WORKSHOP: GRID SERVICES PURCHASE AGREEMENT

Kickoff and Discussion

DECEMBER 12, 2018
GROUND RULES

• All Working Group and Stakeholder Group meetings, webinars and information exchange are designed solely to provide an open forum or means for the expression of various points of view in compliance with antitrust laws.

• Under no circumstances shall Working Group and Stakeholder Group activities be used as a means for competing companies to reach any understanding, expressed or implied, which tends to restrict competition, or in any way, to impair the ability of participating members to exercise independent business judgment regarding matters affecting competition or regulatory positions.

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AGENDA: DECEMBER 12, 2018

• Introductions
• Discuss objectives of Working Group – Hawaiian Electric
• Include procedural history of GSPA and formulation of IGP
  – Display IGP structure that explains the roles and responsibilities of other WG
  – Define role and responsibility of Standard Contract WG
  – Discuss timeline of discussions, drafts, and deliverables
• Working Group Exercise – discuss Charter and Principles
• Discuss structure / mechanism / terms of contracts – standardized vs. customized
• Q&A session
• Further discussion of next steps
PROJECT STATUS
OVERALL PROJECT TIMELINE

2018
Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun

Standardized Contract Working Group

- Consultant engagement kickoff
- Meeting #1: Other markets, PPA and GSPA
- Complete Lit. and Market review
- Meeting #2: Contract/ market approach
- Stakeholder Meeting #1
- File Aggregator Contract
- Meeting #3: Contract terms
- Meeting #4: IPP Market Rules
- Meeting #5: IPP Market Rules

2019
Aug | Sep | Oct | Nov | Dec

- Meeting #6: IPP Market Rules
- Meeting #7: Data & Cybersecurity
- Stakeholder Meeting #2
- Meeting #8: Grid Services & Delivery Requirements
- Stakeholder Meeting #3
BACKGROUND AND OBJECTIVES

• Understand the reliability and policy framework that underlies the goal of developing contracts for grid services
• Discuss Workshop Objectives
• Prepare for Stakeholder meetings to receive input on grid services
  – Catalog comments received
  – Develop risk assessment for recommendations
• Refine contract considering industry benchmarked best practices
  – Understand common contracts used in the industry
  – Discuss structural options for Hawaiian Electric
• Lay the groundwork for a structure that can play across counterparties in the future
In recent DR potential studies in California, DR was broken into four service types:

- **Shape**: Load-modifying DR—with advance notice of months to days.

- **Shift**: DR that encourages the movement of energy consumption from times of high demand to times of day when there is surplus of renewable generation; Smoothes the daily patterns of net load.

- **Shed**: Can be curtailed to provide peak capacity and support the system in emergency or contingency events—at the statewide level, in local areas of high load, and on the distribution system, with a range in dispatch advance notice times.

- **Shimmy**: Loads to dynamically adjust demand on the system to alleviate short-run ramps and disturbances at timescales ranging from seconds up to an hour.
The Working Group provides a forum for open exchange of knowledge and ideas surrounding the procurement of services through a contracting mechanism between Hawaiian Electric (utility) market operators and third party providers of grid and other ancillary services. The initial focus will be on contract options including:

- **Structure** – standard language combined with specific enabling agreements
- **Mechanisms** – components and pieces
- **Terms** – details

Subject Matter Experts advised that the common standard contracts used by the industry are those from EEI and WSPP
CONTRACT STRUCTURE

• Structure – standard language combined with participation agreements
  – Two pronged approach – Ts and Cs with different participation agreements
  – Clarify legal obligations and market operations
  – “Moderately customized” – general PPA with sections that applied with standardized options (choice A vs. B)
  – Delineate what goes into the reference documents vs. the contract

• Preferences and features:
  – Multi year commitment to deliver multiple services across multiple islands
  – 3-4 services for 3-5 years
  – Minimize micro contracts, but no specific minimum, bigger contracts preferred
  – Perhaps specific targets for sectors, such as distributed resources

• Considerations:
  – Growth potential as market capabilities and participation are grown
  – Possible incentive mechanisms in the future
• Mechanisms – components and pieces
  – Common requirements
  – Customized sections

• Preferences and features:
  – Benchmark standard features
  – Credit
  – Liquidated Damages
  – Etc.

• Considerations:
  – Understand risk and risk mitigation based on benchmarking other areas
  – Understand any issues with the existing PPA form
• Terms – details
Principles
1. Competition yields lower electricity rates.
2. Stable and transparent rules and regulations promote private investment.
3. Private investors, rather than utilities, will spend money on new power plants and transmission facilities if they can earn a return that is balanced with the risks.
4. Markets work best when there are many buyers and sellers.
5. At-risk money will be put to work and attract new investment where markets exist that are legitimate and yield credible prices.
Navigant team will present summary of benchmarking of similar grid services purchasing mechanisms
• Strawman of “structure”
• Populate with “mechanisms”
• Establish a matrix – 2 “big buckets”
  – standard contracts, such as EEI and WSPP
  – other contracts, such as PPAs
• Discuss what are organizations doing in terms of procurement structure
# FRAMEWORK TO RECEIVE STAKEHOLDER INPUT

<table>
<thead>
<tr>
<th>Grid Service Category</th>
<th>Stakeholder</th>
<th>Comments</th>
<th>Combine with Row #</th>
<th>Sent to risk evaluation?</th>
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## Risk Assessment Framework for Stakeholder Comments

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<tr>
<th>Risk Item</th>
<th>Risk Assessment</th>
<th>Mitigation</th>
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<td>Credit</td>
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<td>Pace of change in the Market Price</td>
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<td>Ability to renegotiate</td>
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<td>Buy out clause</td>
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<td>Access to new products / services</td>
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<td>Economic viability</td>
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<td>Mutually agreeable index</td>
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<td>Bankruptcy and mergers</td>
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<td>Standard credit limits</td>
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<td>Complexity of aggregator portfolio</td>
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Placeholder for additional information
GRID SERVICES

Grid Services

- Operating Reserve
  - Non-event
  - Event
    - Capacity
    - Regulating Reserve
    - Replacement Reserve
    - Fast Frequency Response

Offer window / Response Time:
- Capacity: Years to months / minutes to hours
- Regulating Reserve: Daily / 5-10 Minutes
- Replacement Reserve: Daily to continuous / 30 Minutes to Hours
- Fast Frequency Response: Daily to continuous / Seconds to Minutes
GRID SERVICES DEFINITIONS

• **Capacity program**: Capacity programs represents a commitment of demand response to deliver when needed, particularly in case of a grid emergency. Demand response services are normally compensated by real time pricing, time of use rates and day ahead load shifting programs.

• **Fast Frequency Response (‘‘FFR’’)**: A response from a resource that is automatically self-deployed and provides a full response within 30 cycles after frequency meets or drops below a preset threshold.

• **Regulating Reserve programs**: Demand Response available during normal conditions for assistance in active power balance to correct the current imbalance that occurs, is faster than economic dispatch optimization, is random, and requires automatic centralized response.

• **Replacement Reserve programs**: Generation that is capable of starting up if not already operating, synchronized with the grid and ramping to a specified load within one hour, and running for at least two hours.
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CONTACTS

LAURA MANZ
Director
858.354.8333
Laura.Manz@Navigant.com

STUART SCHARE
Managing Director
303.728.2504
stuart.schare@Navigant.com

RADHA SOORYA
Associate Director
317.417.7542
Radha.Soorya@Navigant.com

SONY DHALIWAL
Associate Director
512.493.5401
sukhjit.dhaliwal@Navigant.com