

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAI'I**

In the Matter of the Application of

**HAWAIIAN ELECTRIC COMPANY,
INC.**

**For Approval of Power Purchase
Agreement for Renewable As-Available
Energy for the 14.7 MW Solar Project
Owned by Lanikuhana Solar, LLC.**

DOCKET NO. 2014-0357

REPLY STATEMENT OF POSITION OF HAWAIIAN ELECTRIC COMPANY, INC.

AND

CERTIFICATE OF SERVICE

FILED
2015 APR 15 P 3:41
**PUBLIC UTILITIES
COMMISSION**

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In accordance with Stipulated Procedural Order No. 32674, as amended by Order No. 32756, Hawaiian Electric Company, Inc. (“Hawaiian Electric” or the “Company”) respectfully provides its Reply to the Division of Consumer Advocacy’s (“Consumer Advocate”) Statement of Position (“SOP”) dated April 1, 2015.

I. CONSUMER ADVOCATE’S SOP

In the Company’s application filed December 4, 2014 in the instant docket (the “Application”), the Company requested, among other things, that the State of Hawaii Public Utilities Commission (“Commission”): (a) approve the Power Purchase Agreement for As-Available Energy dated December 3, 2014 (the “PPA”), between Hawaiian Electric and Lanikuhana Solar, LLC (“Lanikuhana”); (b) find that the purchased energy charges to be paid by Hawaiian Electric pursuant to the PPA are just and reasonable; (c) find that the purchased power arrangements under the PPA are prudent and in the public interest; (d) authorize Hawaiian Electric to include the purchased energy charges, the payments made for Compensable Curtailed

Energy¹ and related revenue taxes that Hawaiian Electric incurs under the PPA in and through Hawaiian Electric's Energy Cost Adjustment Clause ("ECAC") to the extent such costs are not included in base rates; (e) determine that the 138 kilovolt ("kV") line extensions that are included as part of the Company-Owned Interconnection Facilities² should be constructed above the surface of the ground for the Lanikuhana project (the "Project"), pursuant to Hawai'i Revised Statutes ("HRS") § 269-27.6; and (f) grant such other relief as may be just and reasonable under the circumstances.

On April 1, 2015, the Consumer Advocate filed its SOP on the Company's Application. The Consumer Advocate recommended that the Commission approve Hawaiian Electric's requests, subject to the following conditions:

- (1) The PPA should be revised to reflect the recent acquisition of First Wind by SunEdison, Inc. and TerraForm Power, Inc.³
- (2) The PPA should be revised to remove references to Hawaiian Electric's Kahe PV project.⁴
- (3) Any costs incurred by Hawaiian Electric associated with the N-1-1 contingency⁵

¹ "Compensable Curtailed Energy" is defined in the PPA as "The Curtailed Energy that results from a Compensable Curtailment Event. See PPA attached to the Application as Exhibit 1, at 7. A "Compensable Curtailment Event" is defined in the PPA as "Any Curtailment Event other than a Curtailment Event due to (a) an Emergency, (b) a Forced Outage, (c) the Facility not operating in compliance with Good Engineering and Operating Practices, (d) the Company's construction, installation, maintenance, repair, replacement, removal, investigation, testing or inspection of any of its equipment or any part of the Company System, including accommodating the installation and/or acceptance test of non-utility owned facilities to Company System, or (e) Force Majeure; provided, however, that any Curtailment Event initiated by Company during the hours of 7:00 a.m. and 6:00 p.m. HST for the purpose of Planned Maintenance or Wahiawa 138 kV Maintenance above the Maintenance Cap shall be a Compensable Curtailment Event. For avoidance of doubt, a loss of curtailment priority for Subordinate Allowed Capacity under Section 2.3 (Adjustment of Curtailment Priority) of this Agreement does not constitute a Compensable Curtailment Event and the electric energy that is not purchased by the Company due to such loss of curtailment priority does not constitute Compensable Curtailed Energy." See PPA at 7.

² Unless otherwise stated herein, capitalized terms shall have the meaning set forth in the definitions section of the PPA.

³ See Consumer Advocate's SOP at 17.

⁴ Id.

⁵ As defined in the Application, Section V.E.g., at 22; see also PPA, Section 29.26(A).

should not be recoverable from ratepayers.⁶

- (4) Any costs associated with the Compensable Curtailed Energy provisions should not automatically be included in Hawaiian Electric's ECAC and should be reviewed for reasonableness prior to being recovered from Hawaiian Electric's customers.⁷
- (5) Should Hawaiian Electric decide to implement Autoscheduling, Hawaiian Electric should provide the Commission and the Consumer Advocate with (i) Hawaiian Electric's plan for implementing Autoscheduling, (ii) its analysis performed justifying the need for Autoscheduling, (iii) the estimated project costs, and (iv) the effect on Compensable Curtailed Energy, all prior to implementation of Autoscheduling.⁸
- (6) Hawaiian Electric should "file a written notice with the Commission and Consumer Advocate one year prior to the ninety (90) day advance written notice by which the parties may terminate the agreement indicating whether Hawaiian Electric intends to extend the initial term of the proposed PPA and provide the basis for such extension."⁹

The Consumer Advocate also noted that "it is still important to develop a selection methodology to facilitate the relative weighing of each project's value, especially if there are concerns that the Commission will not approve all of the PPAs that are currently filed with the Commission."¹⁰

II. HAWAIIAN ELECTRIC'S REPLY COMMENTS

⁶ See Consumer Advocate's SOP at 17-18.

⁷ *Id.* at 21.

⁸ *Id.* at 19.

⁹ *Id.*

¹⁰ *Id.* at 31.

A. *Relevant Procedural Background*

On February 22, 2013, Hawaiian Electric issued an Invitation for Low Cost Renewable Energy Projects on O‘ahu through Request for Waiver from Competitive Bidding (the “Waiver Invitation”). The Waiver Invitation was part of Hawaiian Electric’s efforts to lower customers’ electric bills in the near term by seeking qualified utility-scale renewable energy projects that developers could place quickly into service at a low cost per kilowatt-hour.¹¹ Lanikuhana submitted a proposal in response to the initial Waiver Invitation for a 14.7 megawatt (“MW”) AC net photovoltaic (“PV”) project, which is to be located in Mililani, on the island of O‘ahu. The Project was not selected under the initial Waiver Invitation.

On June 17, 2013, Hawaiian Electric issued a letter offering Lanikuhana and the developers of 19 other projects that were not selected in the initial Waiver Invitation, an additional opportunity to submit revised pricing that improved each project’s market competitiveness (the “Pricing Refresh”). In addition to the five projects selected under the initial Waiver Invitation,¹² Hawaiian Electric selected an additional six projects, including the Project, from the Pricing Refresh. On November 14, 2013, in Docket No. 2013-0381, Hawaiian Electric filed its Application for Approval of Additional Waivers from the Framework for Competitive Bidding (“Waiver II Application”), seeking waivers for the six additional projects selected through the Pricing Refresh, including the Project.

Subsequently, Hawaiian Electric solicited risk adjusted pricing (“RAP”) from the Waiver Projects that justified transferring the financial risk of excess energy curtailment from the

¹¹ See Hawaiian Electric Application for Approval of Waivers from the Framework for Competitive Bidding, filed June 18, 2013, in Docket No. 2013-0156 (“Waiver I Application”).

¹² The Waiver I Application included requests for waivers for five renewable energy projects. On November 4, 2013, the Company submitted a letter informing the Commission that two developers had withdrawn from the Waiver Invitation. By letters dated September 23, 2014, and October 6, 2014, the Company informed the Commission that two other developers had withdrawn from the initial Waiver Invitation.

developers to Hawaiian Electric's customers. After extensive review and analysis of the RAP offers submitted by the Waiver Project developers, Hawaiian Electric selected six of the Waiver Projects for the RAP PPA that provided acceptable risk adjusted pricing, including Lanikuhana. Hawaiian Electric notified the developers of the three remaining projects on the same day that their RAP pricing proposals were higher than acceptable to Hawaiian Electric to justify the transfer of financial risk of excess energy curtailment to Hawaiian Electric's customers, and were not selected to receive the RAP PPA.¹³

By Decision and Order No. 32241, filed August 4, 2014, in Docket No. 2013-0381, the Commission approved Hawaiian Electric's Waiver II Application, subject to certain conditions. On December 4, 2014, Hawaiian Electric filed the instant Application with the Commission. The Lanikuhana PPA and pricing structure was the result of a competitive solicitation process and a series of arm's-length proposals and negotiations between Lanikuhana and Hawaiian Electric.

B. Amendment to PPA

The Consumer Advocate stated in its SOP that the PPA should be revised to reflect the recent acquisition of First Wind by SunEdison, Inc. and TerraForm Power, Inc.¹⁴ and to remove references to Hawaiian Electric's Kahe PV project.¹⁵ Hawaiian Electric has discussed these recommendations with the SunEdison, Inc. ("SUNE") and the parties do not have any issues with them. Accordingly, the parties are willing to amend the PPA to reflect the recent acquisition of First Wind by SUNE and to remove references to Hawaiian Electric's Kahe PV project if required by the Commission.

¹³ Two of the non-RAP projects have since dropped out of the waiver process, leaving only one non-RAP PPA project pending Commission review.

¹⁴ See Consumer Advocate's SOP at 17.

¹⁵ *Id.*

C. *Costs Associated with N-1-1 Contingency*

The Consumer Advocate noted that any costs incurred by Hawaiian Electric associated with the N-1-1 Contingency should not be recoverable from “ratepayers,” i.e., Hawaiian Electric’s customers. Hawaiian Electric respectfully disagrees. Hawaiian Electric clarifies that there are generally two sets of costs that may be incurred associated with the N-1-1 contingency, and appropriate cost recovery may differ depending on the nature of such costs.¹⁶

The first set includes the costs associated with any “Mitigating Measures” identified as a result of the Additional IRS. As stated in the PPA, if Mitigating Measures are identified and if Hawaiian Electric determines it will pursue completion of the Mitigating Measures, Hawaiian Electric shall, as it considers the N-1-1 contingency a system issue not attributable to any single generating project, apply to the Commission for approval to commit capital funds and/or seek recovery of the costs for such Mitigating Measures through Hawaiian Electric’s rates or other cost recovery mechanisms. If Hawaiian Electric obtains Commission approval for the commitment of capital funds and/or cost recovery for such Mitigating Measures, then Hawaiian Electric shall use commercially reasonable efforts to implement such Mitigating Measures.¹⁷

The second set of potential costs that may be incurred as a result of the N-1-1 contingency are costs for the Wahiawa 138 kV Maintenance exceeding the Maintenance Cap that results in Compensable Curtailed Energy.¹⁸ Hawaiian Electric agrees with the Consumer Advocate’s recommendation to take care in conducting such maintenance so as to mitigate incurring payments for Compensable Curtailed Energy during the pendency of the Wahiawa 138 kV Maintenance, and will do so appropriately. Notwithstanding the above, Hawaiian Electric notes, as described in Section D immediately below, that subject to Commission approval,

¹⁶ See PPA Section 29.26(A).

¹⁷ See PPA Section 29.26(C).

¹⁸ See PPA Section 29.26(E).

payments for Compensable Curtailed Energy may still be recoverable. Hawaiian Electric is not waiving any decision to seek such recovery as may be appropriate under the circumstances.

D. Recovery for Payments for Compensable Curtailed Energy

The Consumer Advocate argued that the costs associated with Compensable Curtailed Energy are not known at this time and therefore that such costs should not be automatically included in Hawaiian Electric's ECAC. The Consumer Advocate stated that any costs associated with the Compensable Curtailed Energy provisions of the PPA should be reviewed for reasonableness prior to being recovered from Hawaiian Electric's customers.¹⁹ In Hawaiian Electric's Application, Hawaiian Electric requested that if the Commission determined that it was not appropriate to recover the costs associated with Compensable Curtailed Energy through the ECAC, that such costs instead be recovered through the Company's Purchased Power Adjustment Clause ("PPAC").²⁰

The Purchased Power Adjustment Clause ("PPAC") is an existing adjustment clause approved by the Commission,²¹ which allows Hawaiian Electric to pass through to customers through a separate cents per kilowatt-hour surcharge, reasonably incurred purchase power contract costs, including all capacity, operations and maintenance ("O&M") and other non-energy payments approved by the Commission.

Hawaiian Electric therefore renews its request,²² that if the Commission determines that payments made for Compensable Curtailed Energy and related revenue taxes under the PPA should not be recoverable through the ECAC, that the Commission authorize Hawaiian Electric to include such payments for recovery through the PPAC. To facilitate the review of

¹⁹ See Consumer Advocate's SOP at 21.

²⁰ See Application, Section I.C.3 at 9.

²¹ See Final Decision and Order issued December 29, 2010, in Docket No. 2008-0083 (Hawaiian Electric's 2009 Test Year rate case), at 51-55.

²² See Application at 3-4; 8-9.

Compensable Curtailed Energy costs to be passed through the ECAC or PPAC, Hawaiian Electric is willing to submit a periodic filing at least annually which quantifies the Compensable Curtailed Energy costs that will be recovered, based on Compensable Curtailed Energy payments made over a prior period. For administrative efficiency, such periodic filing would include all Compensable Curtailed Energy costs to be recovered under RAP-PPAs that have been approved by the Commission.

E. *Autoscheduling*

In its SOP, the Consumer Advocate stated that, “should Hawaiian Electric decide to implement Autoscheduling, Hawaiian Electric should provide the Commission and the Consumer Advocate a plan for implementation which would include its analysis that justifies the need for Autoscheduling, the estimated project costs, and the effect on Compensable Curtailed Energy.”²³ Prior to implementation of Autoscheduling, Hawaiian Electric is willing to provide the Commission and the Consumer Advocate a plan for implementation, which would include the Company’s analysis performed justifying the need for Autoscheduling, the estimated project costs, and the effect on Compensable Curtailed Energy.

F. *Evergreen Provision*

In its SOP, the Consumer Advocate stated that Hawaiian Electric should “file a written notice with the Commission and Consumer Advocate one year prior to the ninety (90) day advance written notice by which the parties may terminate the agreement indicating whether Hawaiian Electric intends to extend the initial term of the proposed PPA and provide the basis for such extension.”²⁴ Hawaiian Electric has discussed this point with SUNE, and Hawaiian Electric would be willing to provide such notice if required by the Commission.

²³ See Consumer Advocate’s SOP at 19.

²⁴ *Id.* at 19.

G. *Selection Methodology*

The Consumer Advocate states that it is important to develop a selection methodology to evaluate the projects, especially if there are concerns that the Commission will not approve all of the PPAs that are currently filed with the Commission for approval.²⁵ Hawaiian Electric maintains that this is not necessary, as each project has been thoroughly vetted through the original Waiver Invitation process and/or Pricing Refresh process, and as previously indicated by the Company,²⁶ all projects can be reasonably accommodated onto Hawaiian Electric's system:

[Hawaiian Electric's Power Supply Improvement Plan ("PSIP")] contains Hawaiian Electric's Preferred Plan for achieving key energy policy goals, including attaining a clean, secure and affordable energy future, and contains detailed analysis supporting the integration of the total capacity of all the Waiver Projects. The Preferred Plan addresses the addition of utility-scale PV in excess of the total capacity of all the Waiver Projects in conjunction with the planned aggregate amount of distributed solar PV capacity.²⁷ The Preferred Plan concludes that the projects will, in their entirety, help contribute to the balanced, low-cost portfolio of renewable energy resources contemplated in the PSIP.²⁸ In addition, the Waiver Invitation process was developed from the onset, to seek low cost utility scale renewable projects that could be developed in the near term in a manner that is fair to both developers and the Company's customers. However, the Company sought to ensure a fair and equitable process for its participants, while striving to achieve its objective of seeking renewable energy pricing that is significantly lower than previously available to its customers.

The information set forth in Dockets No. 2013-0156 and 2013-0381 remains true and the Company maintains that all of the Waiver Projects should be approved. Therefore, Hawaiian

²⁵ *Id.* at 31.

²⁶ See Hawaiian Electric's September 25, 2014 letter filings in Dockets No. 2013-0156 and 2013-03981.

²⁷ The PSIP assumes the addition of approximately 286 MW of utility-scale PV by the end of 2016. See page 4-41 and Table 502 of the PSIP.

²⁸ The Preferred Plan is expected to reduce monthly bills for full service residential customers by 23% from 2014 to 2030. See Figure ES-6 of the PSIP.

Electric does not believe it is necessary to develop a selection methodology to further weigh each project's value.

III. CONCLUSION

For all of the foregoing reasons, as well as those stated in the underlying Application, Hawaiian Electric respectfully requests that the Commission:

- (a) Approve the PPA. Including amendments to reflect the recent acquisition of First Wind by SUNE and to remove references to Hawaiian Electric's Kahe PV project, as discussed above, should the Commission deem these changes necessary;
- (b) Find that the purchased energy charges to be paid by Hawaiian Electric pursuant to the PPA are just and reasonable;
- (c) Find that the purchased power arrangements under the PPA, pursuant to which Hawaiian Electric purchases energy on an as-available basis from Lanikuhana, are prudent and in the public interest;
- (d) Authorize Hawaiian Electric to include the purchased energy charges and related revenue taxes that Hawaiian Electric incurs under the PPA in and through Hawaiian Electric's ECAC to the extent such costs are not included in base rates;
- (e) If the Commission determines that payments made for Compensable Curtailed Energy and related revenue taxes should not be recovered through the ECAC, that Hawaiian Electric be authorized to include such payments in and through Hawaiian Electric's PPAC;
- (f) Determine that the 138 kV line extensions that are included as part of Company-Owned Interconnection Facilities should be constructed above the surface of the ground for the Project, pursuant to HRS § 269-27.6; and

(g) Grant such other relief as may be just and reasonable under the circumstances.

DATED: Honolulu, Hawai'i, April 15, 2015.



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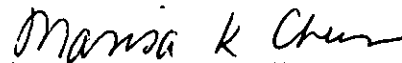
CERTIFICATE OF SERVICE

The foregoing Reply Statement of Position of Hawaiian Electric Company, Inc. was served on the date of filing as indicated below by mailing a copy by making personal service to the following and at the following address:

Division of Consumer Advocacy
Department of Commerce and Consumer Affairs
335 Merchant Street, Room 326
Honolulu, Hawai'i 96813

DATED: Honolulu, Hawai'i, April 15, 2015

HAWAIIAN ELECTRIC COMPANY, INC.



Marisa K. Chun