

**Biofuels Bidders Conference**  
**April 27, 2010**  
**American Savings Bank Room #2**

**Questions and Answers at the Bidders Conference (edited from the exact answer at the Conference for accuracy and clarity)**

Reza Zarif, Primoris Services Corp

Q: Have you looked at the percentage of biofuel for optimal security? If 100% of the fuel was replaced by biofuel, you'll get to a point of reduced security.

A: At either extreme of having no local biofuels and 100% local biofuels, one can argue that there is less security than some intermediate condition. However, at this point, HECO is seeking to fulfill some reasonable proportion of the overall fuel requirements from local, renewable biofuels. Every step in this direction towards the renewable energy portfolio requirements will be a step towards increased energy security and provide greater insulation from price swings.

David Jones, Live Fuels

Q: Realizing that you prefer fixed-price contracts, can you give any guidance on what kind of premium over petroleum prices the regulators are likely to accept (i.e. a "green" premium)?

A: We cannot speculate whether or in what range regulators might approve any type of "green" premium. The Public Utilities Commission will review pricing in the context of the particular circumstances of each proposed contract and decide what is reasonable and in the public interest.

It is possible that local biofuels may be priced higher than imported biofuels. This RFP is limited to local biofuels and therefore responsive proposals will only be competing with other proposals within the local biofuel market. We will learn from the competitive proposals the sort of price that can be expected for a local biofuels contract at this point in time. Then HECO must see what the Public Utilities Commission will accept. We hope that the prices will be deemed reasonable considering the realities of the market and the value to Hawaii and HECO of having locally supplied biofuels. The development of a local biofuel market also involves R&D, and we recognize that you typically pay more initially for R&D in the anticipation of future benefits and future lower costs. We recognized this in the writing of the RFP by attempting to be flexible in the terms we seek and providing the option that there may be a premium to the price in the first years of the contract balanced by lower prices later (to help with early returns to investors). Furthermore, long-term contracts should help to stabilize prices and there is a true value to this reduction in the volatility of the overall price – that reduction in volatility should also represent a value that can be incorporated in the price of a local product with a fixed price contract.

Larry Gilbert, Sennet Capital, LLC

Q: Will the Commission have an interest in longer-term contracts since the contract term can influence the terms of loans and loan guarantees?

A: HECO described a 10 year term with possible multiple extensions in the RFP to signal that we are willing to consider long-term contracts. If a supplier needs a term longer than 10 years, then the proposal may state the desired terms and reasons why the terms are requested. The negotiated term for award will depend on what is reasonable. You may incorporate the terms you need to get appropriate financing in your proposal whether it is 5 or 10 years or longer.

Mark Reno, Envergent Technologies

Q: Will you consider modifications to generation platforms if we have engine suppliers on the team that can advise modifications to allow optimum use of biofuels?

A: Yes. If the cost to change HECO's facilities or equipment to use a supplier's biofuel is less costly than the added cost to the supplier to further refine the biofuels, then a supplier may propose that. Any modifications to HECO facilities or equipment to accept non-conforming biofuel and those costs will be factored into the overall cost of the proposed biofuel. HECO wants to hear ideas from bidders. HECO will consider further testing the proposed biofuel to determine the extent of plant modifications, if any, required to use non-conforming biofuel. Perhaps some crude biofuels may be used as-is but could be subject to DOH/EPA approval of air permits. Costs borne by HECO to make changes to HECO's facilities or equipment could be subject to PUC approval.

Bob King, Pacific Biodiesel

Q: Can you clarify; this RFP is for feedstock that is actually grown in Hawaii?

A: This RFP is only for local feedstock. This contrasts with previous RFPs that would have accepted offshore feedstock. There will be RFPs for biofuel in the future that will have other opportunities for suppliers of non-local feedstock/biofuels because we are not expecting local feedstock to meet all of our biofuel needs. However this RFP is restricted to fuels produced in Hawaii from feedstocks grown in Hawaii.

Bill VanVliet, Renewable Fuel Corp in Las Vegas Nevada

Q: Is there a local organization that is controlling or organizing the Hawaiian land bank for biofuels? If so, can you provide contact information so we can obtain additional details on availability?

A: HECO is not providing that, but we would like to encourage landowners to pursue opportunities to make those relationships. With greater matchmaking of resources, we would expect greater opportunities to develop local biofuels. We are providing a shared contact list on our RFP website to provide access to individuals who wish to post the services they offer or seek. We also encourage companies to do some initial research on major landowners and to make contacts directly.

Additional resources that were volunteered by attendees:

For potential landowner information, contact:

Michael E. "Skip" Schuman (B)  
Schuman Commercial Inc.  
Exclusively Contracted to PM Realty Group  
808-792-7220  
[sschuman@pmrq.com](mailto:sschuman@pmrq.com)

You may also visit the Hawaii Bioenergy Master Plan at:  
<http://www.hnei.hawaii.edu/bmpp/stakeholders.asp>

The Excel spreadsheet of the Bioenergy Business Partner Catalog is towards the bottom of the web page.

Sandy Causey, Aina Koa Pono, LLC

Q: Are we restricted to RFP limits for supply volume?

A: Attachment A of the RFP establishes the generating units that HECO will consider operating on biofuels at this time and the total amount of fuel those units consume. Minimum and maximum supply volume limits have not been set. Each proposal will need to be evaluated for the supply risk of higher volumes and any cost to HECO to accept very small volumes. HECO encourages bidders to submit their full proposals. Volume determinations will be evaluated as we see the proposals in total and go through the competitive bidding process.

Sandy Causey, Aina Koa Pono, LLC

Q: Can co-generation of power be proposed in conjunction with the primary biofuel proposal for as much as 20 megawatts of power sales to HECO's electrical grid?

A: HECO is required by the PUC to conduct competitive bidding for power generation resources greater than 5 megawatts on Oahu and greater than 2.7 megawatts for HELCO and MECO. HECO advises bidders that it is generally simpler to stay below competitive bidding thresholds in their co-generation proposals so that the biofuels bids can be evaluated without additional complications. However, bidders may propose generation levels greater than the non-bid thresholds and substantiate why the overall liquid biofuel proposal is beneficial and leads to reasonable pricing. The current requirement by the PUC is to competitively bid co-generation that exceeds the thresholds and it would be up to the PUC to allow a different type of arrangement under a proposal designed to facilitate reasonably priced local biofuel.

Richard Hagemeyer, Agmark Logistics, LLC

Q: Some of us desire to supply services to this initiative. How can we be linked to the prime contractors? Should we submit separate bids for our portion?

A: HECO is seeking proposals from the end supplier of biofuels. However, we are trying to encourage contacts through our shared contact list on HECO's RFP website so we would encourage you to post your services and contact information there.

Zig Resiak, Agresti, LLC

Q: How will carbon credits or renewable energy credits factor into a bidders' proposal?

(This answer is further clarified beyond the response provided at the Bidders' Conference.)

A: Bidders may propose to retain any renewable energy tax credits such as the Alternative Fuel Blenders' Credit, Production Tax Credit, or Investment Tax Credit factored into the overall economics of the biofuel proposal. Any renewable energy subsidies such as Federal grants or targeted disbursements may also be retained by the bidder. The rights to carbon credits in future regulated markets and current voluntary markets will also be retained by the bidder to the extent that they do not conflict with the credits retained by HECO, and will then be factored into the economics of the proposal. Stated otherwise, HECO cannot give up any right that its ratepayers should have unless there is a value given to the ratepayers in return. Any proposal to retain rights, credits, etc. must be stated explicitly in the proposal or it will be assumed that all rights, credits, etc. belong to the utility and its ratepayers. HECO will retain any and all Renewable Energy Credits resulting from its production of renewable electricity from biofuel in order to meet the renewable fuel standard requirements it has agreed or may be expected to reach to comply with Hawaii's Renewable Portfolio Standard legislation or to comply with any future laws or agreements applicable to renewable energy or renewable fuels. A Renewable Energy Credit ("REC"), also called "green tag", "tradable renewable certificate", "renewable energy certificate", or renewable identification number (RIN), is an environmental commodity that represents the added value, environmental benefits and cost of renewable energy above conventional methods of producing electricity from traditional sources such as petroleum liquid fuel.

Larry Gilbert, Sennet Capital, LLC

Q: What is the definition of a local source of biofuels?

A: All components of the supply chain must occur in Hawaii. The RFP requires that the feedstock be grown in Hawaii and the processing and refining must be done in Hawaii.

Cameron Black, State Energy Office

Q: Does the seed crop industry provide challenges? Does the seed industry take up viable land that could be used for biofuels?

A: The RFP feedstock requirements are very open, so crop leftovers from the seed crop industry could be an option for biofuel feedstock. The feedstock does not have to be a particular crop, so it is fine if you can use someone's leftovers. The choice of providing land for seed crop in competition with energy crops is a decision that resides with the landowners.

Reza Zarif, Primoris Service Corporation

Q: Do you disqualify animal fat?

A: Animal fat generated as waste from local rendering or slaughterhouse facilities would qualify, but it must be converted to a liquid biofuel. Waste grease also qualifies if the waste grease is generated within Hawaii.

Reza Zarif, Primoris Service Corporation

Q: What would disqualify feedstocks?

A: The RFP sets forth qualifications for bids. Generally stated, in addition to the requirement for feedstocks to originate within Hawaii, the qualifications are based on the sustainability guidance HECO has developed with the Natural Resources Defense Council (NRDC) as described in the RFP. Also, our RFP stipulates liquid-only biofuels.

Bill VanVliet, Renewable Fuel Corp in Las Vegas Nevada

Q: RSPO Certification costs about .25 cents per gallon for palm oil. A similar program in Hawaii will be even more expensive. Has HECO budgeted for sustainability certification fees above the price for biofuel, or is it all inclusive in the bidding process?

A: The cost to provide environmentally sustainable biofuel should be all inclusive in the bidders' price. If a proposed feedstock is not palm oil, HECO and the NRDC point to the Roundtable for Sustainable Biofuels (RSB) for guidelines. There is no formal certification process yet for the RSB however, future RSB certification is a goal of the RSB. HECO will continue to work with the NRDC to apply the RSB principles and criteria to local biofuels.

Reza Zarif, Primoris Service Corporation

Q: What are the biofuel specifications in the RFP?

A: The specifications in the RFP are based on HECO's current fuel specifications for use in the generating units. However, if a proposed biofuel is non-conforming but determined viable for HECO's use, HECO will consider it. HECO is working with the existing specifications, but we will be open to considering and evaluating non-conforming fuels. The specifications are Attachments B and C in the RFP. While HECO's biodiesel specification is more stringent than the ASTM biodiesel specification in some respects, it is possible that HELCO or MECO may be able to use ASTM biodiesel in some of their units.