

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

----- In the Matter of ----- )  
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 PUBLIC UTILITIES COMMISSION )  
 )  
 Instituting a Proceeding )  
 Related to a Competitive )  
 Bidding Process for Firm )  
 Generating Capacity on Oahu. )  
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DOCKET NO. 2011-0039

ORDER NO. 31358

CLOSING PROCEEDING

PUBLIC UTILITIES  
COMMISSION

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FILED

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CLOSING PROCEEDING

By this Order, the commission closes this proceeding, convened in connection with HAWAIIAN ELECTRIC COMPANY, INC.'s ("HECO") plan to proceed with a competitive bidding process to acquire up to approximately 300 megawatts ("MW") of new, renewable firm dispatchable capacity generation resources on the island of Oahu.

I.

Background

By Order issued on February 24, 2011, the commission opened this investigation in response to a letter filed by MECO dated and filed on February 22, 2011, in which HECO requested that the commission "open a new docket for the purposes of receiving filings, reviewing approval requests, and resolving

disputes, if necessary, related to the Company's plan to proceed with a competitive bidding process to acquire up to approximately 300 [MW] of new, renewable firm dispatchable capacity generation resources on the island of Oahu, with the initial increments coming on line in the 2016 time frame and the remainder over the following two years."<sup>1</sup> HECO also requested commission approval of a contract with Van Horn Consulting ("Van Horn") to act as an independent observer ("IO") to oversee the Oahu RFP.

Instead of approving HECO's contract with Van Horn, as requested, the commission selected Boston Pacific Company, Inc. as its IO to monitor the competitive bidding process and report on the progress and results to the commission in the instant proceeding.<sup>2</sup>

## II.

### Discussion

HECO's February 22, 2011 request to open the instant proceeding was done at a time when the commission was still revising the Integrated Resource Planning ("IRP") Framework and

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<sup>1</sup>Order Opening Docket, filed on February 24, 2011, at 5 (quoting HECO's February 22, 2011 letter at 1).

<sup>2</sup>See Order Selecting Independent Observer, filed on November 16, 2011.

when HECO's most recently approved IRP Action Plan was not current.<sup>3</sup>

HECO appears to have a great deal of uncertainty surrounding how it will meet its generation needs.<sup>4</sup> A review of

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<sup>3</sup>The commission issued its Framework for Integrated Resources Planning on March 14, 2011, by Decision and Order on March 14, 2011, in Docket No. 2009-0108.

HECO's last approved IRP Action Plan was in HECO's first round of IRP ("IRP-1"), when by Decision and Order No. 13839, filed on March 31, 1995, the commission approved HECO's IRP-1 and its proposed demand side management program costs, lost margins and shareholder incentive recovery mechanisms; and set a deadline of January 1, 1997, for HECO to file its second IRP plan ("HECO IRP-2").

HECO's second and third rounds of IRP - IRP-2 and IRP-3 - while not approved by the commission, had the status of "plans filed with, but not approved by the commission." See Order No. 18340, filed on January 29, 2001, in Docket No. 95-0347; and Order No. 23312, filed on March 21, 2007, in Docket No. 03-0253.

By letter dated and filed on November 6, 2008, HECO and the Division of Consumer Advocacy requested that the commission close Docket No. 2007-0084 and open a new docket to establish a Clean Energy Scenario Planning process, as a result of the Energy Agreement Among the State of Hawaii, Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and the Hawaiian Electric Companies dated October 20, 2008. The commission issued an Order Closing Docket No. 2007-0084 on November 26, 2008, and suspended all activities pursuant to the 1992 IRP Framework to allow for resources to be diverted to development of a revised framework. See Order Closing Docket No. 2007-0084, filed on November 26, 2008, in Docket No. 2007-0084 (in closing Docket No. 2007-0084, the commission declined to authorize HECO to implement items in the HECO IRP-4 action plan, and stated that it would treat HECO IRP-4 as it did HECO IRP-3, as having the status of a plan filed with, but not approved by, the commission).

HECO's IRP Report and Action Plan, filed with its subsidiaries, Maui Electric Company, Limited, and Hawaii Electric Light Company, Inc., on June 28, 2013, in Docket No. 2012-0036, raises a number of issues that call into question whether this RFP process is appropriate at this juncture, and whether this proceeding is premature. HECO's Adequacy of Supply letter ("AOS"), filed on March 28, 2013, also suggests some uncertainty as to whether this RFP is appropriately before the commission at present.<sup>5</sup>

HECO's IRP Report provides great detail about its plans for firm generation given a number of unknown outcomes. Specifically, HECO suggests:

The extent to which Hawaiian Electric will need additional firm capacity will depend on the particular combination of capacity additions and capacity reductions. The Schofield Generating Station could add 50 MW-net and the [Campbell Industrial Park Steam Turbine #1 ("CIP ST-1")] project could add another 55 MW-net. Deactivation of [Honolulu Power Plant ("HPP")] would reduce the amount of firm capacity on the system by 107 MW-net. Deactivation of Waiiau Units 3 and 4 would further reduce firm capacity

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<sup>4</sup>HECO further demonstrates hesitancy to complete this process, given that over two years have passed and a draft RFP has yet to be issued.

<sup>5</sup>See AOS, filed on March 28, 2013, which suggests that "Hawaiian Electric's generation capacity for the next seven years (2013 - 2019) will be sufficient to meet reasonably expected demands for service and provide reasonable reserves for emergencies, with accommodations for environmental compliance options." AOS at 23.

by 93 MW-net. The [Kalaeloa Partners, L.P. ("KPLP"), an independent power producer providing capacity and energy to HECO under a power purchase agreement] PPA provides 208 MW-net to the system.

Based on deactivating/decommissioning HPP and Waiiau units in 2014 and 2017, respectively, in which 200 MW-net would be lost from the system, Hawaiian Electric will need replacement capacity in 2018. Hawaiian Electric plans to be able to reactivate the units if the system experiences unanticipated change in peak demands or unit availability.

If Honolulu units 8 and 9 are deactivated in 2014 and reactivated in 2017, and Waiiau units 3 and 4 are deactivated in 2017, CT-1 converted to combined cycle in 2017, Schofield added in 2017, Honolulu decommissioned or retired in 2018, and no other decommissioning of the remaining firm capacity resources, the IRP scenario analysis indicates that there is a possibility of very limited new capacity need after that.

Hawaiian Electric will be willing to acquire additional more efficient and more flexible, replacement generation for economic reasons (that is, to reduce the cost of generating electricity from dispatchable generation on Oahu) and deactivating more Hawaiian Electric units. That is more likely to be the case if LNG is available, which is estimated to be in 2020.

Hawaiian Electric currently is negotiating with KPLP, whose PPA extends to May 2016, under an exemption from competitive bidding.

Based on the foregoing, Hawaiian Electric plans to issue an RFP for up to 200 MW of firm, dispatchable generation in 2015-2016 allowing time to post the draft, hold a technical conference and issue the proposed final RFP. The amount of capacity that may actually be acquired via the RFP will depend on the cost of the new generation, fuel (if LNG is available), need for additional firm capacity (depending on what

happens with Schofield, CIP ST-1 and KPLP), system demand and ancillary services requirements to further integrate as-available variable generation resources. The RFP would specify that new generation have multi-fuel capability for biodiesel, diesel, and LNG. The new firm capacity would need to be in service by the 2020 timeframe, assuming that KPLP is no longer providing capacity and energy to Hawaiian Electric, HPP and Waiiau Units 3 and 4 have been reactivated, and Schofield Generating Station and CIP ST-1 are in service by 2018. Once the new firm capacity is in service, consideration can be given to deactivating HPP and Waiiau Units 3 and 4.

IRP Report, filed in Docket No. 2012-0036, on June 28, 2012, at 18-35 (emphasis added).<sup>6</sup>

Given HECO's AOS and IRP Report, which detail the utility's planning process for determining need for firm capacity, it appears that this RFP and proceeding governing such RFP process are premature. Accordingly, the commission determines that this proceeding shall be closed. The commission will consider future requests by HECO to open another proceeding to conduct an RFP for firm generation upon a demonstration of need and a plan focused on customer needs.

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<sup>6</sup>Note that references to HECO's IRP Report and Action Plan should not be read as an inference that the commission intends, at this juncture, to approve the Action Plan. The commission intends, in Docket No. 2012-0036, to review the Action Plan using commentary from the commission's Independent Facilitator, Advisory Group, and the docket parties and participants, if any, to determine whether the Action Plan is reasonable.

III.

Order

THE COMMISSION ORDERS that this proceeding is closed.

DONE at Honolulu, Hawaii JUL 11 2013.

PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

By *Hermina Morita*  
Hermina Morita, Chair

By *Michael E. Champley*  
Michael E. Champley, Commissioner

By *Lorraine H. Akiba*  
Lorraine H. Akiba, Commissioner

APPROVED AS TO FORM:

*Catherine P. Awakuni*

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CERTIFICATE OF SERVICE

The foregoing order was served on the date of filing by mail, postage prepaid, and properly addressed to the following parties:

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