

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of)
)
PUBLIC UTILITIES COMMISSION)
)
Instituting a Proceeding to Investigate)
Competitive Bidding for New Generating)
Capacity in Hawaii.)
_____)

Docket No. 03-0372

PUBLIC UTILITIES
COMMISSION
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STATEMENT OF POSITION OF
KAUAI ISLAND UTILITY COOPERATIVE
AND
CERTIFICATE OF SERVICE

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STATEMENT OF POSITION
OF
KAUAI ISLAND UTILITY COOPERATIVE

KAUAI ISLAND UTILITY COOPERATIVE ("KIUC"), by and through its attorneys, does hereby submit its Statement of Position in this docket pursuant to Prehearing Order No. 20923 filed on April 23, 2004, as amended by Order No. 21575 filed on January 28, 2005.

I. STATEMENT OF THE ISSUES

As set forth in the proposed Stipulated Prehearing Order filed on April 2, 2004, as approved in said Prehearing Order No. 20923, the issues in this docket are as follows:

- 1 What are the benefits and impacts of competitive bidding?
- 2 Whether 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?
 - b. What are the specific competitive bidding guidelines and requirements for prospective bidders, including the evaluation system to be used and the process for evaluation and selection?

- c. How can a fair competitive bidding system encourage broad participation from a range of prospective bidders?
3. What revisions should be made to the integrated resource planning process?

II. STATEMENT OF POSITION

The following sets forth KIUC's statement of position with respect to each of the issues set forth above. The positions set forth herein are made for the purpose of facilitating the discovery process in this docket and shall not prevent KIUC from modifying or changing any of its positions set forth herein.

As a preliminary matter, in analyzing the above issues, KIUC undertook an analysis regarding the definition(s) of competitive bidding and what definition was the most applicable for KIUC and whether that definition should also be applicable to the other electric utilities serving Hawaii. Based on that analysis, KIUC believes that a modified version of the Electric Power Industry Glossary definition of competitive bidding best meets KIUC's cooperative ownership structure and its limited resource situation.¹

Per this modified definition, competitive bidding:

is a procedure that utilities use to select [builders/]suppliers of new electric capacity and energy. Under competitive bidding, an electric utility solicits bids from prospective [future] power generators to meet current or future power demands. Note: KIUC's additions to the definition in the Electric Power Industry Glossary are indicated by the text in brackets (i.e., "[xxx]").

KIUC acknowledges that other definitions of competitive bidding may be more appropriate in situations where a utility has an affiliate that provides services or sells products in a competitive energy-related market or when a well-functioning reliable

¹ http://www.energycentral.com/centers/knowledge/glossary/home.cfm?alphabet_letter=C

wholesale supply market with excess capacity exists and can be solicited for bids. However, for purposes of this docket, KIUC believes that any definition of competitive bidding should recognize Hawaii's unique geographic location and the electrical isolation of each island. As such, definitions that are applicable to utilities located on the mainland United States (i.e., utilities that are transmission grid interconnected, that are part of a power pool, and that have the ability, should customers be lost to retail access, to use their generation facilities to supply retail or wholesale load in another utility's service area) are not applicable to utilities in Hawaii.

KIUC, formerly Kaua'i Electric ("KE"), has long been a proponent of procuring competitive bids with respect to generation additions. In 1995, KE was the first electric utility in Hawaii to formally complete a competitive bidding process for its then-planned generation addition (a 26.4 megawatt electric generation facility) that was completed in 2002. This process resulted in a purchase power agreement being entered into with Kaua'i Power Partners ("KPP") and the subsequent purchase of the 26.4 megawatt facility by KIUC in 2003. KIUC believes that the competitive bidding process used for that project helped to ensure that the facility would provide both economic and reliability benefits to KIUC's members.

In connection with the above, KIUC intends to continue to use a competitive bidding process for its next generation addition using the process described below. In KIUC's opinion, the competitive bidding process ensures that future generation projects will be developed in a manner that best meets the objectives of KIUC's Integrated Resource Plan. KIUC also recognizes that it is a very small electric utility and does not have the staff or expertise, on its own, to develop and build large capital projects such as new electric generators. As such, it makes much more sense for KIUC to specify

generation requirements in a Request For Proposals ("RFP") and then allow third parties to provide bids that KIUC will evaluate per established criteria mentioned in the RFP. Requirements stated in the RFP may include, but are not limited to, the generation facility's size, technology, operating characteristics, ownership options, reliability, and ability to provide firm or non-firm capacity.

In addition, as an electric cooperative borrowing money from the Rural Utilities Service ("RUS") in connection with its purchase of Kauai's electric utility in 2002 and its purchase of the abovementioned 26.4 megawatt facility in 2003, KIUC is required by RUS to use competitive procurement to the greatest extent practical. Except under certain circumstances, KIUC must use competitive procurement for obtaining all goods and services when a RUS loan or loan guarantee is involved. In cases where KIUC engages in a partnership with another entity(ies) in response to unique opportunities to provide integrated solutions to multiple issues, the competitive bidding system will not be used on the project level.

Therefore, the procurement of competitive bids is a natural process to be implemented by KIUC as it fits well within the framework of an electric utility cooperative.

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

At least as it pertains to KIUC, the benefits of the competitive bidding process start with the assurance that the members of KIUC will be given a means to best attain the generation and transmission objectives stated in the integrated resource plan ("IRP"). The initiatives of KIUC's Board of Directors, which represents the interests of KIUC's members, will be incorporated into these objectives. Among the current objectives are lower rates and/or increased patronage capital refunds and credits,

reduced reliance on fuel oil, increased focus on renewable energy, and favorable ownership options that take advantage of KIUC's low cost of capital.

Competitive bidding also allows for the selection from a pool of qualified candidates. The bidder that can best meet the objectives stated in the RFP will be selected. Competitive bidding also represents a business opportunity for the bidders.

When a generation technology is not specified, the competitive bidding process also provides for an open and unbiased selection of various bidders. Once the specifications have been determined and published, KIUC anticipates invitations to all qualified bidders. This will allow for diversification of all types of technologies from all types and sizes of bidders.

A competitive bidding process will ensure that the generation projects fit within the objectives of a rural cooperative such as KIUC. Further, the diversity of different technologies offers KIUC the ability to no longer rely on single source suppliers. For generation projects, fuel diversity for a small cooperative like KIUC is imperative in order to ensure long-term, reliable and alternative fuel supplies.

A negative impact of a competitive bidding process is that the process may be resource-intensive. For example, preparing the RFP, identifying bidders, issuing the RFP, conducting pre-proposal conferences, collecting and reviewing proposals, interviewing bidders, awarding the bid and negotiating the contract for services are all steps that will involve a substantial commitment of KIUC's financial, time, and staff resources.

2. Issue 2: Whether a competitive bidding system should be developed for acquiring or building new generation in Hawaii?

As it pertains to KIUC, a competitive bidding system should be developed for acquiring or building new generation in situations where KIUC directly initiates a

process for acquiring new generation and has the sole authority for key project decisions. These key decisions may include, but are not limited to, generation technology, selection of developer, source of funding, ownership options, siting, and size (capacity) limits.

On the other hand, the use of a competitive bidding system should not be required of KIUC when KIUC is engaged in a partnership with another entity and does not have the sole authority for making key decisions. Under that circumstance, these partnerships may have been created solely due to unique opportunities that provide integrated solutions to multiple issues. One example of an integrated solution is a municipal solid waste generating plant whereby the need for more capacity is coupled with landfill issues.

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?

When initiating a process to acquire new generation, KIUC anticipates that it will follow the proven process that KE utilized in 1995 that resulted in its 26.4 megawatt electric generation facility. The specifications for the next generation project as well as the evaluation process used in the unbiased selection of bidders will ensure that KIUC and its members are not placed at undue risk.

KIUC will also ensure that the competitive bidding process will allow KIUC to continue supplying its members' electrical energy needs with generation that meets KIUC's objectives. Due to its cooperative structure, KIUC has access to low-cost funding through its lenders that can assist in keeping bids as low as possible or in the alternative, to allow KIUC to buy its own generation addition under a time and material

contract at a lower price than any of the bidders. This provides a fail-safe measure to ensure that bids are competitive.

In addition, KIUC will structure its RFPs to clearly state the utility's new power generation objectives. The objectives and scope of work will be specifically stated to avoid any ambiguity that may result in subjective proposals. In addition, the RFP will also state other requirements that bidders must meet in their proposal submissions. These requirements may include, but are not limited to, financial strength, cost, ability to meet project timelines, history of performance, resumes for key management persons, and references. A successful bidder will be chosen following a rigorous process of review and research of all bidders' credentials.

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

In addition to the above, KIUC will include an RFP process schedule in the RFP. Bidders will be given a specified time period to respond to the RFP. During this period, KIUC may elect to hold a pre-bid conference whereby all bidders would be encouraged to ask questions and receive responses and additional information in the presence of the other bidders. In their submission of proposals, bidders will be required to address all of the requirements set forth in the RFP. Failure to do so will disqualify the bidder from being considered.

KIUC will receive and date each bid, and return any bids received after the specified proposal due date. An internal review team within KIUC will then be formed. Each member of the team will independently review the qualified proposals submitted. Thereafter, the internal review team as a group will conduct phone interviews of the various candidates. Following those interviews, the members of the

review team will complete evaluations based on standardized criteria. The team will then meet, discuss the evaluations, and award the project to the bidder that is determined to best meet the project needs and the needs of KIUC and its members.

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

In the previous KE competitive bidding process discussed above, KE received over thirty bids for various different types of projects. The key to that broad participation was in the manner KE solicited its bids – asking for capacity and energy from any proven technology. After the initial screening process by KE, a final list of six bidders were then evaluated in detail to arrive at the 26.4 megawatt facility to be constructed by KPP. KIUC believes that the above process sufficiently encouraged broad participation from a range of prospective bidders, and KIUC intends to utilize a similar competitive bidding process in the future to accomplish the same objective.

3. Issue 3: What revisions should be made to the integrated resource planning process?

KIUC believes that the competitive bidding process starts with the IRP and its results. For example, a completed IRP provides the basis for published long-term avoided cost numbers that are required for bidders to develop their bid.

In KIUC's case, by letter dated December 23, 2004, KIUC filed a proposed revised IRP framework, entitled "Kaua'I Island Utility Cooperative Integrated Resource Planning Principles", to take into account its unique cooperative ownership structure. KIUC believes that this proposed framework provides sufficient guidelines to allow for a competitive bidding process for KIUC as a cooperative electric utility and that no further changes are needed. KIUC believes that the outcome of this docket will identify existing or establish new guidelines to promote fair competitive bidding for new generation

capacity on Hawaii. KIUC also believes that any guidelines identified per this docket that are applicable to a cooperative electric utility should be consistent with those KIUC has included in its proposed IRP framework.

DATED: Honolulu, Hawaii, March 14, 2005.



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I hereby certify that copies of the foregoing document were duly served on the following parties, by having said copies delivered as set forth below:

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