

Request for Proposals for Solar Photovoltaic Alternative Energy Credits — Bidder Information Session

**Metropolitan Edison Company, Pennsylvania Electric Company,
Pennsylvania Power Company**

The Brattle Group

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**Bidder Information Session
September 27, 2017**

Format of this Webinar

- **In order to maintain the communication protocols established by the Commission, all participants in this bidder information session have been muted.**
 - Please direct all questions to pa-spaec-rfp-2017@brattle.com
 - We will respond to those questions through the FAQ process within a few days.
- **The audio for today's presentation will be transmitted through the Zoom webinar. If you cannot hear the presenters speaking as you are reading this slide, please do the following:**
 - Confirm that your computer speakers are turned on.
 - E-mail pa-spaec-rfp-2017@brattle.com immediately and notify us of the technical issues you are experiencing.

Disclaimer

The information contained in this presentation material is intended to provide generally descriptive and summary information. Any conflict between the information contained in this material, or conveyed orally during the bidder information session, and the information provided as part of the Company's application in Pennsylvania Public Utility Commission ("Commission") Docket Nos. P-2015-2511333, P-2015-2511351, and P-2015-2511355 is unintentional and the docketed material controls. Certain information contained herein may be subject to change as the Request for Proposals process continues.

Solar Photovoltaic Alternative Energy Credits (“SPAECs”) Request for Proposals (“RFP”) Process

- **Procurement Overview**
- **Product to Be Procured**
- **Bidder Qualification and Bid Submission**
- **Bid Evaluation**
- **Post-Bidding Process**
- **Purchase and Sale Agreement**
- **Credit Provisions**
- **Website Format**
- **Conclusion**

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Procurement Overview

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Overview - Procurement Process

- The RFP process is a “sealed bid,” pay-as-bid procurement.
- The product being procured are tranches of SPAECs, where a tranche is a commitment to supply 500 SPAECs annually for 2 years.
 - a SPAEC is the tradable certificate that represents one MWh of electricity generated from a qualifying solar photovoltaic resource.
- 142 tranches are being procured, which represents a total purchase of 71,000 SPAECs per Reporting Year for all Companies.
- The delivery period is June 1, 2017 to May 31, 2019 (Reporting Years 2018 and 2019).
- The Brattle Group is the Independent Evaluator (“IE”) for the RFP process.

Timetable for Procurement

Event	Date
Part 1 Date (Bidders submit Part 1 Proposals)	October 11, 2017
Bidders are notified of qualification status for submission of Part 2 Proposals	October 18, 2017
Part 2 Date (Bidders submit Part 2 Proposals including Bid and Pre-Bid Security)	November 1, 2017
Independent Evaluator submits report to Commission	November 3, 2017
Commission makes decision on results of RFP	November 8, 2017
Winning Bidders execute the SPAEC Purchase and Sale Agreement	November 13, 2017

Overview – Bidder Qualification Process

- **Potential bidders in the RFP process are to be qualified using a two-part application process that includes:**
 - Financial qualifications;
 - Submission of bids, along with pre-bid security (in the form of a letter of credit or cash).

Overview – Bidding Process (cont.)

- **Bids state:**

- (1) number of tranches offered;
- (2) \$XX.xx per SPAEC;
- (3) whether bid is “all-or-nothing”.

- **All-or-nothing bids mean that either all of the offered tranches have to be accepted, or none are accepted.**

- The all-or-nothing designation can apply to no more than 4 tranches. If an all-or-nothing bid is submitted for more than 4 tranches, zero tranches or any number of tranches from 4 up to the number of tranches offered may be accepted.

- **Tranche Cap: 106 tranches maximum per bidder.**

- **Although this is a joint procurement by Met-Ed, Penelec, and Penn Power, the winning bidders will be assigned to individual Companies for purposes of signing SPAEC PSAs and making SPAEC deliveries.**

Overview – Bidding Process (cont.)

- Least-cost bidder(s) are winning bidders, subject to constraints imposed by “all-or-nothing” bids.
- IE has 2 business days from the bidding date to submit report to the Pennsylvania Public Utility Commission (“Commission”) containing the results of the RFP Process.
- The Commission has 3 business days after receiving the IE’s report to decide on the results of the RFP.
- If approved, winning bidders have 3 business days from the Commission’s decision to execute the SPAEC Purchase and Sale Agreement (“SPAECPSA”).



Product to Be Procured

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Product to Be Procured

- **A “tranche” of SPAECs, where one tranche is an obligation to supply 500 SPAECs annually for two years.**
 - The obligation is to supply 500 SPAECs per tranche in each of Reporting Year 2018 (June 1, 2017 to May 31, 2018) and Reporting Year 2019 (June 1, 2018 to May 31, 2019).
- **Total procurement target is 71,000 SPAECs per Reporting Year for all Companies, broken into 142 tranches.**
- **No supplier can bid for more than 106 tranches.**
- **No energy or capacity is being procured. This is a SPAEC only procurement.**

Product to Be Procured (cont.)

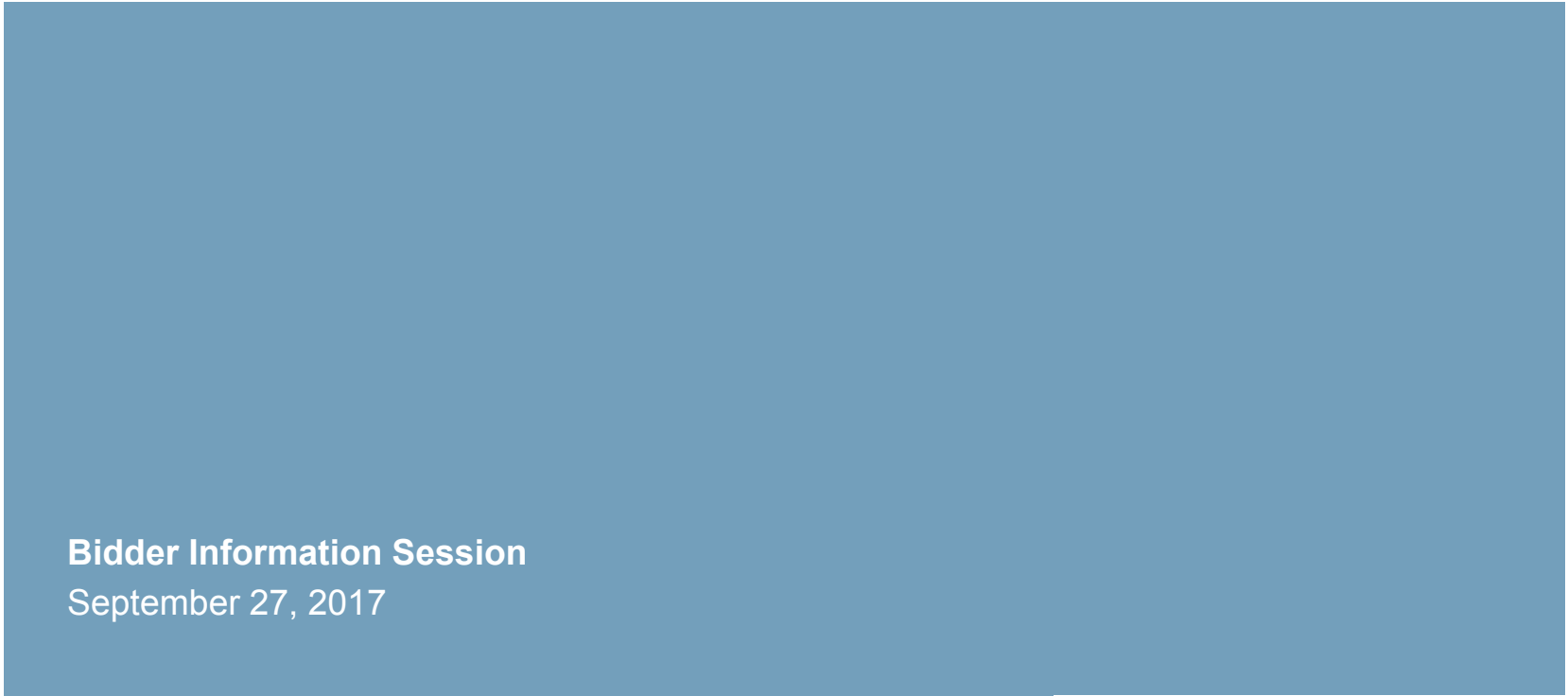
- **Suppliers will be expected to transfer their SPAECs quarterly to the respective Company throughout the life of their contracts.**
 - Combined transfers in each Reporting Year must equal the number of tranches to which the supplier is obligated, multiplied by 500 SPAECs per tranche.
 - SPAECs must be generated in the applicable delivery year.
 - The SPAEC Purchase and Sale Agreement (“SPAECPSA”) generally requires quarterly deliveries of SPAECs (125 per quarter per tranche awarded). However, SPAECs can be delivered earlier as long as they are generated in the applicable delivery year.
 - Due to the timing of this procurement, the 1st quarter 2018 SPAECs can be delivered in any of the remaining quarters of the 2018 delivery year.

Product to Be Procured (cont.)

- **The Company will only accept SPAECs that comply with the Pennsylvania Alternative Energy Portfolio Standards Act and are generated through PJM Environmental Information Services Inc.'s ("PJM-EIS") Generation Attributes Tracking System ("GATS").**
 - SPAECs must be from a solar PV resource sourced in PA or PJM.
 - The solar PV resource must be grid connected.
(includes "net-metered" systems)
 - SPAECs do not have to be from a specific facility (*i.e.*, this is not a unit-contingent obligation).

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Bidder Qualification and Bid Submission

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Bidder Qualification and Bid Submission

- Bidder qualification and bid submission is done in two parts:
 - **Part 1 Application – Bidder Qualification (due Oct. 11)**
 - General qualifications;
 - Financial and other qualifications to become a bidder:
 - If seeking an unsecured line of credit, which requires a rating by two of S&P, Moody's, or Fitch, certain financial information is required (e.g., 10-K, 10-Q, 8-K filings).
 - If there are changes to the standard forms of the Pre-Bid Letter of Credit, Bidder must submit proposed changes for approval along with Part 1 Application.
 - **Part 2 Application – Bid Submission (due Nov. 1)**
 - Provision of pre-bid security;
 - mandatory for all bidders, in form of letter of credit or cash.
 - Submission of bids.

Bidder Qualification – Part 1 Application

■ **Prospective bidders must:**

- Provide contact information;
- Designate an officer of the bidder to sign application;
- Designate a representative and credit representative;
- Provide credit information;
- Provide any proposed modifications to standard Pre-Bid Letter of Credit;
- Make certifications regarding independence, ability to perform, acceptance of terms of PSAs, acceptance of RFP rules, and other conditions.

Bid Submission – Part 2 Application

■ Bidders must:

- Specify number of tranches that they are interested in;
- Specify the bid price as \$XX.xx per SPAEC for all tranches offered;
- Specify whether the bid is “all or nothing” (for up to the first 4 tranches);
- Provide pre-bid security in the form of a Letter of Credit or cash equal to:
 - (number of tranches x 500) x (2 x bid price) x 10%.
- Make various certifications regarding independence, confidentiality, compliance, etc.

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Bid Evaluation

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Bid Evaluation

- **The winning Bidders are those Bidders whose Bids minimize the overall cost of satisfying the Tranche Target:**
 - Minimizing the overall procurement cost may involve accepting an “all or nothing” bid instead of a lower-priced bid for a smaller number of tranches (see Scenario A on next slide).
 - Minimizing the overall procurement cost may involve rejecting an “all or nothing” bid in favor of a higher-priced bid for a smaller number of tranches (see Scenario B on next slide).

Bid Evaluation – Potential Impact of All-or-Nothing Bids (142 tranche procurement)

Illustrative "All-Or-Nothing" Bid Scenarios

		Scenario A: All-or-nothing included in low-cost combination		Scenario B: All-or-nothing excluded from low-cost combination	
Bidder	Bid Type	Quantity	Price	Quantity	Price
#1	"Up to"	70	\$5.00	70	\$5.00
#2	"Up to"	68	\$6.00	68	\$6.00
#3	"Up to"	2	\$9.00	2	\$7.50
#4	"All-or-nothing"	4	\$10.00	4	\$10.00
#5	"Up to"	2	\$15.00	2	\$10.50
Low Cost Combination		142	\$5.62	142	\$5.59

Excluded bids in each scenario are shaded in gray.

↑
It is less costly to take
#4 than #3 and #5.

↑
It is less costly to take
#3 and #5 than #4.

Note: The “all-or-nothing” designation applies to 4 tranches or less. If the “all-or-nothing” designation is used with a bid that specifies a maximum number of tranches in excess of 4 tranches, then that bid may be accepted for any number of tranches from 4 up to the maximum number. For example, an “all-or-nothing” bid for 6 tranches may be accepted for 4, 5, or 6 tranches.

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Post-Bidding Process


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Post-Bidding Process

- **IE reports results to the Commission within two business days.**
- **Commission has three business days after receipt of IE report to make decision.**
- **If results approved, winning bidders have three business days to execute PSAs.**

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Purchase and Sale Agreement

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Purchase and Sale Agreement

■ **Supplier delivery obligations**

- Must open and maintain a PJM GATS account at their own expense.
- Bidders generally required to deliver SPAECs quarterly (125 per quarter per tranche awarded). However, SPAECs can be delivered earlier as long as they are generated in the applicable delivery year.
- Transfers to the applicable PJM GATS account must be completed no later than 45 days following the end of the quarter.
- SPAECs for Q1 of reporting year 2018 can be delivered at any point in the 2018 delivery year

Purchase and Sale Agreement (cont.)

- **Payment terms**

- Quarterly payment (within 30 days of invoice, 60 days of delivery)

- **Supplier payment obligations in event of default**

- Supplier pays liquidated damages
 - = [(SPAEC replacement price – SPAEC purchase price)
x quantity of SPAECs not delivered]
 - + fees
 - + any related alternative compliance payments made by the Company.

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Credit Provisions

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Key Elements of Credit Provisions

- **Security posted during the term of the PSA will depend upon a creditworthiness evaluation.**
 - Unsecured credit may be granted based on the Bidder's or its Guarantor's Tangible Net Worth and credit rating (see Article 5.1 of the PSA).
 - Exposure beyond unsecured credit (if any) must be met with cash and/or letter of credit (see Article 5.2 of the PSA).

- **Credit Exposure Amount equals the following:**
 - $(\text{number of tranches} \times 500) \times (2 \times \text{bid price})$
 - Upon request, the Companies shall reduce the Credit Exposure Amount for SPAECs delivered.

Creditworthiness: Three Options

- **Seek an unsecured line of credit by relying on Bidder's own financial standing**

Part 1: submit financial information relevant to receiving an Unsecured Credit Limit ("UCL"), which requires that the Entity is rated by two of S&P, Moody's, or Fitch

Part 2: submit an executed Pre-Bid Letter of Credit ("LOC") or cash

- **Seek an unsecured line of credit by relying on Guarantor's financial standing**

Part 1: submit financial information for the Guarantor relevant to receiving an UCL, which requires that the Guarantor is rated by two of S&P, Moody's, or Fitch

Part 2: submit an executed Pre-Bid LOC or cash

- **Elect not to apply for an unsecured line of credit**

Part 2: submit an executed Pre-Bid LOC or cash

Modifications to Credit Documents

- **If you wish to make any modifications to the standard form of the Pre-Bid Letter of Credit included in the appendices to the rules, you must submit these proposed changes with your Part 1 Application.**
 - With the exception of any acceptable modifications already posted on the website under the supplier documents section
- **All changes to the Pre-Bid Letter of Credit accepted as part of the Part 1 Application process will be posted on the website before the Part 2 Date for the benefit of all bidders.**
- **Applicants who submit with their Part 2 Application a Pre-Bid Letter of Credit with unapproved modifications run the risk of their bid not being accepted.**

Required Credit and Financial Information (Bidder or Guarantor) for Unsecured Line of Credit

- **Financial statements** (SEC Form 10-K, 10-Q, 8-K, audited balance sheet, income, and cash flow statements).
- **A statement of rulings or judgments** relating to financial status that have had a material impact on financial status.
- **A debt rating** from at least two of the following rating agencies: S&P, Fitch, or Moody's (with supporting documentation).
- **Contact information** of a credit representative to answer questions on the documentation provided.


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Website Format

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Website Home Page –

https://www.firstenergycorp.com/upp/pa/rec_procurements/spaec2017.html



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SPAEC RFP 2017

This website will be used to support the Request for Proposal ("RFP") process for Pennsylvania Power Company (Penn Power), Pennsylvania Electric Company (Penelec), and Metropolitan Edison Company (Met-Ed) to purchase 71,000 Solar Photovoltaic Alternative Energy Certificates (SPAECs) annually over a two-year period. Bidders in this RFP can offer to sell tranches of SPAECs, where each tranche represents a commitment to sell 500 SPAECs annually over a two-year period.

The RFP process will be managed by The Brattle Group, a global consulting firm with expertise in energy markets and procurements.

If you wish to receive further updates regarding this RFP process, please send an e-mail (with "register me for further updates" in the subject line or text) to pa-spaec-rfp-2017@brattle.com.

The Part 1 Proposal is due **Wednesday, October 11, 2017**. The Part 2 Proposal (including Bid and executed Pre-bid Letter of Credit) is due **Wednesday, November 1, 2017**.

NOTE: The documents posted on this website reflect the Companies' Default Service Programs for the period of June 1, 2017 through May 31, 2021, as approved per the May 19, 2016 Commission Opinion and Order.

Last Modified: September 19, 2017

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Website Organization

- **Announcements:** periodic announcements about the progress of the RFP.
- **Contact Us:** instructs potential bidders to email *The Brattle Group* with questions.
- **Supplier Documents:** links to all of the documents necessary to participate in the RFP, including the Rules, Part 1 and 2 Forms, and credit documents.
- **Calendar:** lists important events and dates for the RFP.
- **FAQs:** contains answers to questions we have received throughout the RFP. The FAQs are updated frequently, so it is often worth checking here before asking a question.
- **Links:** contains links to other potentially helpful information.

Supplier Documents Page Example



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Supplier Documents


Bidder Session Documents


Bidder Presentation


Bidder Information Session


SPAEC RFP Documents


RFP Rules 


Appendix 1 - SPAEC RFP Purchase and Sale Agreement 

Appendix 2 - Confidentiality Statement 

Appendix 3 - Standard Form of Pre-Bid Letter of Credit 

Appendix 4 - Requirements of Attestation of Chief Financial Officer 

Appendix 5 - Part I Form 

Appendix 6 - Part II Form 

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Q&A's – Responses to Questions Will Be Posted to the Procurement Website

Please direct all questions to pa-spaec-rfp-2017@brattle.com

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