

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Requests of)
)
HAWAIIAN ELECTRIC COMPANY, INC.,)
HAWAII ELECTRIC LIGHT COMPANY, INC.,)
AND MAUI ELECTRIC COMPANY, LIMITED)
)
To Institute a Proceeding Relating)
To a Competitive Bidding Process)
To Acquire Dispatchable and)
Renewable Generation.)

DOCKET NO. 2017-0352

ORDER NO. 36187

PROVIDING GUIDANCE IN ADVANCE OF THE HAWAIIAN ELECTRIC
COMPANIES' PHASE 2 DRAFT REQUESTS FOR PROPOSALS
FOR DISPATCHABLE AND RENEWABLE GENERATION

PUBLIC UTILITIES
COMMISSION

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PROVIDING GUIDANCE IN ADVANCE OF THE HAWAIIAN ELECTRIC
COMPANIES' PHASE 2 DRAFT REQUESTS FOR PROPOSALS
FOR DISPATCHABLE AND RENEWABLE GENERATION

The Public Utilities Commission ("commission"), by this Order, provides guidance prior to the filing of the Hawaiian Electric Companies' ("the HECO Companies")¹ Phase 2 Draft Renewable Requests for Proposals, in connection with their ongoing procurement process to acquire new, dispatchable, and renewable energy resources ("Phase 2 Draft RFPs").

¹The Parties to this docket are HAWAIIAN ELECTRIC COMPANY, INC. ("HECO"), HAWAII ELECTRIC LIGHT COMPANY, INC. ("HELCO"), MAUI ELECTRIC COMPANY, LTD. ("MECO") (collectively, the "HECO Companies" or "Companies"); and the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"), an ex officio party to this proceeding, pursuant to Hawaii Revised Statutes § 269-51 and Hawaii Administrative Rules § 16-601-62(a).

The commission sees Phase 2 as an opportunity to use creative, competitive procurement to retire existing fossil generation and to take a further step towards meeting Hawaii's renewable energy goals. The commission anticipates that the central focus of the upcoming Phase 2 procurement process will be to replace the capacity, energy, and ancillary services from the AES Hawaii Power Plant ("AES Plant") on Oahu and MECO's Kahului Power Plant ("Kahului Plant"), as the commission expects the Companies to hold firm on the timelines set forth in the PSIPs for retiring those facilities.² The commission starts with a presumption that a portfolio of clean energy projects and resources is the preferred method to mitigate cost, reliability, and execution risk for replacing these older fossil fuel-burning units.

By this Order, the commission directs the Companies to file their Phase 2 Draft RFPs in the instant docket within 30 days

²See Docket No. 2014-0183, HECO Companies' [Power Supply Improvement Plans ("PSIPs")] Update Report, filed on December 23, 2016, Book 2 of 4, at D-5 ("The 2016 PSIP analysis assumes that our power purchase agreement (PPA) with AES Hawai'i on O'ahu will not be renewed when it expires on September 1, 2022. Our ability to integrate more renewable generation onto the grid in the coming decades is improved without a large, inflexible single generator such as AES.") and D-24-25 ("All four [Kahului] units were previously scheduled for retirement by 2019; however, their retirement would have resulted in a reserve capacity shortfall of approximately 40 MW. . . We currently plan to retire the entire facility in 2022 assuming sufficient replacement resources (including DR and generation) are in operation by then.")

of the instant Order. Additionally, similar to the shared savings mechanism established for the Companies in Phase 1,³ to incentivize an efficient and effective procurement process, the commission provides the opportunity for the Companies to propose a shared savings mechanism at the time of filing of their Phase 2 Draft RFPs.

I.

Background

A.

Docket No. 2017-0352

On July 14, 2017, the commission issued an order accepting the Companies' PSIPs, which set forth the Companies' intention to competitively procure new grid-scale generation resources. Those plans included procurement of approximately 400 MW of new renewable resources across the HECO Companies' service territories by 2021.⁴ By letter dated June 6, 2016, HECO requested, and by letters dated January 6, 2017, HELCO and MECO requested, that the commission: (1) open a docket for the

³See Order No. 35405, "Establishing a Performance Incentive Mechanism For Procurement In Phase 1 Of The Hawaiian Electric Companies' Final Variable Requests for Proposals," filed on April 6, 2018 ("Order No. 35405").

⁴See Docket No. 2014-0183.

purpose of receiving filings, reviewing approval requests, and resolving disputes relating to the Companies' plans to acquire dispatchable firm generation and new renewable energy generation on the islands of Oahu, Hawaii, Maui, Molokai, and Lanai; and (2) appoint an Independent Observer ("IO"), consistent with the applicable provisions of the Framework for Competitive Bidding.⁵

On October 6, 2017, the commission opened this docket to receive filings, review approval requests, and resolve disputes, if necessary, related to the HECO Companies' plan to acquire dispatchable firm generation and new renewable energy generation.⁶ At the time, the commission stated that it expected that procurement of new dispatchable and renewable generation through this round of solicitations would generally adhere to the Framework, but that the commission intended to exercise its discretion to expedite and/or amend certain parts of the Framework

⁵See Docket No. 2003-0372, Instituting a Proceeding to Investigate Competitive Bidding for Generating Capacity in Hawaii, Decision and Order No. 23121, Exhibit A - Framework for Competitive Bidding ("Framework"), filed on December 8, 2006.

⁶Order No. 34856, "Opening the Docket," filed on October 6, 2017 ("Order No. 34856"). The aforementioned HECO Companies' June 6, 2016 and January 6, 2017 letters requesting that the commission open the docket were included as attachments to Order No. 34856.

to accommodate time constraints that may apply to the potential commercial transactions under these solicitations.⁷

The commission set forth the various requirements for this competitive procurement process through subsequent orders.⁸ The commission also appointed IOs to serve as the monitors of the competitive procurement process and report on the progress and results thereto to the commission.⁹

The commission stated its intent

to ensure that each competitive bidding process "is fair in its design and implementation so that selection is based on the merits;" that projects selected through a competitive bidding process are consistent with the utility's PSIPs; that the utility's actions represent prudent practices; and that throughout the process, the utility's interests are aligned with the public interest¹⁰

On February 2, 2018, the Companies filed their Phase 1 "Proposed Final Draft Variable Requests for Proposals,"

⁷Order No. 34856 at 1.

⁸See Order Nos. 35224, "Providing Guidance on the Hawaiian Electric Companies' Proposed Requests for Proposals for Dispatchable and Renewable Generation," filed on January 12, 2018; Order No. 35405; and Order No. 35286, "Approving the Hawaiian Electric Companies' Proposed Final Variable Requests for Proposals, With A Modification," filed on February 20, 2018 ("Order No. 35286").

⁹The commission appointed Navigant Consulting, Inc. as the IO for the Maui Variable RFP, and Bates White, LLC, as the IO for the Oahu and Hawaii Island Variable RFPs.

¹⁰Order No. 35286 at 8 (emphasis added) (internal quotation marks omitted).

with the commission. On February 20, 2018, the commission issued Order No. 35286, "Approving the Hawaiian Electric Companies' Proposed Final Variable Requests for Proposals, With Modification," and on February 27, 2018, the Companies filed their Phase 1 "Final Variable Requests for Proposals." On April 6, 2018, the commission issued Order No. 35405, "Establishing a Performance Incentive Mechanism for Procurement in Phase 1 of the Hawaiian Electric Companies' Final Variable Requests for Proposals."

During Phase 1 of this competitive procurement, the commission directed that "Phase 2 of this RFP process will begin no later than January 2019. The commission will issue a forthcoming order providing the Companies with guidance for filing the Proposed Variable RFPs for Phase 2" ¹¹

On December 31, 2018, the Companies filed seven applications requesting approval of power purchase agreements ("PPAs") that are the outcome of the Phase 1 procurement process. ¹²

On January 24, 2019, the commission issued its Final Affiliate Transaction Requirements in Docket No. 2018-0065,

¹¹Order No. 35529, "Authorizing the Hawaiian Electric Companies To Expand The Number of Projects Selected For Their Respective Final Award Groups Pursuant To The Final Variable Requests For Proposals Submissions," filed on June 15, 2018.

¹²See Docket Nos. 2018-0430, -0431, -0432, -0433, -0434, -0435, and -0436. The commission is currently reviewing these applications and subsequent docket filings.

which "establish safeguards to avoid potential market-power abuses and cross-subsidization between regulated and unregulated activities and to govern" relevant interactions between the HECO Companies and affiliates and affiliate-related entities.¹³ The commission also subsequently issued Order No. 36093 in the instant docket, to provide guidance regarding the ongoing application of the Phase 1 Final Variable RFPs Code of Conduct.¹⁴

On January 31, 2019, the commission issued a Notice of Status Conference regarding Phase 2, requesting that the Companies "present their proposed plans for Phase 2 of the competitive procurement process, as well as an estimate of the Companies' expected timeline to file their Phase 2 Proposed RFPs for

¹³Docket No. 2018-0065, Order No. 36112, "Addressing the Hawaiian Electric Companies' Motion for Partial Reconsideration and/or Clarification and Partial Stay of Decision and Order No. 35962, Filed on December 31, 2018; and Exhibits A & B," filed on January 24, 2019.

¹⁴Order No. 36093, "Addressing the Hawaiian Electric Companies' Final Variable Requests for Proposals Code of Conduct," filed on January 17, 2019. ("Phase 2 of the RFP process is intended to begin in January 2019. To help ensure that any information provided to the HECO Companies during Phase 1 of the RFP will be maintained in accordance with the Final Variable RFPs Code of Conduct, and that future competitive solicitations, such as those conducted pursuant to Phase 2, will occur in a fair and transparent manner, the commission determines that the Final Variable RFPs Code of Conduct and the Procedures Manual shall remain in effect, unless otherwise ordered by the commission").

commission review."¹⁵ On February 7, 2019, the commission held the Status Conference, during which the HECO Companies presented their proposed plans for Phase 2, and responded to questions from the commission, the Consumer Advocate, and stakeholders.¹⁶

B.

The Companies' February 7 Presentation

The Companies state that they considered five procurement approaches for Phase 2 across the various islands, including "Stage 2 of Variable, similar to Stage 1 (with and without grid charging options)," "Storage-only (grid charged)," "Combined single RFP for variable generation MWH and energy storage MW need[s]," "All-Resource (variable generation, energy storage, firm, aggregators, and other technologies)," and "Firm RFP."¹⁷ Based on the Companies' assessment of the above procurement approaches under their identified criteria (i.e., (1) Meets all resource needs; (2) Meets timing needs; (3) Execution risk (complexity); (4) Consideration of all market options;

¹⁵Docket No. 2017-0352, "Notice of Status Conference," filed on January 31, 2019.

¹⁶The Companies' presentation at the Status Conference "Next Steps for Procurement of Grid-Scale Energy Resources," was filed in the instant docket on February 7, 2019 ("Companies' February 7 presentation").

¹⁷Companies' February 7 presentation at Slide 13.

and (5) Simplicity of competitive rankings), the Companies selected the following proposed procurement approaches for each island:

- Oahu: Parallel Stage 2¹⁸ and Stand-alone storage
- Maui: Combined Stage 2 and Stand-alone storage
- Hawaii Island: Stage 2

II.

Discussion

A.

Commission Concerns Regarding The Companies' Proposed Phase 2 Plans

Based on the Companies' February 7 presentation, it is not apparent to the commission that an all-resource procurement (i.e., one that incorporates variable generation, energy storage, firm, aggregators, and other technologies) would have taken meaningfully more time than the Companies' proposed plans, yet the Companies have foregone pursuing a procurement that incorporates aggregators and other providers of grid services. As noted above, given the timelines and magnitude of the grid needs, particularly with the impending retirements of the AES and Kahului Plants, a portfolio of clean energy projects and resources

¹⁸As noted above, the Companies define "Stage 2" as "similar to [the] Stage 1" procurements in this docket.

is the preferred method to mitigate cost, reliability, and execution risk for replacing these older fossil fuel-burning units. Accordingly, the Phase 2 procurement should be structured to solicit the best portfolio of clean energy resources, including from distributed or aggregated providers of grid services.

The commission's particular concern with the Companies' Oahu Phase 2 proposed RFP structure (i.e., Parallel Stage 2 and Stand-alone storage) is that HECO could potentially retire old units (like the AES Plant), and then replace them with batteries that are primarily charged with non-renewable generation. This would be a problem from both a fossil fuel consumption as well as an economic perspective, given oil and renewables' respective avoided costs.

The commission's particular concern with the Companies' plans for Hawaii Island is that they do not build in contingencies for a situation where the Puna Geothermal Venture ("PGV") plant and/or the Hu Honua ("Hu Honua") plant are not in-service, but instead indicate HELCO's intent to try to pivot if or when HELCO finds out those units will not be in-service after the Phase 2 procurements are already underway.¹⁹ From the commission's

¹⁹Companies' February 7 presentation at Slide 11, "Hawaii Island Needs," stating "PSIP assumes that PGV is online and Hu Honua comes online in 2019. May need to consider alternative scenarios in the near future."

perspective, last-minute emergency procurements or alterations if one or both PGV and Hu Honua do not get placed into service would be difficult and counterproductive. And, even if PGV and Hu Honua are placed into service as the Companies anticipate, there are still likely contingency and security benefits to procuring additional renewable resources (i.e., proceeding with procurement under a scenario that assumes those facilities will not be in service and will instead be replaced by a portfolio of clean energy resources).

B.

Commission Guidance

Based on these concerns, the commission provides the following guidance related to the Companies' Phase 2 Draft RFPs:

1.

Phase 2 Draft RFPs

Following from the above working assumption that the goal is to solicit and acquire the best portfolio of clean energy projects and resources, and given the commission's stated concerns above and the overall desire to replace the capacity, energy, and ancillary services from the AES and Kahului Plants upon their timely retirement, the commission finds that it would be more beneficial to conduct Phase 2 RFPs for all islands that

include Parallel (1) Combined RFPs + (2) Expedited Grid Services RFPs.²⁰ These parallel procurement processes would allow the Companies to set targets for grid services' contributions to overall grid needs separately, rather than within an all-resource procurement, reducing any concerns about the potential complexity of wrapping aggregated demand-side resources into an all-resource procurement.

Regarding the (2) Expedited Grid Services RFPs, the Companies are currently undergoing procurement of grid services pursuant to RFPs in the Demand Response docket, Docket No. 2015-0412 (ex: RFP # 061715-02), so including a parallel expedited acquisition of grid services within Phase 2 is consistent and overlapping with the Companies' existing grid services procurement plans and mandates. Such services acquired strategically across select circuits on Maui and Oahu can provide grid services following the retirement of the AES and Kahului Plants. In addition, HELCO's Parallel (1) Combined RFP + (2) Expedited Grid Services RFP can and should build in contingencies for uncertainties surrounding PGV and Hu Honua, recognizing the contingency benefits of procuring additional

²⁰"Grid services" is defined as the suite of services described in the Companies' Revised Integrated Demand Response Portfolio Plan Supplemental Report ("IDRPP"), filed in Docket No. 2007-0341 on November 6, 2015, as further refined by the definitions set forth in Docket No. 2015-0412.

renewable resources on Hawaii Island even if both PGV and Hu Honua are put into service, as planned.

The commission notes that resources procured pursuant to the Parallel (1) Combined RFPs + (2) Expedited Grid Services RFPs will be viewed as a combined portfolio for 2022 (or sooner) (i.e., the commission is looking for concrete commitments on both the Combined RFP and grid services procurement in that timeframe).

2.

Shared Savings Mechanism

As noted above, the commission encourages the Companies to propose a shared savings mechanism when they file the Phase 2 Draft RFPs, which should apply to resources procured in both the (1) Combined RFPs + (2) Expedited Grid Services RFPs. The shared savings mechanism can be interconnected across the parallel procurements.

3.

Molokai and Lanai

Additionally, the commission is interested in MECO's proposed plans for competitively procuring renewable resources for Molokai and Lanai, given the increasing preference for, and customer benefits from, resources acquired pursuant to competitive solicitations, and the desire to move away from,

where possible, more limited bilateral negotiations for the acquisition of those resources. However, noting the Companies' discussion about the nuances of planning competitive procurements for Molokai and Lanai at the February 7 Status Conference, the competitive procurement for these islands can be separate from MECO's Phase 2 RFP, but the commission nonetheless requests that the Companies' plans for competitive procurements for Molokai and Lanai be filed in this docket in the near-term.

4.

Consistency With Other Company Initiatives

The proposed parallel RFPs are consistent with the HECO Companies' initiatives for Integrated Grid Planning ("IGP") and a "One Company" management philosophy. The proposed approach would coordinate two existing procurement efforts and move towards the HECO Companies' plans for IGP without requiring the additional complexity of a fully integrated resource procurement at this time. Similarly, the commission expects that coordinated procurement across the Companies aligns with current efforts to streamline internal processes under the "One Company" management initiative.

C.

Timing

At the February 7 Status Conference, the Companies stated their intent to file their Phase 2 Draft RFPs within 30 days of February 7, 2019.²¹ However, the commission's guidance herein emphasizes some areas of the Companies' proposed plans, as presented on February 7, that may require further development and analysis. As such, the commission directs the Companies to instead file their Phase 2 Draft RFPs in the instant docket within 30 days of the instant Order. The commission intends to issue additional, specific guidance after its review of the Phase 2 Draft RFPs, when they are filed.

III.

Orders

THE COMMISSION ORDERS:

1. The commission provides the above guidance in advance of the filing of the HECO Companies' Phase 2 Draft RFPs.
2. The commission directs the Companies to file their Phase 2 Draft RFPs in the instant docket within 30 days of the filing of this Order, consistent with the guidance above.

²¹Companies' February 7 presentation, at Slide 4: "Stage 2 Variable RFP: draft to be issued in 1 month."

3. As discussed herein, the commission provides the opportunity for the Companies to propose a shared savings mechanism at the time of filing of their Phase 2 Draft RFPs.

DONE at Honolulu, Hawaii FEB 27 2019.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By James P. Griffin
James P. Griffin, Chair

By Jennifer M. Potter
Jennifer M. Potter, Commissioner

APPROVED AS TO FORM:

Caroline C. Ishida
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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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