



The Senate

STATE CAPITOL
HONOLULU, HAWAII 96813

January 22, 2014

Chair Hermina M. Morita
Commissioner Michael E. Champley
Commissioner Lorraine Akiba
Public Utilities Commission
Kekuanaoa Building
465 South King Street, #103
Honolulu, Hawaii 96813

Dr. Craig Roach, President
Boston Pacific Company, Inc.
1100 New York Ave NE
Washington, DC 20005

**Re: Docket No. 2012-0092.
11050 MW RFP Firm Power Hawaii Island**

Dear Commissioners and Dr. Roach,

I am forwarding this communication to request clarification regarding the status of the Geothermal RFP for 50 MW of FIRM Power for Hawaii Island. I am alarmed that Hawaiian Electric Company (HECO) and Hawaii Electric Light Company, Inc. (HELCO) have now consumed close to three years in a process that included an RFI and then RFP related to geothermal power generation. In 2014, we do not appear to be any closer to severing our State's reliance on fossil fuel oil and replacing it with this alternative form of firm power!

I am requesting your immediate attention and response to the constituent concerns raised in this letter. My constituents are the ratepayers of Hawaii Island. They include residential and commercial consumers, energy producers, and public, private and governmental agencies who are currently paying for electricity at rates that are among the highest in the State and Nation. For the past several years, consumers on Hawaii Island have sought to expedite the production of affordable renewable geothermal energy. To this end, the 2012 Hawaii State Legislature created

a Geothermal Working Group comprised of community, labor, business, government, environmental and agricultural stakeholders to study the feasibility of geothermal energy development for Hawaii Island and to report their findings to the State legislature for future action.

The Geothermal Working Group's principal findings were that:

1. Geothermal is a renewable resource indigenous to the island of Hawaii that is dissociated from the price volatility of petroleum fuels.
2. Geothermal can be a key component in a diversified energy portfolio for Hawaii County, both for the electrical grid and for transportation.
3. In Hawaii, geothermal is a firm-energy resource at lower cost than fossil fuel.
4. Developing multiple geothermal plants is the most prudent approach.
5. Geothermal has the potential to supply base load electricity; long term reliability and the ability to supply grid management services (currently supplied by conventional fossil-fueled power plants) must be demonstrated in order to consider geothermal as the primary energy resource.
6. With geothermal power plants, agricultural fertilizers, hydrogen, oxygen, and business-enterprise power can be produced for off-peak rates during the hours of curtailed electrical demand.
7. Geothermal energy can be developed to become the cheapest form of base load power for Hawaii County. There are no importation or storage costs. Using geothermal as the primary source of base load power will permit the county's businesses to be more competitive with the rest of the world. Using geothermal as the primary source of base load power will also help folks on the lowest rungs of the economic ladder, those who struggle with the cost of services. (Geothermal Working Group Report, Jan. 1, 2012 p. 5, 9).

The Report called for and supported the development of Hawaii's vast geothermal resources as a high priority for Hawaii's energy and economic security. Despite these findings and recommendations, geothermal development has not progressed because HELCO/HECO have refused to retire their old fossil fuel plants in order to integrate cheaper renewable energy, including geothermal energy, onto the grid.

The PUC is well aware of these bad faith actions of HELCO/HECO:

1. Integrated Resource Plan. Although HECO was required to submit an Integrated Resource Plan (IRP) months ago, HECO submitted a report that failed to address critical issues. Consequently Carl Freedman (the IRP Independent Entity- IE) could not certify that the HECO Companies' planning process was conducted consistent with the Framework because "several aspects of the IRP process, the IRP Report and the Action Plans, are not compliant with specific Framework requirements and do not meaningfully address several of the Principal Issues." Many of the 'Principal Issues' referred to in Freedman's Report were issues critical to Hawaii Island's energy concerns. See FINAL CERTIFICATION OF THE HECO/MECO/HELCO INTEGRATED RESOURCE PLANNING PROCESS: By Carl Freedman, IRP Independent Entity July 29, 2013.
2. Power Supply Improvement Plan. The PUC in its recent Decision and Order in Docket # DOCKET NO. 2012-021 (Hu Honua p. 110) noted that "HELCO did not model or analyze whether there is sufficient generation flexibility to substantially increase the use of new, more economical renewable resources such as additional geothermal energy." "For example, HELCO has issued a Geothermal RFP to procure up to 50 MWs of capacity and energy from geothermal energy resources to be installed on Hawaii Island." (See Docket No. 2012-0092.)

The PUC then ordered HECO to file a Power Supply Improvement Plan ("PSIP") with the PUC within 120 days (of the date of the Decision and Order) addressing the above. The PUC also aptly noted that this PSIP is to include a Fossil Generation Retirement Plan. Will the PSIP include the integration of 50MW of Geothermal Energy under the Geothermal RFP? Will HECO's PSIP include the retirement of fossil generation plants in order to accommodate geothermal power under the RFP?

3. County of Hawai'i and Renewable Energy. The County of Hawaii, in its Statement of Position in DOCKET NO. 2013-0141 noted (p. 4-7) that "Having already achieved 46.7% renewable energy generation, the focus now for the Island of Hawai'i is on energy projects that provide cost reduction benefits to ratepayers (whether directly or indirectly) and that improve and maximize integration of additional lower cost renewable energy"

as indicated by the PUC as desirable objectives on page 100 of the pdf (p. 96 of the document) of its Decision and Order in Docket No. 2012-0185, filed December 23, 2013. This office agrees with the County's position, that Hawaii's power generation portfolio is expected to include a range of fossil fuel and renewable power generation sources that each contributes respective advantages in cost, availability, response time, and reliability. With so much renewable power already produced/utilized on the Island of Hawaii, there is no longer a need to automatically penalize one form of energy against others. Given that renewable energy sources in Hawaii are often lower cost than fossil-fuel generation, transparent and accurate pricing that is accessible to power generation investors/entrepreneurs and ratepayers can be more effective than current mechanisms, especially decoupling, in achieving greater utilization of cost-effective renewable power in an optimized power generation portfolio. This office agrees with the County that "ratepayers interests versus shareholder interests should be given more balance".

The pending RFP for Geothermal Power Generating on Hawaii Island.

I strongly believe the recent actions of HECO/HELCO in the Geothermal 50MW RFP demonstrate that HECO is intent on delaying (and/or preventing) geothermal development on Hawaii Island. This is due to HECO's preference for fossil fuel and bio fuels for its own plants to the detriment of the development and integration of other renewable sources of energy.

After months of unexplained delays, HECO announced, by a website posting on December 20, 2013, that "Hawaii Electric Light has determined that none of the submitted bids sufficiently meet both the low-cost and technical requirements of the Geothermal RFP."

This unilateral and unjustified determination by HECO has now stalled the RFP process indefinitely. HECO now wants to impose its own process on bidders:

"We are currently working with the Independent Observer to develop a request that will be sent to the bidders. The request will give the bidders the opportunity to provide additional information so that we can make an informed decision that is in the best interests of our customers and residents and that meets the goals of the Geothermal RFP. These goals include lowering customer bills, reducing our dependence on fossil fuels, allowing for proposes that HECO will

meet with the IO continued integration and management of intermittent renewable resources, maintaining of service, and protecting the health and safety of the public and environment.” www.hawaiianelectric.com

This process proposed by HECO is inequitable and shows a lack of fundamental fairness to the bidders. The Framework for Competitive Bidding includes specific instructions to the utility “to obtain information on the experiences of similarly-situated utilities and utilities that have conducted competitive bidding processes to address similar needs....” See Framework, IIIA2. What specific information was obtained by HELCO from other States involved in geothermal generation? California has 2565.5 MW of geothermal power generation. Nevada, Utah, Idaho are all State generating geothermal power.

Over 21 international corporations answered the Request for Statements of Interest posted by HECO prior to the posting of the RFP, but only a few bidders survived the 800-plus page RFP to submit bids. I have been told that the RFP was a confused mess that did not conform to industry standards and that it required information from bidders **based on data that HECO failed to provide**. I am also being told by industry experts that the HELCO RFP contains unrealistic operating requirements making it impossible for bidders to advance pricing structures that would benefit the ratepayer and make it economically feasible for a developer.

HECO now wants to meet with the IO (to the exclusion of bidders), in order to develop questions for bidders to answer. This process fails to provide bidders with the opportunity to address their questions to HECO or to work collectively with the IO and HECO to address and resolve questions. Most importantly, no disclosure has been made by HECO or the PUC of the pricing and cost data relating to the bids. For example, HECO claims that Bidders did not meet HECO’s requirement to “lower costs for ratepayers”. This claim by HECO is false. Over two years ago this office learned that electricity prices on Hawaii Island are extremely high because the initial contract for geothermal production on Hawaii Island tied the price of electricity to the price of oil. When it reviewed the last HECO request to expand production at the Puna PGV plant, the PUC issued an Order “requesting” HECO to lower the rates because avoided cost contracts were “not in the public interest”. This “request”, like many other PUC Orders to HECO, has been ignored. Consequently, ratepayers on Hawaii Island will continue to be billed at an artificially high rate for years to come.

While HECO is criticizing the geothermal bidders for price structuring that disadvantages the ratepayer, HECO and the PUC have just approved the Hu Honua agreement that set rates (Capacity Charge) at an incredibly high of \$253/MW. Did the bids tendered for the Geothermal RFP exceed this figure? Were they lower, and if so, how much lower?

This office in undertaking a confidential inquiry to obtain answers to these questions. I am requesting that the PUC and the IO do the same. It is evident that HECO cannot or will not establish a time frame for integrating geothermal and other renewables onto the grid. While the PUC is acting pursuant to its authority to compel HECO to complete the geothermal selection process in a timely fashion, it should also consider re-activating the 2007 Docket on Wheeling in order to provide energy producers and ratepayers with options that can be met by private sector energy transmitters and developers.

I am simultaneously requesting information on the qualifications and experience of the IO, Boston Pacific. A review of data available from their web site and the Internet indicates that they are a consulting firm and do not have hands-on experience in geothermal production or transmission. What actual background does the IO have in geothermal energy production and transmission? What expertise does the IO have in drafting geothermal RFP's for production and/or transmission? Did the IO draft the current RFP? I would like written responses to these questions from the PUC and the IO.

Inclusion of Ratepayers in the Energy Reliability Discourse:

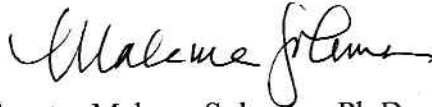
The PUC has repeatedly noted that it is assessing energy RFP's from the "perspective of rate payers". HECO claims that it rejected all geothermal bids because they failed to lower rates for ratepayers. However, neither HECO nor the PUC has actually taken the necessary steps to get the ratepayers input on any contract, RFP or on the matter of 'reliability'. In August 2012, the Sandia National Laboratory in its Report to the PUC entitled **Hawaii Electric System Reliability** called for surveys of ratepayers on each island to be undertaken. Nothing has been done to implement this recommendation. I am requesting that the PUC undertake such surveys on Hawaii Island to obtain the needed data. Oversight of the survey and creation of the survey instruments should be under the oversight of Sandia (not the IO or HECO) and costs for same

should be assessed to HECO. These data are needed now, had Sandia's recommendations been implemented in 2012, the data would be available for use now.

Conclusion:

Your immediate and prompt response to the questions posed in this letter is requested. Hawaii Island, its economy and residents, are being negatively and severely impacted by the ongoing refusal of HECO to retire its old plants and support geothermal energy development. The PUC has an affirmative obligation to address this matter; the time has come for the State regulatory agencies and bodies to stop supporting the HECO monopoly and to act to protect the interests of its residents and ratepayers.

'O wau nō me ke aloha,



Senator Malama Solomon, Ph.D.
Senate District 4

cc: Richard M. Rosenblum, Hawaiian Electric Company, CEO & President

ALS/rkp