10-18-05

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.	)	
	)	

INFORMATION REQUESTS TO THE PARTIES AND PARTICIPANTS

OF

HAWAII RENEWABLE ENERGY ALLIANCE

AND

CERTIFICATE OF SERVICE

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I. INTRODUCTION AND SUMMARY

The Hawaii Renewable Energy Alliance hereby submits Information Requests (IRs) dated September 22, 2005 to the Parties on their Final Statements of Positions as included below, in accordance with Public Utilities Commission's (PUC's) Prehearing Order No. 20923, dated April 23, 2004.

II. HREA INFORMATION REQUESTS

HREA's Final Information Requests ("FIRs") are listed below by Party. Note: page number notations are references to the relevant Party's Final Statement of Position (FSOP).

A. Division of Consumer Advocacy ("CA")

HREA-CA-FIR-1. The CA discusses the following in its FSOP and Appendices:

1. The "critical oversight role" of the Commission: [second paragraph, page 4; last bullet, page 9; second bullet, page 15; general guideline No. 3 on page 1 of Appendix F-1; Role of the Commission (guidelines Nos. 18 to 21) on pages 4 to 5 of Appendix F-1, and Ratemaking (guidelines Nos. 22 to 25) on page 5 of Appendix F-1], and
2. Related issues: [self-dealing concerns and ratepayer interests on bottom of page 23 to top of page 24; proper safeguards if there is utility participation in RFPs, last bullet, page 30; potential self-dealing in second and third paragraphs on page 35 and continuing to page 36; RFP Design guideline no. 7 (independent advisor) on page 2 of Appendix F-1; RFP Implementation guideline no. 11 (independent entity) on page 2 of Appendix F-1; and RFP Implementation discussion on page 3 of Appendix F-2].

HREA is not as convinced as the CA is that there is broad agreement on how to implement competitive bidding in Hawaii. Specifically, we don't believe there is a consensus on what the "critical oversight role" of the Commission. Thus, we are seeking the following clarifications from the CA as to the "critical oversight role" of the Commission:

1. Does the CA consider the proposed competitive bidding guidelines in Appendix F-1 (pages 4 to 5) to be the definitive "oversight role for the Commission?"
2. Would the CA agree that some additional specification in the guidelines might be appropriate assuming the utility or its affiliate is allowed to participate in RFPs? For example, given our *over-arching concerns* about *self-dealing,* we believe:
   a. An independent evaluator *shall* be *required*, as opposed to being *optional*, when a utility affiliate is participating in a solicitation (or if the utility is approved to participate directly), reference our discussion of Model 1 on pages 12 to 15 of our FSOP?
   b. Do you agree that the PUC should *hire* the independent observer with the role as described on page 14 of our FSOP? If not, why not? For example, we do not see how an independent observer can be viewed as independent, if he is hired by and reports directly to the utility.

<u>HREA-CA-FIR-2</u>. On page 5, the single paragraph reads: "The above actions will support a fair, competitive bidding system that can ensure that competitive bidding achieves benefits without placing ratepayers at undue risk and can be accomplished through the following five straightforward steps:"

Please define what is meant by "undue risk" which is mentioned only once in the CA's PSOP?" We note that "undue risk" is also mentioned, but only once, in the CA's PSOP (page 61). In both cases, we don't believe "undue risk" is clearly defined, e.g., there is no discussion of potential rate impacts to consumers.

<u>HREA-CA-FIR-3</u>. Also on page 5, the CA discusses the utility's IRP briefly, and again on page 8 (fourth bullet).

HREA concurs with the CA that bidding is the preferred approach for acquiring new resources as identified in IRP. The question is at what point (s) would the competitive bidding best be applied? For example, would the CA support use of competitive bidding to select the 5-year plan, as we have recommended on page 18 of our FSOP?

<u>HREA-CA-FIR-4</u>. The CA appears to support the position that competitive bidding may not be desirable in all some circumstances (see the third bullet on page 8).

With regards to the CA's position of the presumption of competitive bidding, would the CA agree exceptions should be only on a "case-by-case" basis, as opposed to establishing a threshold based on capacity (MWs), dollar value, and technical requirements (such as repowering or expansion of existing facilities)? If not, why not?

<u>HREA-CA-FIR-5</u>. Referencing the last bullet on page 8, regarding "guidelines," would the CA agree with the following:

1. "Guidelines" are policies as opposed to detailed "procedures;"
2. "Guidelines" could also be considered "principles;"
3. "Best Practices" could consist of both "guidelines" and detailed "procedures;"
4. It would be desirable to reach agreement on the "guidelines" for "Best Practices," subsequent to review and approval by the PUC, while the detailed "procedures" should be left to the entity or entities (utility or non-utility) implementing competitive bidding subject to the review and approval of the Commission?

<u>HREA-CA-FIR-6</u>. Reference the first bullet on page 10 regarding concerns about "utility self-dealing," including HECO's response to PUC-IR-23. Is the CA concurring that HECO's suggested steps are sufficient to assuage concerns about self-dealing? Specifically:

1. <u>The utility could submit its self-build option to the Public Utility Commission one day in advance of receipt of other bids. The utility could also provide substantially the same information as other bidders. By sending its proposal to the Commission in advance other bidders would be ensure that the utility could not adjust its bid price or project structure after reviewing other proposals</u>. We would agree that this approach could mitigate against the utility's taking advantage of information provided in other proposals. However, we do not consider this step to be persuasive by itself in preventing utility self-dealing. Would the CA agree?
2. <u>Utility Provides the same information to all bidders on a web-site at the same time</u>. We see this proposal as a "red herring." First, the utility would have intimate knowledge of the technical, cost and other requirements well in advance of the release date of information on a web-site. Specifically, how else would they be able to prepare the information for the web-site? Thus, this step would provide other bidders with little confidence that the utility is at the same place on the ball field as the rest of the bidders at the time of the release of the information. Would the CA agree, and thus this step does little to reduce the perception of "self-dealing?"
3. <u>The utility could use an independent observer or reviewer to review the solicitation process including communications with bidders, bid evaluation and selection, and contract negotiations</u>. Again this is a "red herring," as the utility's position is that they should be the one to hire the independent observer and the observer would report to them. Thus we do not believe the independent observer could truly be considered "independent." Would the CA agree this step does little to reduce the perception of "self-dealing?"

4. The utility could establish a separate project team to undertake the evaluation, with no team member having any involvement in the utility self-build option. This would serve to mitigate any potential bias towards the utility's own self-build option. This suggestion is at least a "pink herring." We believe the only way this step would reduce the perception of "self-dealing" would be to have an Independent Observer to ensure that the:

   a. separate project team would be tasked with *both* the preparation and evaluation of the RFP and would be *totally independent* of the "proposal and implementation" team, and

   b. utility agreed that the Observer would be *totally independent* of the utility (per our proposal for the Observer would hired by the Commission and report to the Commission).

   At the moment we don't know what the utility's position would be on item (a). However, we do know they don't support item (b), and we consider this to be the more critical requirement. Thus, would the CA agree this step does little to reduce the perception of "self-dealing?"

Therefore, our assessment is that only step 1 is plausible given the utility's current position and step 1 by itself does very little to reducing the perception of "self-dealing." Does the CA agree?

HREA-CA-FIR-7. In the second paragraph on page 13 and the second paragraph on page 14, the CA's apparent position is that an "extensive set of formal guidelines" is not needed for competitive bidding?

Given the CA's existing concerns about the critical oversight role of the Commission, as well as HREA's specific concerns about utility self-dealing, doesn't it really make sense to establish guidelines, as opposed to viewing them as desirable or optional? Is the CA, in part, concerned about the time and effort it might take to develop an "extensive set of guidelines?" Therefore, would the CA support the goal of establishing an appropriate set of guidelines in the instant docket, such as the CA's Appendix F-1 subject to review and comment from the other Parties?

HREA-CA-FIR-8. On pages 28 to 29, the CA discusses two types of circumstances under which a utility might initiate competitive bidding processes, i.e. "reliability-based" and "non-reliability-based."

1. Does the CA define "reliability-based" to mean firm capacity, while "non-reliability-based" is non-firm, e.g., "as-available" or "intermittent?"
2. Would the CA agree that renewables, such as biomass and geothermal, have already demonstrated firm capacity in Hawaii as defined by the utility?
3. Would the CA agree that intermittent renewables, such as wind and solar, can provide reliability benefits that are currently not being recognized by the utility?
4. Would the CA support further investigation and review to determine and apply the appropriate values of capacity to wind and solar that would lead to capacity payments in PURPA-style power purchase agreements (PPAs)?
5. Given the above (i.e., some renewables can provide firm capacity or can provide reliability benefits, and some DSM measures can off-set capacity requirements), would the CA agree that perhaps a better set of circumstances would be all-sources, supply-side (capacity and energy), renewables, and demand-side?

HREA-CA-FIR-9. On page 29, the CA discusses a solicitation to acquire reliability-based resources.

1. Why does the CA feel it necessary for the utility to identify a "self-build" project?
2. Isn't it sufficient to identify a resource need in IRP, and then build a set of requirements for a solicitation?
3. If a utility is seeking to advance its project, i.e., submit its proposal in a competitive bidding solicitation, why should it anticipate rate base treatment of its

costs to prepare a proposal and, if successful, to construct and operate its proposed power plant?

4. Referencing also the last sentence of the first paragraph on page 37, does the CA consider the ratebasing of utility costs to be fair and equitable, while Independent Power Producers (IPPs) must fund their proposal costs, finance their projects if successful and recover their costs from revenues obtained in their PPA?
5. Does not this approach (ratebasing utility projects) require the consumer to assume more "risk?"
6. Does not this approach, at some point, place "undue risk" on the consumer? Please explain your response.

<u>HREA-CA-FIR-10</u>. The last bullet on page 29 reads: "A utility affiliate may participate in any competitive solicitation, provided that proper safeguards are in place to ensure the 'arms's length' evaluation of such solicitation. This may require that a third party either administer or closely monitor the solicitation process.

1. Who would make the decision about whether a third party is required?
2. On the other hand, why not require a third party (Independent Observer hired by the PUC) in all cases where a utility affiliate is participating, as HREA has recommended in our proposed Model 1 (pages 12 to 15 in our FSOP)?

<u>HREA-CA-FIR-11</u>. On page 33, the first sentence of the first paragraph reads: "Where a competitive bidding process is not reliability-based, the situation is quite different."

As a follow-up to HREA-CA-FIR-8, the CA appears to place a higher priority on a "reliability-based" resource compared to renewable resources needed to meet the utility's RPS. Please explain:

1. Why the situation would be quite different? For example, the utility is charged not only with meeting customer demand, but also to meet the state's RPS, and
2. Why wouldn't a utility backstop proposal be just important for both resource needs?

<u>HREA-CA-FIR-12</u>. In the footnote on page 34, the CA discusses briefly circumstances relating to an IPP failure (see also HECO's response to PUC-IR-33).

HREA agrees that there is the possibility that an IPP selected in a competitive bidding process could fail. Has the CA considered the consequences to consumers if a utility project fails (e.g., the utility could not complete the permitting process) or a selected utility project is late?

<u>HREA-CA-FIR-13</u>. On pages 35 to 36, the CA discusses potential problems with utility participation.

HREA agrees that a utility could have an advantage if it has access to a site for a new power plant, e.g., HREA understands that HECO has acquired a site in the Campbell Industrial Park for its planned next conventional generator (a 100 MW class combustion turbine). Given that and the general lack of such sites in the islands, would it not make sense for the PUC to require the utility to offer such sites to other bidders in a competitive process? By offer, we mean that the utility could offer to sell or lease the site, if it owns the site, or, if the utility does not own the site, to facilitate a sale or lease with the site owner.

<u>HREA-CA-FIR-14</u>. On pages 40 to 41, the CA discusses all-source solicitations, as well as possible specific solicitations to acquire DSM resources. The CA also notes HECO arguments that previous all-source solicitations "using the same evaluation criteria proved to be flawed." Would the CA agree with the following?

1. DSM resources can offset capacity requirements, thus contributing to reliability,
2. Would the CA agree with HECO's claim that all-source solicitations "using the same evaluation criteria proved to be flawed," and

3. Would the CA support the development of a solicitation methodology to provide the equitable treatment of demand-side and supply-side resources. For example, one possible methodology would be to compare demand-side and supply-side resources based on *avoided* or *delivered* capacity *and* energy. Specifically, Offerors would be required to bid prices for delivered or avoided electricity in cents/kWh (i.e., there would be not fixed capacity payments). Note: this would require the anticipated capacity payments (as applicable) to be converted to energy payments, and the utility would be required to specify when firm capacity is desired (e.g., the utility could provide an average daily load profile for each month of the year or in some other format as applicable).

<u>HREA-CA-FIR-15</u>. In paragraph 6 on page 2 of Appendix F-1, the CA indicates that "a proposed contract should be included with each RFP."

1. What does the CA mean by "proposed contract,"
2. Would a winning bidder be able to sign such a contract without making any changes, e.g., just provide in the "blanks" with information about the bidder's company and its proposed facility, and the utility would be obligated to sign the completed proposed contract?
3. Would the winning bidder have the right to propose modifications to the contract subject to agreement by the utility and approved by the PUC?
4. Would the winning bidder have the right to agree or disagree with any proposed changes to the "proposed contract" by the utility?

<u>HREA-CA-FIR-16</u>. Referencing paragraph 11 on page 2 of Appendix F-1, does the CA still believe that an independent entity can truly be "independent" if is hired by the utility and reports to the utility?

<u>HREA-CA-FIR-17</u>. Referring to paragraph 14.a on page 3 of Appendix F-1, if the CA supports competitive bidding as a "rebuttable presumption", why would the utility need to "demonstrate that there is reason to believe that relying on the market to provide the needed resource is prudent?"

<u>HREA-CA-FIR-18</u>. Referring to paragraph 17 on page 4 of Appendix F-1, does the CA still believe "This *may* (as opposed to *shall*) require that a third party either administer or closely monitor the solicitation process?"

C. **Hawaiian Electric Company, Maui Electric Company and Hawaii Electric Light Company ("HECO")**

HREA-HECO-FIR-1. The paragraph 1 on page 1 reads as follows: "The HECO Companies can support competitive bidding for certain forms of new generation, but only if it is structured in such a fashion that the potential benefits can be realized, and the potential disadvantages can be mitigated or eliminated, and only if appropriate exceptions are recognized."

Please provide three examples of when, given the above criteria, competitive bidding would be an acceptable approach to HECO for acquiring new resources.

HREA-HECO-FIR-2. Regarding the discussion of Hawaii specific factors that HECO raises in paragraph 3, page 2:

HREA would agree, in general, that there are a limited number of sites available in our island for large facilities, especially on Oahu. However, we see at least two ways to mitigate this potential problem:

1. Utility-Identified Site. Assuming the utility has identified a site for a new generation facility and has either purchased the land or secured a lease for access to the site, could not the site be made available for competitive bids? For example, assume further that the utility identifies the value of the land (lease or purchase) in the RFP. Then, if the winning bidder was NOT the utility, could not the utility either lease or sell the land (as appropriate) to the winning bidder? If not, why not?
2. Size-and-Location Factors. Would HECO agree that another potential strategy would be to consider multiple facilities of smaller sizes? For example, if HECO specified in the RFP that they desired a 100 MW class conventional facility, a bidder might propose four 25 MW facilities dispersed in locations that could be easier to site, especially they incorporated biofuels.

<u>HREA-HECO-FIR-3</u>. The following is from paragraph 5.d. on page 3:

> *"Utilities have the obligation to serve their customers while IPPs who supply capacity and energy to the utilities under PPAs may be obligated to provide to the utility only those items and services, or to perform only those duties, that are covered by provisions in the PPA. At times, this can constrain the utility's operating flexibility."*

If the PPA for an IPP has provisions to meet emergency and other contingency requirements, given appropriate coordination with the utility and perhaps financial incentives, please explain how IPP facilities would constrain the utility's operating flexibility?

<u>HREA-HECO-FIR-4</u>. The following is from paragraph 6. on page 5:

> *"If the utilities will have to restructure their balance sheets and increase their percentage of more costly equity financing in order to offset the impacts of purchasing power on their balance sheets, then this rebalancing cost must also be taken into account in evaluating the total cost of the new generating unit."*

Would the above statement be true if there were no fixed payments to IPPs, i.e. only variable payments based on the delivery of capacity and energy?

<u>HREA-HECO-FIR-5</u>. On page 5, regarding the discussion on how long it would take to do a competitive procurement, assuming that HECO continues it's planning activities on the identified Campbell Industrial Park site and facility (i.e., 100 MW class combustion turbine) and assuming further:

1. In January 2006, HECO is required by the PUC to solicit bids (using HECO's best procurement practices) for the desired facility;
2. A RFP is released by June 2006, including an offer to potential bidders to purchase or lease HECO's site;
3. A successful IPP bidder is selected by June 2007 to build and operate the facility (perhaps with a turnkey option and/or a buyout option);
4. The utility will transfer approved project permits to the successful bidder; and
5. Assist the bidder in obtaining permits still in process.

HREA-HECO-FIR-6. The first sentence of paragraph 7.d. (page 6) reads as follows:

> *"The competitive procurement process for distributed generation ("DG") should be different than the competitive procurement process for generation that provides power directly to the utility or sells power to the utility."*

Would HECO agree with the following?

1. DG on the utility-side of the meter should be incorporated with all utility supply-side procurements? Specifically, while generally being smaller in capacity and dispersed on the utility's grid, DG can provide capacity and energy to the utility.
2. DG on the customer-side of the meter should be incorporated with all utility demand-side procurements? Specifically, customer-sited DG serves primarily to reduce or offset customer load and therefore are demand-side measures.

HREA-HECO-FIR-7. The first sentence of paragraph 7.e. (page 6) reads as follows:

> *"As-available renewable energy generation has different characteristics than firm capacity, and the timing of when such resources are added to the utility's system is not nearly as important to the reliability of the system."*

By "different characteristics" is HECO implying that it will continue *not* to recognize the reliability contributions of as-available renewable energy sources and *not* make capacity payments, which are within the intent and spirit of PURPA, for wind, solar and hydro?

HREA-HECO-FIR-8. The first sentence of paragraph 9.d. (page 8) reads as follows:

> *"With regard to host utility self-build options, utilities have been selecting their own build options more frequently over the past few years for several reasons."*

HREA believes the basis for HECO's arguments for this conclusion lies primarily with experience on the mainland, and doesn't apply to Hawaii. Specifically:

1. If it were true that "the financial and credit problems faced by independent generators have led to higher debt costs and higher equity ratios for independent generators, virtually eliminating the competitive advantage once enjoyed by independent generators," why does the HECO family now have three windfarm IPPs with approved contracts and construction underway?

2. With respect to the second argument of transmission constraints, the above windfarms (as designed) do not have transmission constraints as alluded to as a significant issue by HECO. Furthermore, HREA's understanding is the windfarm operators are paying for transmission additions and upgrades; and
3. HREA does not believe same windfarm IPPs have "deteriorating credit quality," or is HECO suggesting that they do.

<u>HREA-HECO-FIR-9</u>. In paragraph 10.a to 10.d. (page 9) HECO describes four steps that it "could take to avoid self-dealing or concern over an unfair completive advantage that may be perceived by other bidders." Please respond to the following:

1. <u>"The utility could submit its self-build option to the Public Utility Commission one day in advance of receipt of other bids. The utility could also provide substantially the same information as other bidders. By sending its proposal to the Commission in advance other bidders would be ensure that the utility could not adjust its bid price or project structure after reviewing other proposals</u>." We would agree that this approach could mitigate against the utility's taking advantage of information provided in other proposals. However, we do not consider this step by itself to be persuasive in preventing utility self-dealing.
2. <u>"The utility could establish a web-site devoted to disseminating information to all bidders at the same time, including the utility self-build option</u>." We see this proposal as a "red herring." First, HECO would have intimate knowledge of the technical, cost and other requirements well in advance of the release date of information on a web-site. Specifically, how else would HECO be able to prepare the information for the web-site? Thus, this step would provide other bidders with little confidence that the utility is at the same place on the ball field as the rest of the bidders at the time of the release of the information. Consequently, HREA believes this step does little to reduce the perception of "self-dealing."

3. "The utility could use an independent observer to review the solicitation process including communications with bidders, bid evaluation and selection, and contract negotiations, and report to the PUC at various steps of the process." Again this is a "red herring," as HECO's position is that HECO should be the one to hire the independent observer and the observer would report to them. By definition, we do not believe the independent observer in this case could truly be considered "independent." Consequently, HREA believes this step does little to reduce the perception of "self-dealing."
4. "The Commission would then approve the result of the process by approving the commitment of expenditures for uility–owned generation and/or the power purchase agreement ("PPA") for generation owned by IPPs." This suggestion is at least a "pink herring." We believe the only way this step would reduce the perception of "self-dealing" would be to have an Independent Observer, hired by the Commission and reporting to the Commission, to ensure that:
   a. The entire solicitation was conduced in a "fair and open" process, and
   b. If HECO or an affiliate of HECO was allowed to bid, HECO did not take unfair advantage of its position.

   However, we do not see how item "b" could be confirmed unless the Independent Observer was able to verify and ensure that:
   i. A separate utility project team was tasked with *both* the preparation and evaluation of the RFP and this team was be *totally independent* of the "proposal and implementation" team, and
   ii. The utility agreed that the Observer would be *totally independent* of the utility (per our proposal for the Observer would hired by the Commission and report to the Commission).

However, since HECO has not agreed on items "i" and "ii" above, this proposed step does little to reduce the perception of "self-dealing."

Therefore, our overall assessment is that only step 1 is plausible given the HECO's current position and, thus, step 1 by itself does very little to reducing the perception of "self-dealing."

<u>HREA-HECO-FIR-10</u>. Paragraph 13.a. (page 11) reads as follows:

> *The IRP Plan can continue to be developed using the current process followed by the HECO Companies. In this case, the role of the IRP Plan should be to identify the preliminary "preferred" resource plan, define capacity and energy requirements, the timing of need, any preferred technologies, and potentially any other preferred attributes. The IRP Plan can also be used to identify any preferences or criteria for resource selection and can be used to determine avoided costs.*

While HREA supports the integration of competitive bidding with IRP, we continue to be concerned with how and when competitive bidding would be employed. Specifically, HECO proposes to select a "preferred resource plan" (which we interpret to be the 5-year action plan), then implement a competitive bidding process to select the winning bidders (utility or non-utility) to meet the 5-year action plan. Our biggest concern is that selection of a preferred resource (s), as currently pursued, is based primarily on utility performance and cost estimates of alternative facilities technologies. We have argued consistently that the implementation approach matters, and that we believe HECO's estimates are more typical of what it would cost the utility to build and operate the desired facilities.

Referencing the discussion on pages 17 to 20 of our Preliminary SOP, as updated on pages 18 to 22 of our Final SOP, we have proposed that a competitive bidding process be implemented to determine the most cost-effective approach to select the projects and activities to meet the 5-year plan objectives. Therefore, would HECO agree that?

1. Use of competitive bidding to identify and select the most cost-effective projects (and other measures if DSM is included) for meeting the 5-year plan objectives, assuming that PPAs are awarded in a timely manner to the winning bidders and/or a winning utility proposal is approved by the Commission;

2. The early use of competitive bidding as tool for selecting projects for the 5-year plan would likely be more efficient and effective than the current process. This approach would lead to earlier selection of projects and activities based on market prices rather than utility estimates. This would be both more efficient and effective; and
3. Ideally, in IRP it would be best to conduct an all-sources solicitation or separate demand-side and supply-side solicitations concurrently. Specifically, HECO could evaluate and select the most cost-effective projects or measures. In general, we would expect a number of demand-side measures to be more cost-effective and those selected would off-set a portion of the IRP-derived, capacity and energy load requirements. Supply-side resources could then be selected to supply the remaining load requirements.

HREA-HECO-FIR-11. On page 12, HECO discusses briefly alternative contracting options and "avoided costs of the generic resource identified in the IRP Plan or to the utility self-build project." Given that competitive bidding is likely to change the way HECO contracts for purchase power, we have the following questions:

1. When soliciting proposals in a competitive bidding process, does HECO believe it would be better to announce a "target" price based on avoided cost or some other measure?
2. Or would it be better to calculate a "target" price, but not reveal that price until the proposals have been submitted?
3. In the case of item 2, would HECO agree that price of the winning bidder (assuming that only one award is sought), becomes the "new" avoided cost? and
4. Regarding the type of contract, does HECO believe it would be prudent to retain some flexibility, e.g., a winning bidder could choose to contract as a QF (Qualifying Facility) or choose an alternate contract format?

HREA-HECO-FIR-12. The second and third sentences from paragraph 16 on page 13 read as follows:

> *"The HECO Companies themselves routinely use competitive procurement practices in acquiring and constructing utility equipment and facilities, and are experienced in issuing RFPs for major equipment purchases. HECO issued an RFP in 1987 that ultimately resulted in two major PPAs for firm capacity."*

Regarding the RFP in 1987:

1. Did HECO prepare a detailed set of specifications for the RFP based on HECO's planning activities?
2. If so, would HECO characterize the planning activities as a "backstop" proposal as discussed by the CA?
3. Would HECO characterize the results of the 1987 RFP as successful?

HREA-HECO-FIR-13. The second sentence from paragraph 17 on page 14 reads:

> *"As is shown in Exhibit III, circumstances are substantially different now than they were in 1987, and are substantially different than they are on the mainland in terms of sites, fuels and other features that may make alternatives attractive."*

Regarding the circumstances since 1987:

1. In the case of the AES facility, one of the reported outages occurred in 1996 after problems on HECO's side, i.e., the Waiau-Koolau #1 line tripped, followed by the loss of Waiau #7 and Kahe 5 (reference HECO response to HREA-HECO-IR-09). Consequently, can HECO say definitively that IPP generators or more likely to fail than HECO's transmission lines and generators?
2. Problems reported by HECO with the HC&S facility on Maui were in 1988. Have there been any problems since then?
3. If MECO had spinning reserve could the problems attributed to the HC&S been avoided?

4. Regarding the problems in 2002 with the Puna Geothermal Ventures on Hawaii, would HECO agree that subsequent steps taken by PGV to expand their production wells should mitigate against similar occurrences in the future?
5. If HELCO had spinning reserve could the problems attributed to the PGV been avoided or was it also a matter that HELCO's reserve margins were low?
6. The other case was Hilo Coast Processing on Hawaii which reported in 1994 that it planned to shutdown in 1997 before the end of its contract. It is not clear from HECO's discussion whether the early demise of Hilo Coast actually caused any operational problems; and
7. Given that there is any number of occurrences possible on the utility or non-utility sides of the grid, why hasn't the HECO family moved to develop a spinning reserve policy on the outer islands?

HREA-HECO-FIR-14. Referring to the second paragraph on page 2 of Exhibit II to page 3, where HECO discusses a three-stage process to implement competitive bidding in Hawaii including integration with IRP:

1. Could not both stage 1 (basic guidelines) and stage 2 (framework provisions) be completed in this docket?
2. Is HREA correct in understanding that HECO is proposing to delay implementation of competitive bidding until the fourth round of the HECO IRP?

HREA-HECO-FIR-15. Referring to paragraph 2 on page 5 of Exhibit II, please explain the difference between "any mandated competitive bidding process" and "another competitive procurement process."

HREA-HECO-FIR-16. The fourth paragraph on page 14 of Exhibit II reads:

"By far the longest part of the process in Hawaii is obtaining the appropriate permits and approvals for new generation. Hawaii has a very limited number of sites that are available to locate new generation, and changing land use designations in Hawaii in order to acquire new generation sites is difficult and time-consuming with an uncertain."

Given the identified problems in permitting is HECO considering soliciting for small projects in distributed locations? If not, why not?

HREA-HECO-FIR-17. Finally, HREA would like to know if HECO is willing to "play by the same rules" as IPPs, if HECO were allowed by the PUC to advance its own proposal in a competitive solicitation. Specifically:

1. Set up a solicitation team, such that HECO's proposal team has no advance information beyond what is released to all potential bidders, e.g., such information as is transmitted in a pre-RFP release briefing?
2. Would HECO pay for its own costs to prepare and submit a proposal, i.e., not propose to have ratepayers reimburse HECO for their proposal costs?
3. If successful, would HECO finance its own project, and like IPPs, be paid based on the delivered capacity and energy like IPPs, i.e., HECO would not rate base its new generation investments with a guaranteed return on that investment?

****

END OF HREA's INFORMATION REQUESTS

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DATED: October 18, 2005, Honolulu, Hawaii

President, HREA

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing Final Information Requests 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:

Party		**Party**	
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Dated: October 18, 2005

President, HREA