



William A. Bonnet
Vice President
Government & Community Affairs

June 17, 2008

PUBLIC UTILITIES
COMMISSION

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

Dear Commissioners:

Subject: Docket No. 2007-0331
Competitive Bidding Process for Renewable Energy on Oahu

On June 3, 2008, comments to Hawaiian Electric Company, Inc.'s ("Hawaiian Electric") proposed Final Request for Proposals for Non-Firm Renewable Energy Projects, Island of Oahu, May 2008 ("RFP") were submitted by Castle & Cooke and Shell Wind Energy ("Shell").¹ (On May 19, 2008, Hawaiian Electric originally submitted its proposed RFP to the Commission. In addition, on June 12, 2008, Hawaiian Electric submitted corrections to the RFP and Model PPA.) Hawaiian Electric has reviewed both comment letters and has consulted with the IO. As a result, several clarifications and revisions are now submitted for incorporation into the RFP and Model PPA. (See attached Exhibit A.)

With respect to the late receipt of the comments from Shell to Hawaiian Electric and the IO, the related time for review of Shell's comments with the IO, and these subsequent revisions to the RFP, Hawaiian Electric agrees that the Commission should take sufficient time to review the RFP documents, and would not object to an extension of time for the Commission's review of the RFP.²

Hawaiian Electric has not provided a revised set of RFP documents at this time to save on reproduction costs and in the event that further revisions are requested by the Commission. Hawaiian Electric will provide the Commission (and the Consumer Advocate) with copies of the

¹ Shell's comment letter was dated June 3, 2008. However, Shell did not provide a copy to Hawaiian Electric or the Independent Observer ("IO"). On June 12, 2008, the Commission provided Hawaiian Electric and the IO with a copy of Shell's comment letter.

² Pursuant to Section IV.B.6.e.(ii) of the Framework, Hawaiian Electric has the right to issue the RFP if the Commission does not direct Hawaiian Electric to do otherwise within 30 days after the Commission receives the proposed RFP and the Independent Observer's comments and recommendations. Therefore, 30 days after Hawaiian Electric's May 19, 2008 submittal of the RFP is June 18, 2008.

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Final RFP after it has been approved by the Commission. Electronic notice of these revisions to the Proposed Final RFP will be made to all parties who have submitted an expression of interest to our Solicitation of Interest and Draft RFP and will be posted on Hawaiian Electric's Generation Bidding website (<http://generationbidding.heco.com>).

Sincerely,



Attachment

cc: Division of Consumer Advocacy (with Attachment)



Exhibit A
Revisions to the Proposed Final RFP and Model PPA
(deletions indicated by strikethrough; additions shown in bold)

1. Section 1.3 Solicitation of Interest and the Grandfathered Proposals, revised as follows:

In September 2007, HECO released a Solicitation of Interest (SOI) announcing plans for issuance of this RFP. The SOI is included in this RFP as Appendix D. As noted in the SOI, HECO is continuing discussions with developers of certain proposals for projects that are exempt from the Framework for Competitive Bidding (“Framework”) process (“grandfathered proposals”). Those proposals, submitted before adoption of the Framework, involve offers to sell energy or capacity by non-fossil fuel producers and qualify towards meeting HECO’s RPS requirements. The grandfathered proposals could result in power purchase agreements for approximately 60 – 135 MW of renewable energy. The grandfathered proposals consist of approximately 30 MW of wind energy located on the north shore of Oahu, 5 MW of energy from synthetic gas derived from waste products, and 25 MW of energy from ocean thermal conversion which could potentially increase to 100 MW. The developer of the 30 MW wind farm grandfathered proposal has also expressed interest in participating in this RFP.

The Commission has issued Order No. 24170 in Docket No. 03-0372 setting a deadline of September 2, 2008 for HECO and the proposers of these grandfathered proposals to reach agreement on principle terms (term sheets). ~~To the extent possible, HECO will provide an update on the status of these grandfathered proposals at least three weeks before the proposal deadline for this RFP.~~ **In the event that HECO and the grandfathered projects are able to reach agreement on such a term sheet, HECO has received approval from the grandfathered project developers to release information on (A) the scope of the project (i.e., technology, capacity, and location) and (B) the manner in which the energy will be delivered (i.e., as-available, scheduled). This information will be posted on HECO’s Generation Bidding website (RFP Documents and Updates Section) as expeditiously as possible after agreement is reached, but not less than three weeks prior to the bid due date. HECO will also notify bidders if no term sheet has been agreed to by the September 2, 2008 deadline.**

Thus, while this RFP is seeking up to 100 MW of renewable energy, the amount of energy associated with renewable generation capacity that HECO may select through this RFP process could be higher or lower depending on the outcome of negotiations with these grandfathered proposals.

2. Section 3.3 Submission of Comments With Respect to the Draft RFP and Proposed Final RFP, delete last sentence as follows:

In accordance with the Framework, prospective bidders will have the opportunity to submit comments on the draft RFP as input to the completion of the final RFP. Comments should be submitted to the Commission (Docket No. 2007-0331), the HECO Official Contact and the Independent Observer. HECO will then determine whether to incorporate the recommendations of the parties and, if so, how to do so in a final, proposed RFP (including attachments). The IO will also review the comments of the parties. HECO will have the opportunity to address comments submitted by interested parties with the final proposed RFP filed with the Commission. The IO shall submit its comments and recommendations to the Commission concerning the RFP and all attachments at the same time the RFP is filed. Interested parties will have the opportunity to comment on the proposed final RFP and the IO's recommendations with respect to RFP terms that are different from those in the draft RFP; such comments would need to be filed within 10 working days of HECO's filing of the Proposed Final RFP. HECO shall have the right to issue the RFP if the Commission does not direct HECO to do otherwise within 30 days after the Commission receives the proposed RFP and the IO's comments and recommendations. The Commission could also issue an order approving the RFP with any modifications it may direct. Once approval is received, the Company will post the RFP (with any required modifications) on its website. ~~It is estimated that the final RFP will be posted on the Company website on or about June 19, 2008.~~

3. Section 3.12 Credit Requirements, revised as follows:

Bidders will be required to post security upon notification that they have been selected for the short-list (i.e., Bid Deposit Security). Bidders with whom HECO concludes contract negotiations are required to post development period security upon execution of the PPA. Once a bidder's project achieves commercial operation, the development period security is exchanged for operating period security.

Within 10 days after formal notification that the bidder has been selected for the short-list, the bidder will be required to post a bid deposit security in the amount of \$3/kW based on the nominal capacity of the bid project proposal. A bidder who withdraws its proposal after notification of short-list selection will forfeit its deposit security. If a bidder is not selected for the award group, its bid deposit security will be returned.

Within 10 days of the Effective Date of the Contract, the Bidder will be required to post Development Period Security in the amount of \$30/kW. HECO will return the \$3/kW bid deposit security at the same time. Once the project achieves commercial operation, HECO will return the Development Period Security of

\$30/kW to the Bidder. At the same time, the bidder will be required to post Operating Period Security of \$40/kW upon the commencement date of delivery. ~~Operating Period Security will increase to \$50/kW for the last five years of the contract.~~

Bidders will be required to post the levels of Development and Operating Period Security identified above **and should refer to the Section 14 (d) of the Model PPA for preferred Forms of Security.** ~~Bidders may meet the established security requirements through a letter of credit or cash collateral only.~~

~~Bidders will be required to post the levels of Development and Operating Period Security identified above. Bidders will also be allowed to offer additional amounts or types of security, which they should specify, in Section 14 of the Response Package (Appendix B). Higher levels of security than the amount required will be relevant to HECO's consideration of the Non Price Criteria—Project Operational Viability. See Chart 4 below. Section 14(k) of the form PPA provides proposed language should bidders choose to offer a second lien (Subordinated Mortgage) as such additional security.~~

4. Section 4.4, Chart 4, Non-Price Criteria, Revised Item 2. Project Operational Viability and Financial Support as follows:

Chart 4

Initial Price and Non-Price Evaluation Criteria

Evaluation Criteria	Factors
Non-Price Criteria	
2. Project Operational Viability and Financial Support (in relative order of evaluation priority)	<ul style="list-style-type: none"> • Environmental Compliance/Impacts • Bidder Credit Rating • Financial Strength of the Bidder and Project • O&M Plan • Additional Security Offered

5. Appendix B, Response Package, Section 3. Executive Summary of Proposals (page B-4), item 3.c., revised as follows

- c. Security Offered:
 - Nominal Project Capacity: __ kW
 - Bid Deposit Security: \$3/kW required: \$ _____
 - Project Development Security: \$30/kW required: \$ _____
 - Operational Period Security: \$40/kW ~~initially~~: \$ _____
 - Form of Security:
 - Letter of Credit: _____

Cash: _____

Other: If another form of security is proposed, please specify the form and amount of security and state why the proffered security would be an adequate replacement for a letter of credit or cash collateral. _____

6. **Appendix B, Response Package, Section 14 Additional Security (page B-43), delete entire section.**

7. **Section 4.4.2.2 Project Operational Viability Criteria, revised as follows:**

- Credit rating of the Bidder or of any affiliated entity, demonstration of the financial strength of the Bidder and the viability of the project to remain financially strong. Bidders should note that short-listed bidders will be required to provide a financial pro forma for their project (**note that Bidders may propose to submit their financial pro forma to a mutually agreed upon independent third party instead of to HECO**);

8. **Appendix B Response Package, Section 7.12, revised as follows:**

“Pro forma income and cash flow statement conforming to Generally Accepted Accounting Principles for the project for the term of the proposed Power Purchase Agreement (include revenue and cost data by major categories, debt service, depreciation expenses and other relevant information). **Bidders may propose to submit their financial pro forma to a mutually agreed upon independent third party rather than to HECO.** Bidders should note that this information will be required of short-listed bidders only and will be requested by HECO upon short-list notification or after. Should HECO request pro forma financial information from the bidder, the information will only be used for project viability assessment only.

9. **Appendix B, Response Package, Section 4. Pricing Information, revised as follows:**

Bidders are requested to complete a Pricing Schedule for each applicable Scenario listed below. Pricing is separated for wind farm (**wind farm” as used in this pricing sheet applies to non-firm intermittent energy resources that do not have the capability of being scheduled or dispatched by the utility**) proposals 50 MW and under, wind farm proposals **greater than 50 MW and up to 100 MW**, and non-wind farm (**resources that have the capability of being scheduled or dispatched by the utility**) proposals. Proposals for the sale of energy from planned wind farms are requested to include pricing proposals for each of the eight performance scenarios specified below based on project size, while proposals based on other technologies are requested to include pricing

proposals for the four scenarios specified below. Pricing submittal sheets follow. Bidders may take exception to pricing scenarios.

- 10. Appendix B, Response Package, Pricing Sheet Scenarios A1-D1 and A2-D2, replace description as follows:**

“Applies to Wind Farm Projects **50 MW and Under**”

- 11. Appendix B, Response Package, Pricing Sheet Scenarios AA1-DD1 and AA2-DD2, replace description as follows:**

“Applies to Wind Farm Projects **Greater than 50 MW and up to 100 MW**”

- 12. Model PPA, Section 14 (c) Operating Period Security, revised as follows:**

To guarantee the performance of the Seller’s obligations under the Contract for the period starting from the Commercial Operation Date to the end of the Contract, the Seller shall provide Operating Period Security to the Company in the amount of \$40/kW based on the original Contract Capacity, due within five (5) Days of the Commercial Operation Date. Upon receipt of the Operating Period Security, the Development Period Security (including any accumulated interest, if applicable) shall be returned to Seller minus an amount, if any, for Daily Delay Damages that is due and owing to Company but not previously paid by Seller. ~~On the fifteenth (15th) anniversary of the Commercial Operation Date, the amount of Operating Period Security shall be increased to \$50/kW based on the original Contract Capacity.~~

- 13. Model PPA, Section 14(k) Additional Security, delete entire section.**

- 14. Model PPA, Section 16(b), Damages in the Event of Termination by Company, revised as follows:**

If the Contract is terminated by the Company in accordance with this Contract after the Commercial Operation Date due to an Event of Default where Seller is the defaulting party, the Company shall be entitled to Termination Damages calculated by multiplying the Contract Capacity by \$40/kW. ~~On and after the fifteenth (15th) anniversary of the Commercial Operation Date, the Termination Damages shall be calculated by multiplying the Contract Capacity by \$50/kW.~~