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# STATE PROCUREMENT OFFICE NOTICE OF AND REQUEST FOR EXEMPTION FROM CHAPTER 103D, HRS

- 1. TO: Chief Procurement Officer
- 2. FROM: Department of Transportation, Admin/Airports Division

Department/Division/Agency

Pursuant to §103D-102(b)(4), HRS, and Chapter 3-120, HAR, the Department requests a procurement exemption to purchase the following:

3. Description of goods, services or construction:  
 The DOT requests exemption approval to enter into a contractual agreement with the Hawaiian Electric Company Inc. (HECO) for the purpose of designing and permitting an emergency stand-by generator station ("Station") at Honolulu International Airport (HNL). The proposed station will be located within HNL property and will be owned by the DOT, but maintenance costs would be reimbursed by HECO by way of a service agreement to be negotiated at a later date. The Station would provide up to 9 MW of emergency back-up power source for HNL. The DOT intends to fund the design, procurement and construction cost of the Station, but this scope of work covers only the design and permitting of the Station.

HECO is proposing to expedite the design and permitting process for a targeted mid-2008 service date, with HECO having the approval and capability to dispatch the Station to supplement the utility's need for generating capacity. HECO would lead a team of consulting engineers in the design, specification, bidding and evaluation process, and permitting work for the emergency generators, the building and fuel system. Purchase of equipment or construction of infrastructure is not included in HECO's work scope.

The DOT will enter into a separate contractual agreement with HECO for the terms of reimbursement for the above description of work. Total reimbursement to HECO shall not exceed \$985,000.

4. Name of Vendor: Hawaiian Electric Company, Inc. Address: PO BOX 2750 Honolulu, HI 96840-0001	5. Price: \$985,000
6. Term of Contract: From: N/A To:	7. Prior Exemption Ref. No.

8. Explanation describing how procurement by competitive means is either not practicable nor advantageous to the State: Competitive procurement will still be achieved as HECO follows competitive procurement methods similar in intent to the DOT's. The advantage to the State in this instance is due to HECO's in-house experience and familiarity with the development and operation of electric power generating stations and willingness to design the Station. Allowing HECO to take the primary role of design, equipment specification, and bidding will ensure good engineering practice and compatibility with existing HECO systems. The insurance of compatibility will allow the DOT to have emergency power for Honolulu International Airport and at the same time allow HECO to have additional generating capacity to their grid. Allowing HECO to initiate design and bidding immediately will also significantly expedite the State's development of this critical emergency power facility for HNL.

9. Details of the process or procedures to be followed in selecting the vendor to ensure maximum fair and open competition as practicable:  
 HECO will solicit proposals from qualified electric generator vendors with Oahu-based service capabilities. This is due to the importance of prompt response for repair or troubleshooting. These proposals will be solicited based on preliminary project information and the lowest qualified bid will be selected. Minor scope changes may be negotiated with the successful generator bidder prior to issuing purchase orders. Other equipment, design consultants, and construction bidding will be procured by HECO following their normal processes.

**REQUEST FOR EXEMPTION FROM CHAPTER 103D, HRS (Cont.)**

10. A description of the agency's internal controls and approval requirements for the exempted procurement:  
 HECO's policy on consultants is to select the most qualified consultant and attempt to negotiate a satisfactory design consultant.

HECO requires competitive bids for equipment items with a cost in excess of \$10,000. Bids for the diesel generators will be solicited from qualified vendors with local support. Bids for electric equipment shall be solicited from qualified vendors normally used by HECO. Bids for construction of the building and the fuel tank shall be solicited from contractors acceptable to HECO and the State Airports.

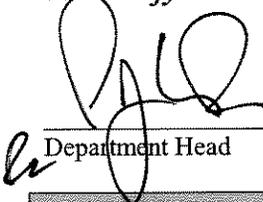
12. A list of agency personnel, by position, who will be involved in the approval process and administration of the contract:

Name	Position	Involvement in Process	
Brian Sekiguchi, PE	Deputy Director DOT Airports	<input checked="" type="checkbox"/> Approval	<input type="checkbox"/> Administration
Philip Russell, PE	Contracts Engineer, DOT-ADMIN	<input checked="" type="checkbox"/> Approval	<input type="checkbox"/> Administration
Manny Lanuevo, PE	Maintainance Engr, DOT-Airports	<input type="checkbox"/> Approval	<input checked="" type="checkbox"/> Administration
Scott W.H. Seu, PE	Manager, HECO Energy Projects	<input type="checkbox"/> Approval	<input checked="" type="checkbox"/> Administration
Karl E. Stahlopf	Sr. Vice President, HECO	<input checked="" type="checkbox"/> Approval	<input type="checkbox"/> Administration
		<input type="checkbox"/> Approval	<input type="checkbox"/> Administration

13. Direct inquiries to: Department: Transportation  
 Contact Name: Philip W. Russell, PE  
 Phone Number: 587-1991  
 Fax Number: 587-2132

Agency shall ensure adherence to applicable administrative and statutory requirements

14. *I certify that the information provided above is, to the best of my knowledge, true and correct.*

 Philip W. Russell 10.17.06  
 Department Head Date

**Reserved for SPO Use Only**

15. Date Notice Posted 10/20/2006

The Chief Procurement Officer is in the process of reviewing this request for exemption from Chapter 103D, HRS. Submit written objections to this notice to issue an exemption from Chapter 103D, HRS, within seven calendar days or as otherwise allowed from the above posted date to: Chief Procurement Officer  
 State Procurement Office  
 P.O. Box 119  
 Honolulu, Hawaii 96810-0119

REQUEST FOR EXEMPTION FROM CHAPTER 103D, HRS (Cont.)

Chief Procurement Officer's comments:

This approval is for the solicitation process only, HRS section 103D-310(c) and HAR section 3-122-112, shall apply.

16.

APPROVED     DISAPPROVED     NO ACTION REQUIRED

Alonso S. Aguilar      10/27/06  
Chief Procurement Officer      Date



October 13, 2006

Scott W. H. Seu  
Manager  
Energy Projects Department

Mr. Brian H. Sekiguchi  
Deputy Director  
State of Hawaii Department of Transportation  
Airports Division, Honolulu International Airport  
400 Rodgers Boulevard, Ste. 700  
Honolulu, HI 96819-1880

Dear Mr. Sekiguchi:

In accordance with our agreement with the State of Hawaii Department of Transportation Airports Division ("DOT Airports") dated December 14, 2005, Hawaiian Electric Company, Inc. (HECO) and DOT Airports are conducting a joint feasibility study of an emergency/dispatchable standby generation (DSG) facility at the Honolulu International Airport (HNL). This letter is to provide you with an update of our activities, report preliminary findings, and to describe how we plan to proceed from here.

The preliminary DSG concept is for a nine megawatt (9 MW) emergency power/DSG facility on property which is currently part of HECO's existing Airport Substation. We have found that there are limited viable sites for centrally locating emergency power at HNL. However, the Airport Substation site is an attractive location that would allow emergency power to be distributed to selected HNL electrical vaults using existing HECO infrastructure.

The 9 MW capacity would be achieved using three of the largest currently available diesel generators which meet new EPA Tier 2 emissions requirements. This capacity represents 64% of HNL's current peak load of about 14 MW. HECO has been working closely with DOT Airports to identify and understand the priority electric loads at HNL.

This emergency power facility would primarily be funded and owned by the DOT Airports. The current estimate of DOT costs is \$12.8 million. Under the still developing DSG concept, HECO would propose to contribute an estimated \$2.7 million in additional funding for paralleling, interconnection, communication, and other equipment. This equipment would allow HECO to remotely start and stop the HNL generators to supplement HECO's grid capacity as needed by the utility for up to 1,500 run hours per year. Regardless of whether HECO is dispatching the generators or not, the facility would serve HNL with emergency power if grid power were lost. As a DSG facility, HECO would propose to reimburse DOT Airports for fuel costs, pay for routine maintenance and permitting, and provide a monthly incentive payment. The electricity generated by the DSG facility would be considered as utility power since HECO is

providing the fuel and maintenance of the unit. Ultimately, these and other rights and obligations of DOT Airports and HECO would need to be documented and defined in a DSG agreement, which would then be submitted to the PUC for review and approval.

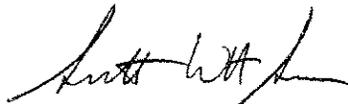
HECO is pursuing the DSG concept as a means of acquiring near term generating capacity to meet its immediate needs. HECO recognizes the long-term value to both DOT Airports and the utility in satisfying the mutual need for generating capacity while sharing costs for this critical infrastructure.

We are encouraged by our findings thus far regarding the feasibility of a DSG facility at HNL and we will be pursuing four action items essential for the success of this potential project. The critical action items to proceed further are as follows:

1. Boundary Realignment: Redefine the Airport Substation boundaries and execute a DOT Airports-HECO lease agreement. This would release a portion of the existing substation parcel to DOT Airports to site the DSG facility. In exchange, DOT Airports would agree to provide suitable alternative space to HECO to allow for HECO's substation and electrical infrastructure needs. One option under review is for DOT Airports to assign currently vacant land at the opposite end of the substation for, among other things, a new access road, capacitor banks, and conduit realignments.
2. HECO System Integration Feasibility Review: HECO will complete its detailed assessment of the technical and operational issues that are associated with integrating the DSG facility with the HECO grid under HECO dispatch mode, and with achieving the objective of providing islanded power to HNL in the event that grid power is lost.
3. Initiation of Technical Design Activities: HECO proposes to initiate preliminary engineering, identify the recommended generator equipment via a competitive process, and begin permitting. This effort would be led by HECO with oversight by DOT Airports. This approach enables the design to be compatible with the HECO system, and also accelerates the service date of the DSG facility to 2008.
4. DSG Agreement: Prepare and execute a DSG contract between DOT Airports and HECO to govern the terms and conditions of HECO's use of the DSG facility, payments, and the parties' other rights and obligations. The DSG contract would become effective upon PUC approval.

We appreciate the high degree of cooperation and support given to this effort by DOT Airports. We look forward to our continued collaboration to develop a mutually beneficial DSG facility for the Honolulu International Airport. Please feel free to call me at 543-4805 if you have any questions.

Sincerely,



cc: Karl E. Stahlkopf, Sr. VP, HECO  
Benjamin R. Schlapak, Airports District Manager, State DOT Airports Division

