EXHIBIT 1

Description of Development of the Second draft

Stage 3 Hawaii RFP

Exhibit 1

Description of Development of the Proposed Stage 3 Hawai‘i Island Request for Proposals

This Exhibit 1 explains the Hawaiian Electric Companies'[1] actions and rationale for developing the second draft of the Request for Proposals ("RFPs") for the Hawai‘i Island Stage 3 solicitation.

I. Background

The Company completed the Hawai‘i Island Near-Term Grid Needs Assessment Draft Report ("Grid Needs Assessment") and filed it with the Commission on July 15, 2021. The Company then filed a draft Stage 3 RFP for Hawai‘i Island ("Stage 3 RFP") on October 15, 2021, whose requirements were guided by the results of the Grid Needs Assessment and guidance provided by the Commission. In addition, the draft Stage 3 RFP was shaped by the Company's following guiding principles, which are used for of all the Company's RFPs developed pursuant to the Competitive Bidding Framework ("Guiding Principles"): (1) transparency, predictability and streamlining lowers costs to customers and fosters trust in the process; (2) community engagement is critical to near-term and long-term project success; (3) coordination and collaboration of all parties involved is necessary to achieve a successful and timely procurement; and (4) there is no perfect answer; tradeoffs must be considered.

On January 20, 2022, the Commission filed a letter offering guidance for consideration and directed the Company to prepare for a second draft Stage 3 RFP filing. A day earlier, on January 19, 2022, the Company filed a letter to further stakeholder engagement and address comments to its October 15, 2022 filing received from six stakeholders. These letters appear to have crossed and neither letter takes into account the other. The Company encourages review of its January 19, 2022 letter in conjunction with this Exhibit 1. This second draft of the Stage 3 RFP reflects changes both based on guidance received in the Commission's January 20, 2022 letter and the Company's January 19, 2022 letter.

This Exhibit 1 addresses the points made by the Commission in its letter, identifies the changes that were incorporated into the second draft, and where applicable, provides explanations if changes were not incorporated or alternative solutions offered.

II. January 20, 2022 Commission Letter

In its letter, the Commission directed Hawaiian Electric to consider additional comments when making revisions to the draft Stage 3 RFP. This section sets forth the Commission's comments and the Company's responses.

Interconnection Requirements Study
The Commission directs Hawaiian Electric to explain how its proposal to change the order of the Interconnection Requirements Study (IRS) may alleviate cost uncertainty in the PPA negotiation phase, and how Hawaiian Electric will account for this uncertainty in the bidding phase.

[1] Hawaiian Electric Company, Inc., Maui Electric Company, Limited, and Hawai‘i Electric Light Company, Inc. are each referred to as a "Company" and collectively as the "Hawaiian Electric Companies" or "Companies."

As described in its draft filing for the O‘ahu Renewable Dispatchable Firm RFP (“O‘ahu Firm RFP”) on February 28, 2022, the completion of the IRS prior to execution of the PPAs does not fully alleviate cost uncertainty for developers in the bid submission phase, completing the IRS first, however, does give developers a complete scope, schedule and cost picture before executing the PPA, giving them more certainty in the project and more interconnection cost knowledge. Eliminating the bifurcation of the process will also eliminate the confusion that seems to arise from the bifurcation. It also streamlines the IRS process as well as the regulatory steps and reduces uncertainty and legal costs by combining the transmission line application with the PPA application. This also eliminates time and costs for all parties, including the Commission, Consumer Advocate, Company, developer, and any other party participants, by eliminating the need for a second regulatory proceeding to separately review and approve overhead lines.

The Company believes improvements it is making in the amount of information regarding interconnection will be the biggest impact to allow developers to better account for interconnection costs in their proposals. These improvements are described below.

The Commission directs Hawaiian Electric to consider the following to remedy the concerns around cost uncertainty and variability in the interconnection step: Not-to-exceed Amount for Interconnection Costs. The Commission acknowledges that Hawaiian Electric is still developing a revised Appendix H to provide cost estimates and encourages the Companies to consider a mechanism that provides more assurance for these cost estimates.

In the Company’s January 19, 2022 letter, the Company explained that in addition to providing unit cost information in the RFP’s Appendix H (Interconnection Facilities Cost and Schedule Information), other improvements from Stage 2 were also incorporated in the process, including:

- Providing an option to developers for early engineering;
- Providing developers additional details on all information required;
- Reducing the Company’s design review turnaround times;
- Completing a preliminary Facility Study prior to the completion of the System Impact Study;
- Performing system studies to determine the available MW capacity in transmission lines and available substations to have information available with the issuance of the RFP; and
- Inviting developers to use the email communication portal to ask questions once the RFP is launched to improve their scope of work.

The Company believes the additional information, and other improvements being made to the RFP process, is the best approach to reducing developer cost uncertainty in estimating interconnection costs. Setting a not-to-exceed amount for interconnection costs, as suggested in the Commission’s January 20, 2022 letter would have the unintended consequence of adding additional risks on the Company and its customers for costs and variables over which the Company has no control. Although the Company specifies the interconnection requirements, the majority of the construction and procurement of the Company-Owned Interconnection Facilities (“COIF”) is done by the developers and their contractors. As such, the Company does not have control over the construction, nor does it have the ability to ensure developers are properly controlling costs, such as through competitively seeking contractors, utilizing low-cost contractors, sequencing work properly to reduce costs, or implementing quality assurance and quality control to prevent rework.

A not-to-exceed amount, where the Company, has little control over the actual costs, could encourage bad acting by the developers. Developers would have no incentive to control costs, by seeking out multiple bids for services and materials, ensuring contractors meet contractual obligations, etc. as the Developers would assume reimbursement for any cost overruns in a not-to-exceed scenario.

Further, it is not uncommon for developers to change equipment or other project information after selection for a variety of reasons. Such changes may impact the interconnection requirements. The Company or its customers should not be responsible for additional cost requirements if that occurs.

Additionally, the RFP allows more than one project to propose interconnection in the same area. Multiple projects selected to interconnect in the same area may lead to more requirements to allow all to interconnect than a single project interconnecting in a single area. Consideration of the portfolio of all the proposals that will be selected and where they interconnect is needed to understand all interconnection costs. What projects may be proposed and where is not available to the Company when providing upfront interconnection costs, and therefore consideration of the overall portfolio when estimating interconnection requirements cannot be completed in advance.

Thorough review of all the RFP requirements prior to submitting a proposal, especially the careful evaluation of all of the cost information and examples being provided in Appendix H, as revised, can result in significant reduction on unexpected costs. However, without knowledge of all the specifics of a project and without the completion of an IRS before project selection, it is not possible to establish a meaningful not-to-exceed amount for interconnection costs.

<u>Shared Interconnection Cost Savings Mechanism</u>
The Commission directs Hawaiian Electric to consider the following to remedy the concerns around cost uncertainty and variability in the interconnection step: Shared Interconnection Cost Savings Mechanism. The Commission requests that Hawaiian Electric consider developing a SSM proposal to incentivize developers and the Companies to work together to lower interconnection costs for the benefit of customers.

The Company points out in its January 19, 2022 letter that these discussions are already ongoing as part of the Performance Based Ratemaking ("PBR") docket and would be better addressed as part of that proceeding. Discussing and creating a separate mechanism outside of the PBR umbrella dilutes the effectiveness of that docket's overview and intent and invites greater risk of confusion and potential conflict if efforts are ongoing in parallel dockets seeking to establish the same result.

As discussed above, developers are responsible for building a large majority of the COIF and do not provide the Company specific information regarding their costs. Such developer responsibility includes the control over the construction costs and their contractors' costs. Shared savings mechanisms should be carefully crafted and should not incentivize unintended behavior. The Company believes the addition of more information regarding interconnection costs in this version of the RFP, as well as the information being provided on the PBR webpage regarding past project costs, will provide developers additional assistance in developing their interconnection estimates.

Alternatively, should the Commission decide on a mechanism within this RFP docket, the Company proposes to utilize the interconnection timing SSM offered in the PBR docket and remain consistent with that docket. As that performance incentive mechanism is based on beating a pricing benchmark, and interconnection costs are captured in the developer's overall project costs, such SSM would incentivize the Company to provide more accurate cost information and ensure interconnection requirements are necessary in order to receive proposals that beat such benchmark.

Also, any such mechanism, if adopted, would require significantly more transparency from developers of the pricing and cost breakdown within the proposal to ensure proposals accurately disclose and allocate costs, such that there is not a risk of gaming the mechanism by artificially allocating interconnection costs into other categories of costs. As stated previously, this would further the need to require a pro forma. Alternatively, such SSM would need to only be centered around the cost of COIF that is paid for by the Company and reimbursed by developers. However, said cost is usually only a fraction of the overall interconnection costs and may not provide the intended impact of the proposed SSM concept.

<u>State of Project Development and Schedule Evaluation</u>

With Regards to the State of Project Development and Schedule criterion, Hawaiian Electric should explain its rationale regarding the need to evaluate a developer's ability to estimate interconnection costs for these components and the rationale for doubling the weight of this criterion.

Experiences from past procurements support the need for attention to the State of Project Development and Schedule, and the double weighting importance of the criterion. In fact, there is probably no more important evaluation criteria than ensuring a developer fully understands the needed schedule and cost to complete their project and avoid the failure of projects that has been seen in other procurements for the failure of the developer to properly account for all that is needed to complete their project. As the criterion states, "[p]rojects that are further along in development generally have lower project execution risk and a greater probability of being able to be successfully placed into service." This criterion evaluates how a Proposal plans to reach their Guaranteed Commercial Operations Date ("GCOD"), including identification of risks and schedule assumptions. It asks Proposers to demonstrate via detailed critical path schedules and Gantt charts the high likelihood of reaching commercial operations as specified. The criterion also looks at the high-level Project costs to display reasonableness of such costs and assumptions. It states, "[p]roject costs that do not appear reasonable for a project of the size proposed may result in a lower ranking for this criterion if the Company reasonably determines that the cost information is unrealistic based on prior experience in the market which may result in a risk that the Project can be built on time and for the price proposed by the Proposer." The evaluation reviews all project costs, not just the developer's ability to estimate interconnection costs. The criterion also evaluates a project's completeness and reasonableness of schedule, and if those schedules capture all process steps, incentives, risks and assumptions.

Having an understanding and evaluating whether a developer actually evaluated all RFP requirements, used standards provided, accurately used the cost information provided, and accurately looked at their own project and costs while accounting for project schedules needed to reach their GCOD should prevent issues experienced in Stage 1 and Stage 2. However, experience from past procurements has shown that this is not always the case. Developers have, at times, underestimated costs in their proposals, not accounted for cost information shared in the RFP, and not accounted for all requirements stated in the RFP, and then either posed arguments that such requirements are unnecessary or should be waived, or sought pricing adjustments, or abandoned projects. Detailed cost and schedule information, including a project pro forma, provides the Company the level of detail required to evaluate the proposal submitted as well as any future requests for unexpected cost or schedule adjustments.

<u>Community Engagement</u>

While the Commission is supportive of the emphasis on community engagement in the evaluation criteria, Hawaiian Electric should explain how it will ensure that its evaluation of community engagement and outreach is conducted in an objective manner.

Supplemental language has been added to the Community Outreach and Engagement section in the second RFP draft to further explain what the Company seeks in the Community Outreach Plan. Section 2.8 of the RFP's Appendix B (Proposer's Response Package) lays out in great detail what a robust Community Outreach Plan should include. Specifically, Section 2.8.1 of the RFP's Appendix B provides that the plan shall address, but not be limited to, the following items:

- Project description
- Community scoping
- Project benefits
- Government approvals
- Development process
- Identification of communities and other stakeholders that may be affected by the proposed Project:
  - How will they be affected?
  - What mitigation strategies will the Proposer implement?
- Community benefits package:
  - Specify the amount of funds ($) that the Proposer will commit on an annual basis to provide as community benefits. As described in Section 4.4.2 of the RFP, at a minimum, Proposers should commit to setting aside [$3,000 per MW, up to $200,000 per year,] for community benefits.
  - Any other community benefits (in addition to community funding) that will provide direct benefit to the Project's host community
- Construction related updates
  - Plan for reporting construction schedules and activities, including resulting impacts (ex. traffic, noise, and dust) and proper mitigation plans beginning at least one month prior to the start of scheduled work
- Local labor and prevailing wage commitment (if any)
- Comprehensive communication strategy with affected communities and the general public regarding the proposed Project:
  - Describe frequency of communication
  - Provide source of information
  - Identify communication outlets
  - Describe opportunities, if any for affected communities and general public to provide the developer with feedback and comments on the proposed Project
- Outreach experience

In addition, Section 2.8 also directs Proposers to provide documentation of local community support or opposition, description of community outreach efforts already taken or currently underway, anticipated or negotiated investment in the community and other community benefits that the Proposer proposes.

The Company's objectives in evaluating Community Outreach criteria is to review if Proposers:

1. Specify actions to demonstrate transparency and a willingness to engage in early and frequent communication with Hawai'i's communities to raise awareness, establish trust, and potentially build support.
2. Demonstrate concerted efforts to share information and work with communities to address concerns through careful listening, thoughtful responsiveness, and a commitment to respect the environmental and cultural values of Hawai'i.
3. Call for early meaningful communications with stakeholders and reflect a deep understanding and respect for the community's desire for information.

The Independent Observer ("IO") assigned to the Stage 3 RFP is another layer of oversight that ensures evaluations are performed in an objective manner. The Company reviews all evaluation criteria with the IO, including this Community Outreach non-price criterion. It reviews with the IO the evaluation process, the scoring rubrics (which are filed confidentially prior to receipt of proposals), the Company's scoring of proposals, and reasons for the scoring. Some of the IO's roles as described in the RFP include:

- Monitoring all steps in the competitive bidding process
- Monitoring adherence to the Company's Code of Conduct
- Reviewing the Company's Proposal evaluation methodology, models, criteria, and assumptions
- Reviewing the Company's evaluation of Proposals
- Reporting to the PUC on monitoring results during each stage of the competitive bidding process
- Providing an overall assessment of whether the goals of the RFP were achieved

Past Performance of Proposers

The Commission also requests that Hawaiian Electric consider a non-price criterion that evaluates the performance of a bidder's existing or past projects under contract with Hawaiian Electric. This criterion would reduce a bidder's score based on underperformance of their existing or past projects during the term of the applicable PPA with the Companies but would not affect a bidder's score who has no existing contracts or past contracts with Hawaiian Electric.

Taking the Commission's preference to create a non-price criterion to evaluate a Proposer's existing or past project performance in its guidance on the Stage 3 RFP[2], in this version of the RFP, the Company includes the new Previous Performance scoring criterion to the non-price scoring introduced in its February 28, 2022 O'ahu Renewable Dispatchable Firm Generation RFP filing[3]. As stated in that filing, the Company modeled this criterion based on criteria found in a demand response RFP from California. The Company will review any underperformance experiences from the Proposer, its parent company or an affiliate of such Proposer within the past five years. If a Proposer has not been awarded a project by the Company or had an existing or past contract with the

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[2] See Docket No. 2017-0352, State of Hawaii Public Utilities Commission, "The Commission also requests that Hawaiian Electric consider a non-price criterion that evaluates the performance of a bidder's existing or past projects under contract with Hawaiian Electric," dated January 19, 2022, filed on January 20, 2022

[3] "Requesting the Commission to Open a Docket to Institute a Proceeding Relating to a Competitive Bidding Process to Acquire Renewable Dispatchable Firm Generation on O'ahu Submission of Oahu Renewable Firm RFPs and Model Contracts," dated and filed on February 28, 2022.

Company within the past five years, no points will be deducted. Similarly, if the Company has not experienced any underperformance with a Proposer, no points will be deducted. However, if a Proposer has any past infractions from any of the Proposer's existing or past projects, points will be deducted from the Proposer's total non-price score. Infractions include terminating or withdrawing from an awarded contract, missing the guaranteed commercial operations date (or other PPA milestones), and paying liquidated damages during the development phase, among other things. The non-price scoring criterion is defined in Section 4.4.2 of the RFP in Exhibit 4.

<u>Interconnection Information</u>

The Companies should carefully consider stakeholder feedback on this process, including but not limited to providing more upfront information about interconnection to inform the bids (i.e., identifying substations that are available for interconnection, providing grid conditions, hosting capacity, and other important details) and developing uniform timeline estimates for various stages of the interconnection process.

In the Company's January 19, 2022 letter, the Company recognized several comments from developers pertaining to requesting more information about interconnection. The Company has made several changes in this version of the RFP to address the comments. In preparation for the launch of the Stage 3 RFP, the Company has completed follow-on analyses to determine the available MW capacity at various system locations that will be offered for interconnection. These analyses cannot account for the interactions among proposed projects in close proximity with each other because it is not known which projects will be selected for the final award group. However, the available MW capacity assumes that only one project interconnecting to the line will be made available upon request once the RFP is ready for launch. The interactions among proposed projects in close proximity with each other will be analyzed when the Company performs load flow analyses during the final checkout in the Detailed Evaluation. In this RFP, to mitigate issues encountered in the Stage 2 RFP, developers will be required to reach out to the Company regarding the available MW capacity for their proposed point of interconnection.

Addressing the comment to provide a baseline IRS schedule with the RFP, the RFP's Appendix H (Interconnection Facilities Cost and Schedule Information) includes Section 4.3 (Typical Company Durations for Interconnection Projects for Transmission Projects), which outlines various milestones and process durations. Further, as noted in the January 19, 2022 letter, the Company estimates that – assuming developers provide working models as part of the RFP and finalize those models for study within 30 days of selection – the entire IRS process, including incorporating the information into and executing the PPA, should take approximately 12 months. This version of the RFP mentions this in Section 5.3, Project Interconnection Process.

Addressing the comments on interconnection cost information, the Company has expended significant effort with each RFP submission to improve the information offered to Proposers to develop their proposal cost estimates and pricing, including significantly expanding and detailing more information provided in this RFP version's Appendix H. The Company also identifies in the RFP that previous PPAs executed with the Company are filed with the PUC and are publicly available. Attachment G within such PPAs and its matrix G-1 contain summarized total estimated interconnection cost information of the Company-Owned Interconnection Facilities, and the identification of substation responsibilities, respectively. The PBR scorecard is scheduled to go live at the end of this month and will include estimated and actual interconnection facility costs for projects that have had IRS amendments filed. The previous PPA Attachment Gs and the PBR scorecard can also aid Proposers in estimating their Interconnection Facilities, by comparing requirements of similar sized projects connecting to the same voltage. Finally, developers can use the email communication portal to ask questions once the RFP is launched to improve their scope of work.

Non-Negotiability of the PPA

The Commission does not support making this portion of the model PPA non-negotiable in reference to concern with the requirement that the model PPA documents would be non-negotiable and that providing red-lined revisions to the PPA would negatively affect evaluation of any proposal.

In the October 15, 2021 draft of the RFP, the Company offered a proposal to make the RDG PPAs non-negotiable to accelerate the procurement process. In the Company's January 19, 2022 letter, as a compromise to the comments received, if the Commission is agreeable to the Company's proposal to complete the IRS prior to execution of a Stage 3 Contract[4] and filing of the Stage 3 Contract for approval, the Company believes that this new process should provide sufficient time to negotiate the Stage 3 Contracts and not require the entire Stage 3 Contract to be non-negotiable. The Company's revised IRS process would result in contracts not being executed and filed until approximately 12 months after selection. However, the Company would still maintain the three non-negotiable sections that were specified in the Stage 2 RFPs. Those sections are the Performance Standards sections of all Stage 3 Contracts, the 50% allocated portion of the Lump Sum Payment specified for energy storage for the Facility for determining liquidated damages in the RDG PPA, and the Development Period Security and Operating Period Security specified amounts in the RDG PPA, Firm PPA and ESPA. These sections are vital to ensuring that selected projects meet the requirements of the RFP and that customers will receive the full benefit of the proposed project. These sections also ensure consistency in administering PPAs throughout their lifetime. As the number of PPAs the Company executes continues to grow, ensuring consistency in key provisions will reduce the time and effort needed to administer such contracts and therefore ensure customers are not unduly burdened with costs associated with such administration.

Grid Needs Assessment

The Commission directs Hawaiian Electric to update the Grid Needs Assessment (GNA) for Hawaii Island, submitted in July 2021, to provide the most current and accurate assessment of the grid needs to be procured in the Stage 3 RFP. Updates to the GNA should include the most recent Inputs and Assumptions developed in the ongoing Integrated Grid Planning (IGP) proceeding and should be based upon active and approved projects as a starting point. Based on the results of the updated GNA and approval status of Hawaii Island projects, Hawaiian Electric may consider including flexibility, as it did in the Stage 2 RFP, to incorporate more bids and have a pool of potential resources to select based on the outcomes of certain projects.

Acting on the Commission's guidance and as reported in the Company's February 11, 2022 letter, the Company is updating the Grid Needs Assessment and will file the updated report on April 15, 2022. The Company does not believe that the updated Grid Needs Assessment will significantly alter the scope of the draft Stage 3 RFP, and because the RFP already includes flexibility to consider

[4] "Stage 3 Contract" generally refers to the applicable purchase agreement for a given technology (i.e., PV+BESS RDG PPA, Wind+BESS RDG PPA, Firm PPA, or ESPA). Collectively, these purchase agreements are referred to as the "Stage 3 Contracts."

selecting more proposals that provide energy and other services in excess of the RFP's targeted amounts, its filing after the RFP should only result in minor updates as well as replacing the current Appendix I (Grid Needs Assessment) with the updated Grid Needs Assessment when the proposed final RFP is filed.

Using results from the GNA and the latest IGP updates, Hawaiian Electric should consider adding clarity on near-term resource needs and how those needs may change over time between now and 2030, to provide potential bidders additional insight into the evolving grid needs and to assist bidders in presenting the strongest proposals to meet those needs.

The details in the Grid Needs Assessment already provide some granularity into what the model conveys is needed and the timeframes for near-term resource needs and how those needs may change over time. The updated Grid Needs Assessment will offer similar details. In this version of the RFP, in the Chapter 1 Introduction and Section 1.1.3 the Company has incorporated more explanation for developers regarding how the RFP's Appendix I (Grid Needs Assessment) can be used to understand the resource needs in order to assist bidders in presenting the strongest proposals to meet those needs.

<u>Technical Conference</u>
The Commission requests that Hawaiian Electric propose a date for a Technical Conference where additional discussion may take place on further RFP updates and other relevant topics. Also offer suggested topics for discussion at a Technical Conference.

The Company has proposed April 14, 2022 for a Technical Conference to align with the filing date for the updated Grid Needs Assessment.

III. Additional Commission Areas of Concern

Beyond these specific issues, the Commission directs Hawaiian Electric [to] address the additional areas of concern that were raised in the stakeholder comments, detailing any additional revisions it has made to the documents based on these comments.

The Company believes that the Commission's identified "additional areas of concern…raised in the stakeholder comments" were addressed by the Company in its January 19, 2022 letter. Relevant portions of the Company's January 19, 2022 letter are provided again here, some with additional supplementation.

<u>GHG Analysis Costs</u>

Hawaiian Electric remains open to collaborating with the Commission and the Consumer Advocate to further streamline the greenhouse gas ("GHG") analysis methodology and process. The process for analyzing GHG emissions for the Commission has been evolving since the requirement for GHG analyses was first implemented in 2019. Hawaiian Electric's consultant, Ramboll US Consulting, Inc. ("Ramboll"), continues to leverage the increasing inventory of past GHG analyses to further streamline the GHG analyses process and for consistency and uniformity in lifecycle methodology and report format. The Company is complying with the requirements set forth by the Commission with regards to completing this analysis, and would welcome input from the Commission to make additional improvements for a more streamlined approach to completing such analysis. Hawaiian

Electric has on occasion allowed a developer to use its own consultant. However, since Hawaiian Electric is the applicant before the Commission and ultimately responsible for the GHG analysis that is filed with the Commission, Hawaiian Electric prefers to use its consultant, Ramboll, to maintain consistency among the filed reports in part to streamline the review process for the Commission and the Consumer Advocate. Even if the developer were to use its own consultant, the Company and Ramboll, at additional costs to the developer, would still need to be involved in the GHG analysis process to ensure the GHG analysis is performed using methodology that is reasonable and within the usual custom and practice of the GHG accounting industry.

Interconnection cost-based price adjustments

The Company proposed a similar interconnection cost-based price adjustment in the Stage 1 RFP, which provided a downward adjustment for every $100,000 the COIF costs came in lower than expected. What was learned from this effort in Stage 1, is that this approach is difficult to enforce without the provision of detailed estimates of such costs by developers in their bids so that such estimates can be compared against actual costs. Any such proposal would require more transparency of the pricing and cost breakdown within the proposal to ensure proposals are not gaming the mechanism by artificially allocating interconnection costs into other categories of costs. As stated previously, requirement of a pro forma would be beneficial to the effective implementation of this type of adjustment. This approach also would encourage developers to not seek lower prices from contractors and vendors since they are responsible for the majority of the procurement and construction of the COIF and could rely instead on such price adjustment mechanisms to recover higher costs, which would not be in the interest of customers.

Available substations for interconnection

More substations have been made available since the October 15, 2021 RFP version. The Company will offer three additional substations on the west side of the island for potential interconnection: Ouli, Poopomino,4 and Keamuku. The five substations the Company is offering in this RFP represent a review of all the substations on Hawaiʻi island for potential interconnection capabilities and reflects all the substations the Company believes might be used within the requirements scope of this RFP.

Model checks and field inspection reports as threshold criteria

The Company has made changes in this version of the RFP to reflect the compromise offered in the January 19, 2022 letter. Based upon our experience with recent projects, the Company will still request the Archaeological Literature Review and Field Inspection Report with each proposal submission. However, if it is not submitted with the proposal, the Company will allow submission of them three weeks before the selection of the priority list date to allow for more time to complete.

For the model checks, the Company maintains support for this new approach to address the longest cause of delay in the IRS process. Deficiencies in developer models have been identified as one of the bottlenecks in starting the system impact study on time, including delaying other projects (as portions of the study are completed as a group). The Company's model checks proposal puts more rigor upfront to have developers place more attention into the facility design and model development. The intent is to have all developers be close to the same level in terms of model readiness, so that the Company may start the system impact study on time. This version of the RFP still reflects a threshold requirement to check whether Proposers have provided the required models and provided documentation that show Proposers have successfully self-tested their models under various scenarios. A non-price criterion grades the completeness and quality of the Proposer's model documentation. The Company also keeps the step during the Detailed Evaluation to perform one cycle of model reviews to further address any issues and provides added time for Proposers to rectify model problems before the start of the system impact study after final award. Assuming these added steps are maintained in this RFP process, the Company is willing to offer a 12-month completion target for the IRS.

Non-price evaluation clarity

The Company employs a closed-bidding process for these solicitations to mitigate Proposers from gaming the process. With this closed-bidding process, the Independent Observer is given full visibility over the entire process and scoring to ensure a fair process is maintained throughout the procurement and among the participants. The Independent Observer is consulted with during the RFP development process, including the development of evaluation criteria, and maintains complete oversight once the procurement process begins, including meeting with the Company and going through the Company's evaluation of each project prior to selection to the priority list and prior to selection of the final award group. A confidential evaluation protocol document is also created and shared with the PUC and the Independent Observer that provides more details on the evaluation rubrics, and is used by the Independent Observer as a tool for overseeing the evaluation process. As it has done in the past, the Company will endeavor to respond to inquiries and provide constructive feedback on a Proposer's performance in a category after the conclusion of the procurement in the spirit of developing better proposals in the future.

Net Energy Potential adjustments

The NEP plays a prominent role in the evaluation and comparison between proposals. In an all-source RFP like the Stage 3 RFP, evaluation between proposals of varying technologies create even greater challenges to try to maintain an apples-to-apples comparison, and allowing changes to the NEP RFP Projection would undermine those comparisons. It is assumed that the developers requesting an upward adjustment to the NEP would also like a corresponding increased payment under the PPA. Allowing upward adjustments to the NEP may provide a windfall for developers who find later they can guarantee more output with the same equipment, and assumed proportional increases in payments, without any increase in costs to the developer. This would leave the Company and its customers vulnerable to impacts on the RFP's procurement targets. The RDG PPA provides developers with lump sum payments regardless of the amount of energy received. Allowing increases to the NEP after the proposal risks over-procuring energy that the system may not need or be able to take. The NEP RFP Projection for the projects selected forecasts the energy the Company can rely on to achieve its procurement target. If developers are permitted to increase their NEP later after evaluation, the Company may be paying more for energy it cannot use. Further, if such post-selection changes are allowed, it would be impossible to determine if a different project would have been a better proposal and would have provided greater customer benefits. While the Company does not agree with allowing adjustments to the NEP at the developers' option for the foregoing reasons and the significant potential to game the system, the Company does recognize there may be times when after selection the Company may have a need for additional generation.

Therefore, the Company has added language in this version of the RFP as a compromise that increases to the NEP could be made after selection, solely at the Company's discretion and subject to Commission approval.

Pro Forma requirements

Although for the Stage 1 and 2 RFPs, the Commission was not receptive to the inclusion of a pro forma requirement, the Company believes that situations encountered while bringing the Stage 1 and 2 projects to commercial operations shed supportive light on the need for including a pro forma requirement in the Stage 3 RFP. The Company believes that this requirement is necessary and will ultimately improve the procurement process and has added language in this version of the RFP to reflect a pro forma requirement with each proposal.

The Company disagrees with the concerns raised. First, the reviews, discussions, and vetting conducted in both the Stage 1 and Stage 2 RFP proceedings have resulted in a structure and set of procedures that separate the RFP and self-build teams of the Company. Second, IPP proposals submitted in response to the RFP already contain proprietary competitive information that the RFP team ensures remains segregated and not accessible to the Hawaiian Electric self-build team and other IPPs. Hawaiian Electric's RFP team will treat the pro forma information with the same level of confidentiality and maintain the information on a segregated basis.

Third, experiences with the Stage 1 and 2 project proceedings have demonstrated to the Company that developers were willing to share pro formas with the Company when requesting contract pricing adjustments. The RFP's proposed pro forma requirement simply requires similar information with the initial proposal.

Fourth, without further granularity on the cost estimate makeup of developer's proposals, the Company has no visibility to understand the reasonableness of a proposal's interconnection cost estimates and scope, and cannot verify whether the developer adequately understands and has accounted for what is required to interconnect to the Company's system. Further, without such information, it is impossible to determine whether requests from developers for pricing adjustments or to make other material project changes after selection, as seen in Stage 1 and 2, are reasonable and justified. The Company has expended significant effort with each RFP submission to improve the information offered to Proposers to develop their proposal cost estimates and pricing, including significantly expanding and detailing more information provided in the RFP's Appendix H (Interconnection Facilities Cost and Schedule Information) and follow-on studies in preparation of sharing more system capacity information once the RFP is launched. However, without details that the pro forma can offer, there is little understanding whether the information offered has been utilized. Additionally, in situations where developers later assert that their projects are no longer viable, the Company lacks the visibility of how costs were estimated at the time of proposal submission to substantiate the developers' claims.

Affiliate Proposal treatment

The Company has revised the language in this version of the RFP to require the due date for Affiliate proposals and BAFO submissions to be due one day earlier than the date IPP proposals are due. This earlier date is aligns to the same due dates as the Hawaiian Electric proposal.

Real Property Tax issues

The Company remains opposed to allowing opportunities to increase the price of a proposal due to any property tax rate change. As was the case for O‘ahu, developers can go through the legislative process and tax appeal process to avoid negative consequences from such changes. If developers are allowed to increase their price for such changes to tax law, developers may not be willing to avail themselves of the legislative and administrative options available. Maintaining incentives for developers to take action against any property tax rate change or governmental regulation change that adversely impacts the project's financial benefit, versus just allowing the cost to pass through, is beneficial to the Company's customers who would bear the entire brunt of such increased costs. Further, when viewing the prevailing property tax rates of the County of Hawai‘i against the tax rates of the City and County of Honolulu, the impact risk of a change in land classification for the purposes of real property tax on Hawai‘i island appears much lower because the differences between the agricultural tax rate and the industrial tax rate is significantly less than Oahu's. For the fiscal year beginning July 1, 2021, the difference in the Hawai‘i County tax rate between the Industrial and Agricultural and Native Forest tax rates was $1.35 per $1,000 net taxable value, while the Honolulu County difference between Industrial and Agricultural tax rates was $6.70 per $1,000 net taxable property.

Technology requirements

The Company will take the stakeholder feedback received into consideration in its evaluation especially when encountering any cutting-edge feature of the technology, as the criteria is intended to vet the viability and reasonability of the technology to perform the objectives of the RFP. However, the Company maintains the importance of ensuring that the technologies selected are commercially viable and tested, as the projects are vital to the State's clean energy goals and assurance is needed the projects will be operational and meet the requirements of the RFP.

Additional cost estimates

On the comment of removing the COIF cost estimations from the non-price criteria scoring, the Company has updated the costs provided in Appendix H (Interconnection Facilities Cost and Schedule Information) in this version of the RFP. The Company believes this updated information will improve the Proposer's ability to provide more accurate estimates and that, therefore, the removal of such costs from the evaluation process is not necessary.

Workforce requirements

The Company values building the local work force. Therefore, the Company has added revisions to the non-price Community Outreach criteria of the RFP to encourage the use of local labor. Proposers would be highly encouraged to make a commitment that eighty percent (80%) of nonsupervisory construction and operations workers' hours associated with the construction or repowering of the project will be paid at the prevailing wage equivalent indicated under Hawai‘i Revised Statutes Chapter 104 during all periods of construction. In addition, the Proposer would be encouraged to give preference to hiring qualified construction and operations/maintenance workers from Hawai‘i County, and the State of Hawai‘i, in that order, before hiring non-resident laborers.

Proposers that agree to such commitments will be scored more favorably in the Community Outreach category. These changes are consistent with the Company's changes made to its community-based renewable energy request for proposals.

III. Other Changes Incorporated in this version of the RFP

In addition to changes made to address Commission and other stakeholder feedback, the Company has made additional changes to the RFP to clarify RFP requirements for bidders and to ensure that the Hawaii Island grid needs will be met through the Stage 3 RFP.

Seeking a Balanced Portfolio of Projects

The July 2021 Grid Needs Assessment shaped the Stage 3 RFP targets to seek up to 206 gigawatt hours annually of renewable energy and up to 95 MW of capacity to add additional energy reserve margin capacity situated on the eastern portion of the Company's Hawaiʻi Island system. The withdrawal of the Stage 2 project on the west side of the island broadened the scope of interconnection to include west side and cross-island transmission lines and three additional substations for consideration. The Company's January 19, 2022 letter described in a footnote that the Company will be seeking locational diversity and that total interconnection to the west areas would be limited to 60 MW of capacity. In this version of the RFP, limitations on the capacity sought for each side of the island will be broadened to instead consider balance and diversity.

Hawaiʻi island's generation resilience is buoyed by the geographic and resource diversity that currently exists on the island system. The Company will seek to maintain, and ideally improve, the geographic and resource balance of the island's generation as it adds Stage 3 RFP projects. A geographically diverse portfolio of new renewable resources to supplement the existing resources can enhance Hawai'i island's system safety and resilience.

This version of the RFP expands language in the Introduction section of the RFP. The Company endeavors to select projects that will supplement the island's existing generation resources and result in a balanced distribution of generation between east and west Hawaiʻi. Potentially, approximately 60 MW is sought on the east side of Hawaiʻi. However, subject to receiving viable proposals in this RFP, the Company will select proposals on both sides of the island with the aim of maintaining its geographically diverse portfolio that has been an important element of the island's grid resilience, reducing loadings on transmission lines, avoiding costly and lengthy transmission upgrades, and increasing the reliability of the transmission system. This may result in the Company not selecting the lowest cost project or portfolio of projects in order to achieve this. Ideally, the addition of the selected projects and the remaining generation resources will form a geographically diverse portfolio that enhances Hawai'i island's system safety and resilience.

Separating the Aggregator Projects into Parallel Procurement

The October 15, 2022 draft of the RFP was open to Aggregator Projects, in addition to Generation Projects, Paired Projects and Standalone Storage Projects. As the requirements of the RFP were further developed and refined, several concerns with Aggregator Projects emerged. First, unlike prior Stage 1 and Stage 2 RFPs, this Stage 3 RFP has a much longer service need horizon. The farther horizon is much better suited for new generation and/or storage project development that require the longer engineering, permitting, procurement, and construction timeframes. For those Generation Projects, Paired Projects and Standalone Storage Projects, more time provides more opportunities to offer attractive, competitively priced proposals. However, for aggregated customer-sited distributed energy resources projects, the long horizon offers challenges and risks. While projects may propose an earlier GCOD, the grid needs identified are for the 2030 timeframe and therefore, a customer enrolled in 2024 may either have to wait six years before they can start receiving their first incentive bill credit, or aggregators would have to commit to provide such services through 2030 and beyond to ensure the aggregator can meet the actual needs being sought. This may result in disincentives for both customer and aggregator participation.

The Battery Bonus program, as an Oahu programmatic DER grid service program, has negatively impacted the aggregators from their customer enrollment as the Battery Bonus program offers a higher upfront customer incentive than the aggregator incentive which is typically a monthly bill credit incentive. The Companies have been ordered by the Commission in Decision and Order No. 38196 ("D&O No. 38196") issued on January 25, 2022 under Docket No. 2019-0323 to develop a programmatic grid service option through three level offerings (Level 1, 2, and 3) of Bring Your Own Device ("BYOD") program. This program per D&O No. 38196 will be made available to all islands starting in July 2023. The BYOD program is still undefined, but the Company fears that instituting a procurement for aggregators now, prior to developing the BYOD program could result in similar negative impacts to new aggregator projects, as the Battery Bonus program has done with existing aggregator contracts on Oahu. The new BYOD program will also be looking at nearer term needs, which will likely be more attractive to customers.

Therefore, at this time, the Company would like to propose prioritizing and delivering this BYOD program first before pursuing an aggregator option within the Stage 3 RFP that has a GCOD of 2030. The Company will keep a parallel path to the Stage 3 RFP and Grid Services RFP by carving out 10 MW to be delivered by aggregators. The Company in a few years will then be able to assess and pursue a proper grid services for Hawai'i island that is not fulfilled by either the Stage 3 RFP or the BYOD programs, and which is based on the latest grid needs and offered in a cost-effective manner. In essence, the Company proposes to run a separate RFP for grid services, closer to the need by dates identified in the Grid Needs assessment to capture any services not filled by the BYOD programs, other DER programs, or the Stage 3 RFP.

<u>Best and Final Offer and Indexed Price Adjustment</u>

Due to today's market volatility, the Company is proposing to allow Best and Final Offers ("BAFO") from any Proposers selected to the Priority List, including the Hawaiian Electric proposal. Due to the coronavirus pandemic, supply chain shortages, shipping delays, and now the Russian invasion of Ukraine, the Company has seen rising prices throughout many sectors needed to bid and develop a project. The Company believes this may, in the short term, until such markets settle, result in higher bid prices. Allowing all projects to have the opportunity to submit a downward price adjustment to their project will provide time for projects to further understand current markets and allow projects to further refine their costs, hopefully resulting in lower costs for customers being presented during the BAFO stage.

Additionally, to further address the current market uncertainty the Company proposes in this version of the RFP to allow for an indexed, one-time price adjustment at the time of Commission approval of the selected projects' PPAs. The Company has found through its research that this is a concept that has been employed by other utilities on the mainland. The Company's proposal here is intended to be as simple as possible to ensure consistency among projects and provide for simplicity in its calculation and administration. To allow Proposers to offer the most competitive pricing while offering protection during these times of market volatility, a one-time capped pricing adjustment to the BAFO price/cost components is being offered to projects based on the Gross Domestic Producer Price Index ("GDPPI"). Several metrics were considered, but GDPPI was selected in part because it is already familiar to the Commission and Company due to its usage in decoupling filings and as the Annual Revenue Adjustment inflation rate.

The projects selected to the final award group will be allowed to adjust their BAFO-defined Lump Sum Payment amounts for PV and wind projects and Standalone Storage projects, and their BAFO defined Capacity Charge payment for Firm projects (or Total Project Capital Costs for the Hawaiian Electric Proposal Projects) by the percentage difference between the GDPPI value at the BAFO submission date and the GDPPI value at Commission approval of the Stage 3 Contract. For Firm projects, no adjustment will be allowed for the Energy Charge payment of the Firm PPA pricing. A cap of the maximum adjustment percentage is proposed at ten percent (10%). For example, if a project bid a Lump Sum Payment of $10 million dollars and GDPPI increased by 5% from the date of BAFO submittal to the date of PUC approval of the PPA, the Lump Sum Payment would be increased to $10.5 million.

This encourages bidders to provide lower pricing now, without having to assume how the market will continue to evolve given the current unprecedented uncertainty while also ensuring that project selection would not change due to such increase, as all project pricing would increase by the same amount. If there was no inflation during such period or the index decreased, pricing would remain as bid in the BAFO. The Company is only considering these price adjustment mechanisms due to extreme supply chain and market circumstances at this time and does not expect these mechanisms to be a normal part of future procurements. In addition, the Company is seeking feedback and suggestions on such an approach from stakeholders. Based on feedback from all stakeholders, the Company can adjust the proposal in a next draft of the RFP.[5]

Shared Interconnection

In an effort to offer creative solutions, in this version of the RFP the Company offers to pay for a portion of a new Keamuku substation if a Project interconnects to that substation. For a Keamuku substation interconnection, given the substation's critical position connecting multiple transmission lines to West Hawaii, the Company finds benefit to include future interconnection buildout into the new substation. Thus, the Proposer would be responsible for the equivalent of what would be required if the Project interconnection was constructed to a transmission line instead of the Keamuku substation, the land for the full buildout of the new substation, and the permitting. The Company would be responsible for the additional costs to build out the rest of the new substation to replace the Keamuku substation.

The requirements in the RFP have been updated to reflect this Keamuku substation option. In addition, single line drawing examples for three different sized Keamuku substation interconnecting

[5] If the indexed price adjustment approach is accepted, then all four Stage 3 Contracts will also be revised to include this one-time price adjustment.

Facilities are still being developed and will be provided to prospective Proposers who request the information when available.

Community Outreach and Engagement

Across many different initiatives, the Company has heard the desire of communities to play a more engaged role early on in the process. The Company plans to listen, understand, and work with communities throughout the Stage 3 RFP process. The Company began these efforts last year with a virtual community meeting on October 28, 2021 after the release of the Company's Stage 3 RFP first draft. The Company has also taken into consideration the community feedback discussed in the community meetings held for the Oahu Firm RFP, the CBRE RFP proceeding (Docket No. 2015-0389), as well as prior feedback from the Stage 1 and Stage 2 RFPs. Those proposed updates have been carried over into this RFP. Furthermore, based on both the prior as well as the more recent engagement, the Company has also expanded requirements for community engagement by adding a requirement for a community benefits package to be submitted as part of the Stage 3 RFP. The proposed requirement obligates developers to provide, on an annual basis, a certain amount of funding to a to-be-determined non-profit organization. The Company is looking at two options for the dollar amount that must be contributed annually. The first option is to require projects to contribute 1% of their annual payment. The second option is a fixed dollar amount per MW size of the Facility. For example, $3,000 per MW of firm committed capacity. Both options would be capped at a certain dollar amount, such as $200,000 per year as an example. The Company believes a dollar per MW value may ensure more equal participation by all projects. Community members from the same census tract and any adjoining census tract(s) would then be able to apply to the non-profit for grants for community projects. The non-profit would be responsible for reviewing such applications and administering the funds. The Company plans, if possible, to work with an existing non-profit and plans to provide further updates on the selection of this entity. As proposed, providing this fixed amount per year would be the minimum requirement for a community benefits package. Proposers would receive additional points under this metric for committing to additional community benefits, such as providing local jobs, improving infrastructure, creating shared community facilities, community event sponsorship, creating educational afterschool programs, etc. As this is the first time for this requirement, the Company is specifically seeking feedback on this requirement from communities and other stakeholders during this stakeholder engagement period to further refine the requirement.

IV. Next Steps

The Company plans to file the updated Grid Needs Assessment report on April 15, 2022. The Company proposes a Technical Conference on Thursday, April 14, 2022 in that same timeframe to share information with prospective Proposers. The Company will present the details of the draft RFP and contract documents at this meeting. The Company recognizes the Commission may provide further guidance prior to the Technical Conference or after the updated Grid Needs Assessment report is filed.

The Company looks forward to continuing to work with the Commission, Consumer Advocate, Independent Observer, and stakeholders to finalize the Stage 3 RFP to significantly increase the benefits of renewable energy available to customers.