

Exhibit 1
Hawaiian Electric Companies' Development of the Proposed Final Variable RFPs

The Hawaiian Electric Companies'¹ process for developing their draft request for proposals ("RFP") for Firm Capacity Renewable Generation on the island of Maui (the "Draft Firm RFP") and draft RFP for Variable Renewable Dispatchable Generation on the island of O'ahu (the "Draft Variable RFP") was set forth in Exhibit 3 of the Companies' October 23, 2017 filing in this docket.² In developing the competitive bidding process for each of the Draft RFPs, the Companies established and followed the following guiding principles ("Guiding Principles"):

- 1. The Companies' Power Supply Improvement Plans ("PSIP") provide the roadmap;**
- 2. Transparency, predictability and streamlining lowers costs to customers and fosters trust in the process;**
- 3. Community engagement is critical to near-term and long-term project success;**
- 4. Coordination and collaboration of all parties involved is necessary to achieve a successful and timely procurement; and**
- 5. There is no perfect answer; tradeoffs must be considered.**

As directed by the Commission in Order No. 35224, *Providing Guidance on the Hawaiian Electric Companies' Proposed Requests for Proposals for Dispatchable and Renewable Generation*, issued by the Commission on January 12, 2018 ("Order 35224"), the Companies have worked closely with the Independent Observers ("IOs") appointed by the Commission to determine what revisions to the Draft Variable RFP and supporting documents are appropriate in connection with the guidance in Order 35224.³ The Companies found the input and guidance from the IOs to be extremely helpful and appreciate the collaborative approach taken by the IOs. The IOs dedicated many long hours under tight time constraints to work together with the Companies to improve the Draft Variable RFP and supporting documents and the overall RFP process, which the Companies truly appreciate. In order to ensure successful execution of this phase of the competitive bidding process, the Companies also adhered to their Guiding Principles in developing the Proposed Final Variable RFPs, as further explained below.

¹ The "Hawaiian Electric Companies" or "Companies" refers collectively to Hawaiian Electric Company, Inc., Hawai'i Electric Light Company, Inc., and Maui Electric Company, Limited.

² The Draft Firm RFP and the Draft Variable RFP are jointly referred to herein as the "Draft RFPs."

³ Consistent with the Commission's recommendation in Order 35224, the Companies have prioritized the finalization of the Draft Variable RFP, with the finalization of the Draft Firm RFP to follow after receiving further guidance from the Commission and the IO, which is expected in the first quarter of 2018.

This Exhibit 1 describes major changes made to the Draft Variable RFP and supporting documents to develop the Proposed Final Variable RFPs, as well as the Companies' rationale for maintaining certain provisions, and the Companies' approach in doing so. To facilitate the Commission's and IOs' review, the Companies' comments are organized by topic in the same order as set forth in Order 35224.

Self-Build Option and Affiliate Participation

The Companies recognize the Commission's strong preference against self-build or affiliate proposals for the first phase of the variable RFPs in order to allow the procurement process to move forward expeditiously without direct or perceived conflicts of interest. Based on this recognition and the Companies' desire to allow the procurement process to move forward in an expedited manner, which is particularly important given the Companies' goal of enabling safe harboring of the 2019 federal investment tax credit ("ITC"), the Companies have revised the RFPs to remove references to the self-build option for Stage 1 of the competitive bidding process. The Companies also revised the RFPs to specify clearly that the Companies will not accept proposals by affiliates during Stage 1 of the procurement.

Although the RFPs were revised to remove a self-build option for Stage 1, the Companies maintain that having a self-build option for Stage 2 of the competitive bidding process would be in the best interest of customers and a competitive procurement process. The Framework for Competitive Bidding (the "Framework")⁴ allows for the utility to formulate a self-build option, which ensures all options are considered in determining the best path forward. The concept of a self-build option under the Framework is consistent with the Companies' responsibility to their customers to procure reliable generation for the lowest reasonable cost, and can present a viable option that can ensure price discipline in the market and fair competition in a competitive procurement process. The Companies believe that such an alternative is prudent in this current market, where competition between and consideration of all viable options, including a proposal from the Companies, will provide customers confidence that new long-term generation commitments are being procured in an efficient and cost-effective manner.

The Companies reiterate their commitment to conduct the competitive bidding process in a fair and unbiased manner, and that if a self-build option is allowed for Stage 2, the Stage 2 RFP will be structured to ensure that any self-build and/or affiliate options compete on a level playing field with third-party bids.

Further, in response to comments from the Consumer Advocate, stakeholders and the IOs, the Companies agree that clarity and transparency is necessary to provide assurance that any competitive bidding process completed under the RFPs are completed in a fair and unbiased manner. The Companies have made numerous revisions to the proposed Code of Conduct and

⁴ See Docket No. 03-0372, Decision and Order No. 23121 (December 8, 2006).

the accompanying Code of Conduct Procedures Manual to correct oversights in the documentation of the intended process, provide more clarity to interested parties, and facilitate additional oversight by the IOs in the evaluation process. The Companies believe that the competitive bidding processes and protocols established in this Stage 1, as well as the improvements described above, lay a solid framework for consideration of self-build and/or affiliate options in Stage 2.

Specific RFP Requirements

Consistent with the Commission's guidance, the Companies worked closely with the IOs to revise, clarify or remove language in the Draft Variable RFP that may be overly-restrictive, potentially onerous, and/or unclear. The Companies' changes to the RFP include, but are not limited to:

1. Removal of provisions specifying non-negotiable provisions of the RDG PPAs and allowing revisions to any provision of the RDG PPAs, including the 20-year term of the PPA, recognizing the pioneering nature of this PPA structure to the industry, and to facilitate just one PPA structure in a single procurement process for the reasons explained below;
2. Revision of the schedule for the Proposed Final Variable RFPs to conform to the Commission's guidance and allow for filing of executed PPAs by the end of 2018;
3. Clarification that proposals requiring system upgrades, the construction of which, in the judgment of the Companies (in consultation with the IOs), would create a significant risk that the project would not be able to capture the ITC and/or achieve commercial operations by December 31, 2022, will not be considered in this Stage 1 RFP;
4. Providing clarifying information to proposers regarding storage requirements sought by the Companies;
5. Revision of the Proposed Final Variable RFPs to allow for submittal of up to three proposal variations for projects with and without storage under one proposal fee;
6. Describing how the Companies assessed the available capacity of the transmission circuits;
7. Revision of Section 3.7 by consolidating the provisions governing the disqualification of proposers to add clarity and avoid duplicative (and potentially inconsistent or conflicting) provisions;
8. Removal of requirements for a proposer to provide open and complete access to its books and project financial information and the completion of a pro forma to avoid overly burdensome provisions that may restrict competition, and instead, requiring high level cost information; and
9. Providing more detail and clarity to the evaluation process, as detailed below.

As noted above, one of the Companies' Guiding Principles is that coordination and collaboration of all parties is necessary for a successful and timely procurement. With that in mind, the Companies worked with the IOs to fairly and reasonably address many of the points raised by the Commission, Consumer Advocate and stakeholders in this docket. Many of the revisions described above, particularly those related to system upgrades, proposal fees, assessment of available capacity, disqualification, and evaluation method, are designed to provide additional clarity to proposers and to address stakeholder concerns. For example, concerns were raised regarding the Companies' threshold requirements being too restrictive. The Companies revised these requirements to remove a requirement for development experience in Hawai'i and the requirement related to financial compliance. The Companies also clarified the remaining threshold requirements.

Many of the revisions reflected in the Proposed Final Variable RFPs also provide more transparency to the process including further detailing the evaluation process, clarifying assessments completed by the Companies for available capacity, and providing further parameters regarding storage. The Companies' clarifications regarding proposal fees aims to encourage proposers to consider multiple technology and/or payment variations and configurations to facilitate procurement of new renewable generation in an efficient and cost-effective manner. The revisions to Section 3.7 (Proposed Compliance and Bases for Disqualification) address the presumed concern of the Commission and stakeholders that the "sole discretion" language of this provision does not protect proposers from an arbitrary determination by the Companies to disqualify a proposer.

In sum, the Companies sought to revise the RFPs for transparency and to streamline the RFP process by enabling proposers to understand in clear terms what the Companies are seeking in the Proposed Final Variable RFPs.

Evaluation Methodology

In accordance with the Commission's guidance, the Companies worked closely with the IOs to: (a) improve clarity and transparency with respect to the proposed evaluation methodology, including the selection criteria; (b) revise or remove evaluation parameters/criteria or other language that may limit the potential for innovative project proposals to be submitted; and (c) determine the reasonableness of limiting the number of overall projects selected for each island and the number of projects per circuit. The Companies' changes can be found in Section 4 and Appendix L of the Proposed Final Variable RFPs. Such changes include, but are not limited to:

1. Clarifying that elimination of proposals at the eligibility and threshold stages will only be done in consultation with the IOs;
2. Clarifying or deleting several threshold criteria;
3. Explaining the scoring methodology for the initial evaluation stage, including providing examples of how scoring will be completed;

4. Providing further clarification and details regarding the non-price criteria, including specifying minimum requirements for the non-price criteria;
5. Describing the Companies' process to evaluate projects in the initial evaluation phase in buckets by technology;
6. Providing a thorough description of the detailed evaluation and the process involved, including clarifying the Companies' use of the PLEXOS model, load flow analysis and imputed debt methodology; and
7. Describing how projects will be selected to the final award group.

In accordance with the Commission's guidance, the Companies also worked with the IOs to determine appropriate modeling assumptions and storage design parameters to provide to participating proposers. After consultation with the IOs, it was determined that Appendix J to the Companies' *PSIP Update Report: December 2016* provided ample detailed modeling assumptions for proposers. A reference to Appendix J along with a citation to where the appendix can be found on the Companies' website has been included in each of the Proposed Final Variable RFPs. In addition, the Companies' clarified storage design parameters in the Proposed Final Variable RFPs to provide clarification to proposers on how the Companies intend to charge and discharge storage and minimum sizing parameters.

Regarding the one project per circuit limitation, and requiring such projects to fall within a transmission circuit's available hosting capacity, the Companies explained to the IOs the Companies' belief that such limitations would avoid system upgrades that would require a long construction period, and should allow for a quicker interconnection requirements study ("IRS") review process. These limits should also (a) provide for a simpler and faster interconnection to the Companies' systems, (b) allow facilities to be dispatched more economically, (c) eliminate the need for multiple iterations of IRSs for combinations of projects with local impacts, and (d) increase the likelihood that projects meet the aggressive timelines set forth in the Proposed Final Variable RFPs by minimizing the complexity of cumulative effects and interdependencies.

However, in response to concerns raised by the IOs that the limitation of allowing only one project per technology per circuit to advance to the short list might be too restrictive, the Companies agreed to consider not only allowing more than one project per circuit to advance to the short list if they are of different technologies, but to also consider advancing projects of like technologies on the same circuit. Corresponding revisions were made to the Proposed Final Variable RFPs.

With respect to limiting the number of overall projects per island, the Companies understand the desire to allow for the selection of as many projects as possible. However, as stated in the Companies' December 20, 2017 filing, the Companies continue to believe that given the short time frame for completion of projects and resource constraints limiting the number of projects during Stage 1 of the procurement process will help projects move through the contracting and Commission approval process in a more timely manner and facilitate meeting the

2019 ITC deadline. This point is even more acute with the more aggressive schedule established in Order 35224.

The Companies' revisions to the evaluation methodology provisions, together with the modeling/cost assumption information provided to proposers and the IOs, are designed to provide additional clarity and transparency with respect to this stage of the procurement process. These improvements should enable proposers to optimize their project design. The Companies also note that all phases of the procurement process will be subject to the IOs' oversight. In particular, all decisions with respect to the evaluation, selection, disqualification, etc., of proposals will be reviewed and discussed with the IOs before final actions are taken.

Regarding the PPAs

Pursuant to the Commission's guidance in Order 35224, the Companies worked closely with the IOs to revise, clarify or remove language in the model RDG PPAs that may be overly-restrictive, potentially onerous, and/or unclear. Once again, the Companies found the input from the IOs to be extremely helpful and believe the IOs' guidance in coordination with the Companies' efforts resulted in much improved model RDG PPAs that should ultimately result in a more streamlined and expedited PPA negotiation process and lower priced projects for customers. For example, the Companies made the following revisions to the model RDG PPAs:

1. Included new and revised language that clarified the parties' respective rights and obligations upon default, including adding cure periods for a developer's failure to meet a guaranteed project milestone, and removed language that granted the Companies immediate termination rights upon a developer's failure to meet a guaranteed project milestone;
2. Clarified circumstances under which a developer has the right to assign its interest in the PPA to a subsidiary or affiliated entity without consent of the Company;
3. Clarified circumstances which trigger (or do not trigger) the Companies' right of first negotiation to purchase the facility;
4. Added a "make whole" provision in relation to a potential future sale of the facility in the event such sale is the result of consolidation or lease treatment;
5. Removed the requirement that facility lenders agree to directly or by an affiliate acquire all of the facility lender's interest under the financing documents in the event of a default by the developer;
6. Clarified the parties' respective rights and obligations relating to consolidation and capital lease treatment;
7. Removed potentially confusing overlaps between guaranteed milestones and reporting milestones;
8. Added additional defined terms for contractual clarity; and
9. Clarified technical requirements to provide clarity for proposers.

Numerous other provisions in the RDG PPAs were also modified as a result of the collaborative discussions with the IOs. As noted in the Companies' transmittal letter, redline versions of the PV RDG PPA and Wind RDG PPA, which detail all revisions that were made from the initially filed model RDG PPAs, will be made available on the Companies' website. As noted above, the Companies' have also made all provisions of the RDG PPA negotiable recognizing the importance of collaboration and coordination of all parties while utilizing a pioneering PPA structure.

The Companies recognize that in Order 35224, the Commission indicated that the Companies should allow proposers to propose modifications to both the RDG PPA and the previously utilized Risk Adjusted Pricing ("RAP") PPA as well. However, the Companies respectfully assert that the use of the RDG PPA is essential in this RFP for the following reasons.

The Companies' *PSIP Update Report: December 2016* assumes that renewable resources procured will have the dispatch flexibility specifically provided by the RDG PPA. At a high level, the RDG PPA aims to better manage resource risk and curtailment risk and utilize variable renewable energy to provide value-added ancillary services to meet real-time needs of the electric grid that creates a better balance of financial risks between developers and the Companies, which should result in lower costs for customers.

This required flexibility is not contained in the RAP PPA and the RAP PPA cannot be easily revised to accommodate such flexibility. In RAP PPAs, when the resource (such as wind or sun) is unavailable or during periods of curtailment due to system conditions or maintenance, the project's income is reduced. In addition, under the RAP PPA, the Companies are required to maintain a seniority based curtailment mechanism, resulting in a lessened ability to efficiently manage the grid. The shift to the RDG PPA requires that the facility be dispatchable, but also removes the ongoing variable resource and curtailment risks from the developer. This dispatch capability will allow the Companies to better manage the resources deployed and will facilitate the achievement of the 100% renewable portfolio standards ("RPS") requirement. This is consistent the Commission's inclinations, wherein the Commission stated that "the electric systems should evolve such that all generation resources, whether utility, IPP, or customer owned, will contribute to maintaining system stability."⁵ Removing the resource and curtailment risks also offers a more balanced financial risk for the developer and encourages a lower energy price that will benefit customers.

As described in the whitepaper prepared for the Companies in December 2016 by the Smart Electric Power Alliance ("SEPA")⁶ and ScottMadden Inc. (the "SEPA Report"),⁷ "as the

⁵ Decision and Order No. 32052, filed April 28, 2014, in Docket No. 2012-0036 (Regarding Integrated Resource Planning), Exhibit A: Commission's Inclinations on the Future of Hawaii's Electric Utilities at 7.

⁶ SEPA is an educational non-profit organization that conducts education, research and facilitates collaboration to help utilities deploy and integrate solar, storage, demand response and other distributed energy resources. Utilities,

islands evolve to ever-increasing levels of renewable energy, the ability to treat any type of energy as ‘must-take’ [as under the RAP or As-Available PPA models] is increasingly limited.”⁸ Moreover, such “must-take” models “fail to allocate curtailment risk in a way that is equitable to all parties, transparent to all stakeholders, and sustainable in the future with increasing need to control energy production to match demand.”⁹ In contrast, the Companies’ RDG PPAs provide a contractual vehicle to integrate more renewables, provide flexibility on the Companies’ grids, and address financing risks associated with curtailment.

Under the Companies’ prior RAP and as-available PPA forms, which contain compensation structures based on the amount of energy produced, the uncertainty of predicting future curtailment resulted in project developers increasing their energy price to cover their curtailment risk, which ultimately results in higher energy costs that are passed on to the Companies’ customers. In contrast, under the RDG PPA, developers receive a fixed monthly payment based on facility availability and performance. This payment structure reduces the long-term uncertainty for developers who find it difficult to estimate curtailment and resource availability over the 20-year term of the RDG PPA. Such diminishment of this long-term uncertainty is intended to make it easier for developers to secure financing and thereby reduce the overall pricing proposed by developers in response to the Proposed Final Variable RFPs, ultimately benefiting the Companies’ customers.

In the past, both the Commission and Consumer Advocate have expressed concerns with seniority based curtailment inherent in the Companies’ historical RAP or as-available PPA models, which require the curtailment of energy from newer, lower-cost projects before older, more expensive projects. In addition, legacy rooftop solar projects (net energy metering, customer grid-supply, customer self-supply) are not curtailable, and accommodating these projects on the grid results in increased curtailment of other resources. Recent decisions in the distributed energy resources (“DER”)¹⁰ and community-based renewable energy (“CBRE”)¹¹ dockets require DER and CBRE projects to be senior in the curtailment order, which worsen the situation for less senior utility scale renewable projects. The RDG PPA structure eliminates this constraint going forward, allowing for the economic dispatch of facilities at a reduced cost to customers as required to manage the grid. Specifically, the RDG PPA allows the Companies to consider relative cost impacts from available renewable sources, to match supply and demand, and optimize the use of the facility to meet the system’s energy and ancillary service requirements to supply cost-effective and reliable power to customers.

independent system operators, large energy users, corporate and non-profit entities look to SEPA to facilitate solutions for today’s challenges and to meet tomorrow’s electricity needs.

⁷ The SEPA Report was filed as an attachment to the Companies’ December 22, 2016 filing in Docket Nos. 2015-0224 and 2015-0225.

⁸ SEPA Report at 4.

⁹ SEPA Report at 5.

¹⁰ Decision and Order No. 34924 issued on October 20, 2017 in Docket No. 2014-0192.

¹¹ Decision and Order No. 35137 issued on December 22, 2017 in Docket No. 2015-0389.

In summary, the Companies believe that the RDG PPA is the appropriate contracting structure to be utilized for these variable RFPs due to its unique ability to better utilize the facility to support ancillary services for the grid (such as providing spinning reserves and frequency response) while retaining flexibility for future system needs, which can reduce the integration costs of adding these generation assets to the system. The Companies also believe that the RDG PPA offers a more predictable income stream that reduces developers' financing risk which should, in turn, result in lower pricing for the benefit of the Companies' customers.

Finally, utilizing a single model PPA in this RFP is consistent with the Commission's intent to conduct the process in an expedited and efficient manner. From a practical perspective, it would be very difficult to evaluate projects on an "apples-to-apples" basis where they are potentially utilizing different model PPAs that have fundamentally different legal, technical and commercial terms. This would result in a very complex evaluation process, which would extend timelines and reduce the clarity of the evaluation and selection process for proposers.

The Companies' reiterate that proposers are now permitted the discretion to propose modifications to the model RDG PPAs as they see fit. This flexibility provides proposers with the opportunity to propose innovative project proposals under their own preferred terms and conditions.

Reverse Auction

While not specifically covered in the Commission's guidance, the Companies wanted to address the concept of a reverse auction. The Consumer Advocate noted a desire for the Companies to undertake a reverse auction as part of the RFP process. In the Companies' December 20, 2017 filing in this docket, the Companies explained a willingness to perform a reverse auction for the Company-owned Waena site on Maui. As noted in the Companies' filing, for a reverse auction to be successful, all project details must be known and provided to potential bidders in the auction.

Given the short time frame to complete the Proposed Final Variable RFPs, the Companies were not able to complete all of the work necessary to setup a reverse auction process. In consultation with the IOs, the Companies determined that given time constraints, it would be best not to attempt a reverse auction in Stage 1 of this RFP. However, in line with the Companies' Guiding Principle to streamline the RFP process to provide lower costs to customers, the Companies have developed a hybrid RFP process for the Proposed Final Variable RFP for Maui using the Waena site.

In the Proposed Final Variable RFP for Maui, the Companies have offered the Waena site for a PV + storage project for any interested proposer to bid. The Companies will providing the land and will build the switching station for such site at the Companies' cost. The selected proposer will be responsible for all other costs associated with developing, operating and maintaining the facility as detailed in the Proposed Final Variable RFP for Maui. The Proposed

Final Variable RFP for Maui specifies that of the two projects to be selected on the island of Maui, one of those projects will be for the Waena site.

In this hybrid RFP process, the Companies will be able to test if specifying a site and a technology and paying for a portion of the land and interconnection costs will result in a more streamlined, transparent and successful RFP resulting in lower costs for customers. The Companies believe this process will help to inform the Commission, Consumer Advocate, Companies and stakeholders if a similar process or moving to a full reverse auction should be used in future procurements, or if the more traditional RFP process results in better pricing for customers.