Energy storage is defined as electrochemical and kinetic energy technologies which allow energy to be accumulated, stored and then released at a later time. These technologies include batteries, flywheels, compressed air, hot and cold water, pumped hydro and liquid, compressed or solid-state forms of hydrogen.

Hybrid Renewable Energy Systems are electrical-energy systems comprised of two or more renewable energy components with or without energy storage and/or back-up power. Some examples are wind/diesel, PV/battery, wind/PV/battery, and wind/PV/battery/biodiesel. Note: in this case, biodiesel means a diesel-electric generator which uses biodiesel fuel or a blend of biodiesel with conventional diesel fuel.

Independent Power Producer is a type of competitive power supplier. The term is synonymous with merchant generator, cogenerator, non-utility generator, private power producer, Qualifying Facility (QF)[4], and exempt wholesale generator.[5]

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[4] A Qualifying Facility is an individual (or corporation) who owns and/or operates a generation facility, but is not primarily engaged in the generation or sale of electric power. QFs are either renewable power production or cogeneration facilities that qualify under Section 201 of PURPA. Reference: Independent Energy Producers Association web-site. See: http://www.iepa.com/FAQs.asp.

[5] Reference: Independent Energy Producers Association web-site. See: http://www.iepa.com/FAQs.asp.

Renewable energy resources are those sources of energy that are naturally and constantly replenished, e. g., wind, solar, biomass, geothermal, hydro, ocean thermal and wave. One of the major benefits to Hawaii is that we have all of these renewable sources already in use or potentially available for development.

Supply-Side. Activities conducted on the utility's side of the customer meter. Activities designed to supply electric power to customers, rather than meeting load though energy efficiency measures or on-site generation on the customer side of the meter[6].

B. HREA's Position on the Issues

The following is HREA's position on the issues as stated on page 2 in the Prehearing Order:

1. What are the benefits and impacts of competitive bidding?

HREA Position:

Overall Benefits. HREA believes competitive bidding will provide the following overall benefits to Hawaii's ratepayers and its economy:

- increased innovation and lower prices in the supply of electrical products and services,
- improved system efficiency, reliability and safety, and increased customer choice, and
- mitigation of rate increases in the short term, lower rates in the long term.

HREA notes that similar benefits were identified in Docket No. 96-0493 (Instituting a Proceeding on Electric Competition, Including an Investigation of the Electric Utility Infrastructure in the State of Hawaii):

- The Consumer Advocate stated: "the primary objective of introducing competition to the electric industry must be to reduce the price of electric services over time for all consumers, while retaining or enhancing safety, reliability, environmental protections and consumer protections[7]."

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[6] Reference NARUC: http://www.naruc.org/displaycommon.cfm?an=1&subarticlenbr=275.

[7] Exploring Opportunities for Competition in Hawaii's Electric Industry, Division of Consumer Advocacy, State of Hawaii, June 5, 1998, pg. ES-1.

- In its draft position statement[8], the Department of Business, Economic Development and Tourism (DBEDT) stated: "the principal benefits expected of competition are lower prices that will result from greater efficiency and enhanced competitiveness for Hawaii's economy. In addition, greater use of advanced technologies could be anticipated."

- DBEDT also quoted from the Clinton Administration's *Comprehensive Electric Competition Plan:*[9] "We believe that a more competitive electricity industry will provide immense benefits to individual American consumers as well as being an overall boon to our economy. It will result in lower prices, a cleaner environment, greater innovation and new services, a more reliable power supply grid, and save the government money."

Specific Benefits. HREA anticipates the following specific benefits from the design and implementation of a vibrant competitive bidding process in Hawaii:

- Lower Prices. Lower prices to all consumers over time, as conservation, energy efficiency, and renewables are implemented. Note: conservation and energy efficiency measures will generally be more cost-effective than conventional generation. Under our current RPS law, wholesale renewable electricity must be at or below the utility's costs. Therefore, the utility's rates cannot go up on account of renewables. Furthermore, HREA believes there is opportunity through competitive bidding to acquire renewables at prices lower than conventional sources;

- Increased innovation. Innovation is a natural result of competitive bidding, as bidders seek to gain advantages by offering lower prices and/or expanded facility features and capabilities. On the other hand, an improperly designed competitive bidding process can stifle innovation and competition;

- Increased customer choice. HREA believes opening of the wholesale market to greater competition will lead to the proposal and evaluation of a greater number of potential projects in IRP. How could this happen?

[8] Draft Position Paper of the State of Hawaii Department of Business, Economic Development and Tourism Regarding Electricity Competition in Hawaii, Docket No. 96-0493, June 4, 1998, pg. 2.

For example, consumers provide input to the utilities in the IRP process, if they see the utility takes action on the consumers' input. However, achieving customer choice will also depend on whether potential bidders believe their proposals will be treated fairly, including the timely award of a contract with the utility should they become a winner in a competitive bidding process;

- Increased renewable energy and storage facilities. The use of renewables will increase over time, paced in part by RPS. HREA believes that complementary storage technologies, such as pumped hydro, will help facilitate increased renewable use, as well as provide other system benefits, and thus should be supported by the utility and community;
- Improved system efficiency. System efficiency will improve over time if new DG, DCG and CG have higher operating efficiencies than existing power plants. The improvements in system efficiency will translate to lower lifecycle costs and potentially lower utility rates. This trend will be enhanced, if there is a shift away from CG and DCG to DG. However, HREA anticipates that efficiency gains in new fossil CG, DCG and supply-side DG would likely be off-set by increased fuel costs;
- Reduction of greenhouse gas emissions. Clearly, reduction of greenhouse gas emissions is a collateral benefit of increasing conservation and renewables. However, installation of more efficient fossil CG, DCG and DG would only serve to increase greenhouse gas emissions. On the other hand, if existing fossil CG is replaced by more efficient CG or DG, or fueled by renewable fuels, such as biodiesel and ethanol, then there could be a net reduction in greenhouse gas emissions; and

[9] Comprehensive Electricity Competition Plan, U. S. Department of Energy, see: http://www.doe.gov, April 13, 1998.

- Enhanced energy security. Reducing our fossil energy use will help us start down the path towards enhancing energy security in electrical sector in Hawaii. In addition, we must "harden" our electricity infrastructure. HREA believes the best way to do that is to initiate an all-out effort in implementing distributed energy resources, which include DG and DSM measures.

  So, how will competitive bidding help enhance energy security? As noted above, competitive bidding will lead to more innovation, which will result in cost-effective alternatives to fossil energy. Meanwhile, if we still feel the need to construct and operate conventional resources, we should give some thought to down-sizing and distributing them, and while we are at it, renewably fuel them.

Impacts. HREA anticipates the following specific impacts with implementation of competitive bidding in Hawaii:

- Need to improve IRP to facilitate competitive bidding. HREA believes we have to improve IRP. See detailed discussion below on issue 2.d;
- Costs and benefits of structuring competitive bidding of wholesale power sources. This is one of the major challenges/opportunities on this docket. See detailed discussion below on issues 2.a to 2.c;
- Assuring system reliability and safety. HREA believes system reliability and safety can be assured and improved over time by:
  - including reliability and safety requirements in the specifications for requests for proposals (RFPs) in competitive bidding, and
  - requiring reporting of reliability and safety attributes on existing and future facilities.

- Protecting consumer interests. HREA believes consumer interests can be protected and addressed over time by:
  - PUC actions to ensure that competitive bidding is designed and implemented in a fair, equitable and even-handed manner, and
  - requiring competitive bidding on all new wholesale power facilities and retrofits to existing facilities.
- Balancing investor owned utility (IOU) interests with the interests of the ratepayers. HREA believes there is a significant imbalance in favor of the IOU compared to the ratepayer. The ratepayer needs some relief, and the best way to provide that relief would be to preclude further ratebasing of utility, self-build projects. Furthermore, the likely result of competitive bidding will be lower costs, mitigating against rate increases in the near-term and offering the opportunity to lower rates in the long-term. Therefore, HREA believes the:
  - IOU should be **NOT** be allowed to bid on new wholesale power, and
  - IOU, if it so desires, should be allowed to establish a utility-affiliate for the purpose of competing for the provision of wholesale power to the grid.

2. **Whether a competitive bidding system should be developed for acquiring or building new generation in Hawaii"**

HREA Position:

HREA's position is "YES", a competitive bidding system should be developed for acquiring or building new generation in Hawaii

If the answer is "yes", then:

a. **How can a fair competitive bidding system be developed that ensures that competitive benefits result from the system and ratepayers are not placed at undue risk?**

HREA Position:

HREA considers this to be both an interesting and thought-provoking question. First, we are not sure how to define "undue risk." Undue risk can have several connotations, e.g., *excessive, unnecessary* and *unjustified.* We observe that rates have gone up when the utility installs a new power plant, and rate increases are not viewed by the utility as placing undue risk on the ratepayer. We also observe that the proposed rate increase for the East Oahu Transmission Project is on the order of 10%. So is a rate increase of 10% considered to be putting the ratepayer at undue risk? Depending on one's perspective, one could say yes or no, depending upon whether one thought the rate hike was excessive, unnecessary and/or unjustified.

Let's consider another potential for "undue risk." Currently, ratepayers pay for all of the costs for electrical service provided to them by the utility. Each ratepayer pays his share of the total costs, pursuant to their customer class rates and charges approved by the PUC. Hence, HREA believes it is fair to say that the ratepayers assume most, if not all, of the risks associated with their electricity service. The question is whether some of their risks, such as the risks associated with new IOU self-build projects and fossil fuel costs are undue? We believe they are. HREA believes further that the ratepayer should not have to absorb all the risks.

Consequently, we believe in order to avoid "undue risk" to the ratepayer the:

- o IOU should be **NOT** be allowed to bid on new wholesale power, but be allowed, if it so chooses, to establish a utility-affiliate for the purpose of competing for the provision of wholesale power to the grid; and
- o Utility should be required to share some of the fossil fuel cost risks on its existing facilities, e.g., the utility should **NOT** be allowed to pass through all fossil fuel cost increases as it does now via the "Energy Cost Adjustment Clause."

Therefore, HREA recommends the following principles for a fair competitive bidding system in Hawaii, based on the possible application of one or both of the two models:

Model 1 (Competition without a Utility but with a Utility-Affiliate)

In this model, the utility may have identified one or more sites for one or more new facilities. The utility should have identified in IRP the desired capacity of the facilities and possibly the type (fossil, renewable, storage), firm vs. intermittent and other details. The competition would proceed with the following steps:

- o Utility IRP study for new resources. The utility would identify resource needs in IRP and prepare preliminary specifications/costs for the desired new resources (site, size, type, installed cost, O&M costs, lifecycle costs, timeline, etc.). The utility would solicit and incorporate comments from its IRP Advisory Group (AG) regarding the identified resource needs and contents of the solicitation bid package. Note: the utility would recommend to the PUC whether solicitations should be all-source or source-specific. See also our comments in section 2.d on improvements to IRP;

- Preparation of a Solicitation Bid Package. Based on its IRP study and comments from the IRP AG, the utility would prepare a solicitation bid package, which would include the:
  - Technical Requirements: desired resource type (s) (fossil, renewable, storage, DSM), desired capacity or energy range (in kWs/MWs or kWhs/MWHs), diurnal capacity and energy delivery schedule, reliability specifications, operation date, and a standard offer contract (SOC) for purchase of power from the successful bidder (s);
  - Required Technical, Financial and Contractual Information from Bidders: a technical proposal discussing how the Bidder will meet or exceed the desired technical requirements, the delivered wholesale cost of electricity with a proposed capacity and energy delivery schedule, a power purchase agreement (PPA) based on the SOC (with any proposed modifications to the SOC), a management plan (e.g., construction and operation schedule based on an anticipated award and approval date of a PPA by the PUC, assessment of permitting actions required, and a plan for gaining community support for the proposed project), and a description of relevant technical and project experience and expertise;
  - Evaluation and Selection Criteria: the specific evaluation criteria, such as the technical proposal, proposed delivered energy cost[10], management plan, relevant technical and project experience and expertise, and a description of how the proposals will be evaluated, included relative ranking of the evaluation criteria; and

[10] Note: HREA is proposing a new approach to pricing power purchases, whereby all sources (including DSMs) can be readily compared by the bidder proposed cost to deliver (or avoid delivery) per kWh, e.g., 5 cents/kWh. Since this delivered cost may vary based on the time-of-day and day of the week, a formula will need to be developed to provide a weighted average cost per kWh. For example, the weighted average could be the sum of the proposed purchase cost per each of the 24 hours in a day divided by 24.

- Review and approval by the PUC: the solicitation package would be forwarded to the PUC, which would be assisted by an Independent Observer (IO).[11] The IO would review and comment on the solicitation package and make recommendations for modifications to the package.

o Solicitation and Award Process. Following approval from the PUC, the utility would proceed with the solicitation process in the following steps:

- Announcement and Pre-Bidders Conference. Concurrently, the utility would announce the release and due dates of the solicitation, and the date of a Pre-Bidders Conference (PBC). At the PBC, the utility would present and discuss the solicitation package to all interested Parties. Following the presentation, the utility would do its best to answer all questions during this period. Subsequently, the utility would prepare and distribute to all interested Parties a summary of the meeting, including answers to all the questions that were raised by the Parties;
- Bidder Pre-Qualification Process. The utility may elect to screen and pre-qualify potential Bidders for receipt of the actual solicitation. If this option is selected, the utility should include the pre-qualification process in the draft solicitation package and obtain approval for the process from the PUC. Secondly, the utility will need to inform the potential Bidders in the solicitation announcement and discuss the pre-qualification process in detail during the PBC. HREA believes this may be a good approach, as a pre-qualification process could save time and resources for both the potential bidders and the utility;

[11] The IO would be hired and paid by the PUC. The IO would assist the PUC during all phases of planning for and acquiring new resources. The primary role of the IO is to make sure that the utility does not unduly prefer its own affiliate, and also make sure the utility does not unnecessarily prefer the most conventional, easy-to-maintain or handle, technology.

- Review and Evaluation of the Proposals. The utility and the IO would conduct independent reviews and evaluations of all proposals, and forward recommendations for awards to the PUC. Note: the IO would forward recommendations to the PUC prior to the utility. The IO would subsequently review the recommendations made by the utility and, ideally, provide comments to the PUC concurrently with the transmittal of the utility's recommendations;

o PUC Approval/Project Award and Post-Award Activities. The PUC would review and approve, if appropriate and subject to possible modifications, the recommendations of the utility. The PUC would consult with the IO during their deliberations. Following the selection of the winning Bid, the PUC would monitor the negotiation of and subsequently approve the PPA. Following the award and approval of the PPA by the PUC, the utility would debrief the losing Bidders. HREA believes this debriefing should focus on the strengths and weaknesses of the proposals and areas for improvements on future solicitations, and should not specifically identify individual Bidders or the relative ranking of the proposals. One possible exception would be when back-up proposals are to be considered at a later time. Finally, the IO would provide an overall assessment of the solicitation process to the PUC, include recommendations for improvement.

Model 2 (Competition without a Utility or Utility-Affiliate). This model assumes the same basic steps as in Model 1. The only differences are in the projected role of the IO. Since there would not be concerns about the utility favoring its affiliate, the role of the IO would be modified as follows:

- Utility IRP study for new resources. No changes.
- Preparation of a Solicitation Bid Package. No changes, the IO would still assist the PUC in reviewing the draft solicitation bid package.
- Solicitation and Award Process. In this model, the IO would not conduct an independent review and evaluation of all proposals. Instead, the IO would review the recommendations made by the utility and provide comments to the PUC concurrently with the transmittal of the utility's recommendations. Similarly to Model 1, the PUC would consult with the IO during their deliberations, and the IO would provide an overall assessment of the solicitation process to the PUC, including recommendations for improvement.

b. What are the specific competitive bidding guidelines and requirements for the prospective bidders, including the evaluation system to be used and the process for evaluation and selection?

HREA Position:

In addition to the discussion in section 2.a (above), HREA would like to make the following comments and recommendations:

- We support the Consumer Advocate's (CA's) proposal (Reference page 63 of the PSOP)... "the utilities should be held accountable to design and conduct specific solicitations consistent with the 'best practices' in the industry;" and
- As noted above, HREA supports the option of pre-qualifying potential Bidders. This process could differ for each solicitation depending on the technical requirements developed in IRP.

c. How can a fair competitive bidding system encourage broad participation from a range of prospective bidders?

HREA Position:

In addition to the discussion in response to issues 2.a and 2.b (above), HREA has the following comments and recommendations:

- Independent Review of the Solicitation Process. HREA believes this is the single-most important step to ensure that the competitive bidding system is fair and will encourage broad participation from a range of prospective bidders. If there is even the slightest appearance that the utility can unduly favor its affiliate (or itself), prospective Bidders will be reluctant to participate;
- Standard Offer Contract. A standard offer contract (SOC) is absolutely needed as an element of the RFP. While a Bidder may be able to meet the overall technical requirements of the RFP, the Bidder will NOT be able to prepare an adequate offer for the delivered price of electricity, if he does not know the terms and conditions of the SOC. Furthermore, if the Bidder is not assured that he will be awarded a contract upon securing a winning Bid, he will be reluctant to participate. Please note that a SOC is different than a model PPA as proposed by the utility. Specifically, a SOC is a document that must be signed by the utility if the Bidder agrees with and signs the SOC, whereas a model PPA is a starting point for negotiations. There is a BIG difference, and if a Bidder sees a model PPA instead of SOC in a solicitation package, he may be hesitant to submit a proposal;
- Uniform availability of data and information. The PUC must be able to ensure that all prospective bidders are provided with all relevant data and information available to the utility regarding the project. This is particularly true if the bidders are in competition with a utility-affiliate (Model 1); and

- PUC as the watchdog. HREA believes that the PUC will need to act as the watchdog to monitor and enforce the competitive bidding process to ensure that it is fair and that broad participation is encouraged.

d. **What revisions should be made to the integrated resource planning process?**

HREA Position:

HREA believes each element of the existing IRP process can be improved., HREA supports the use of competitive bidding to select all projects and programs for the 5-year plan, rather than the current approach of identifying resources in the IRP process and pursuing implementation at a later time. We will use the following discussion of the generic elements in an improved IRP process to illustrate our recommendations:

- Forecasting. Forecasting now includes traditional estimates of new load growth taking into consideration the impacts of certain DSM measures. Forecasting should now include all the DSM measures as discussed below.
- Demand-side Management (DSM). Demand-side management should include evaluation of measures to reduce demand taking into consideration implementation options, e.g., utility-implemented DSM program elements versus acquiring DSMs via competitive bidding. The following are current and proposed new (which are *italicized*) measures:
  - Traditional energy-efficiency and load management,
  - Energy conservation, including solar hot water, *sea water air conditioning and solar air conditioning,*
  - *Net metered renewable systems, and*
  - *DG, including CHP.*

  Note: recommendations would be provided to Forecasting and Integration.

- Supply-Side Management (SSM). Supply-side management should include evaluation of conventional, renewable and supply technologies taking in consideration alternative ownership and operation structures. For each group of technologies the process should include an assessment of:
  - Near-Term Needs. The SSM Committee should evaluate and select the preferred technologies, projects and programs to be considered for the 5-Year Action Plan. The Committee should provide details on the preferred technologies sufficient for a competitive solicitation (see also comments below in the Integration Section; and
  - Mid- to Long-Term Needs. The SSM should continue to track, evaluate, and recommend to the Integration Committee preliminary supply-side technologies for consideration in the next 5-Year Action Plan and those technologies to be tracked over the long-term (10 to 20-year timeframe). Note: Recommendations would be provided to Integration.
- Integration. Overall, whereas in the past, a number of alternative IRPs were generated from the committee inputs, HREA believes it will be more productive to go directly for the "golden fleece" – the plan to meet our RPS law, mitigate energy and fuel supply risks and move us down the path to sustainable energy. HREA believes this will require:
  - Maximizing the amount of DSMs: the Integration Committee would select the DSM measures for the 5-Year Action Plan, based on a thorough evaluation and review of the costs/benefits of each measure recommended by the DSM Committee. The Committee would also review and recommend implementation options: continuation of existing utility-implemented DSM programs, introduction of new utility-implemented DSM programs, and acquiring DSM programs via Competitive Bidding;

- Optimizing the types and amounts of SSMs: the Committee would seek to optimize the types and amounts of SSMs based on evaluating the remaining load to be supplied after maximizing the amount of DSMs. The Committee would then recommend the preferred technologies, projects and programs for the 5-year action plan. HREA believes this approach - DSM first then SSM - will provide the utility with more accurate assessment of which DSM/SMM options will be most cost-effective for meeting future demand, RPS and other IRP goals;
- Selecting the Preferred DSM and SSM technologies. As with all Integration activities, some iteration will be required to reach the "ideal" combination to meet demand, RPS and other IRP goals in the most cost-effective manner. For example, when a preliminary assessment of preferred DSMs is established, the Forecasting Committee would need to review and revise its forecast as appropriate. Another iteration would occur after a competitive solicitation for DSMs. Note: HREA believes there is a good argument for an all-source solicitation, whereby the mix of DSM/SSM could be determined with less iteration;
- Providing Inputs to the Advisory Group. HREA recommends that the Integration Committee provide timely progress updates to the Advisory Group. This will be especially important for the AG's review and comments on the 5-Year Action Plan, including decisions on which resources to acquire via competitive bidding. Note: HREA anticipates that recommendations from the Advisory Group back to the Integration Committee might require additional iteration.

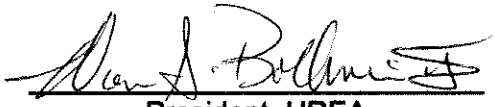
- Advisory Group. The Advisory Group is an independent group of non-utility stakeholder organizations and individuals. HREA recommends:
    - Make up of the Advisory Group. The Advisory Group should have a balanced number of members from the key stakeholder groups, such as government, industry, community organizations, environmental organizations, and the community at-large;
    - Review and comment on the IRP process and results. The Advisory Group has traditionally reviewed and commented on the IRP process, proposed plans and recommended IRP. In addition, HREA recommends that the Advisory Group's recommendations be given more weight in the overall process, and specifically that the utilities resolve to work in a more collaborative manner with the Advisory Group. For example, as noted above, Advisory Group comments may result in a need to re-do (iterate) previous analysis;
    - Ensuring inputs from the utility's customers – HREA recommends that the Advisory Group assist the utility in soliciting input and comments from the community at-large. In this regard, HREA suggests that HECO review and implement MECO's current efforts to reach out to the community as a potential model for HECO's IRP; and
    - Advisory Overall Goal. HREA believes that the overall goal of the Advisory Group should be to achieve a collaborative effort with the utility, such that the resulting IRP does not need to be contested.

- Implementation. HREA believes an improved, vibrant IRP process should result in a more collaborative approach to reaching agreement on how HECO can meet future demand, RPS and other IRP goals in a cost-effective manner. Following the deliberations of the IRP Committees, including the final recommendations from the Integration Committee, the utility will have the ultimate responsibility to prepare, review and submit the Preferred IRP plan to the PUC. To re-iterate, HREA believes the most significant improvement to IRP will be the introduction and use of competitive bidding as described above to design the 5-Year Action Plan.

C. Conclusion

Our Final Statement of Position is presented with the august goal of working with the PUC and the other Parties in this docket to develop and implement a robust, innovative and competitive market for new generation in Hawaii. We believe achieving this goal will help us take a major step down the path to the sustainable energy future that awaits us.

DATED: August 12, 2005, Honolulu, Hawaii



President, HREA

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing Final Statement of Position upon the following parties by causing a copy hereof to be hand-delivered or mailed, postage prepaid, and properly addressed the number of copies noted below to each such party:

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Dated: March 14, 2005

President, HREA