



PSE&G's SREC Auction

**Chantale LaCasse
SREC Auction Manager
September 24, 2009**

Documentation Available

- Any statements in this presentation describing or referring to documents and agreements are summaries only, and are qualified in their entirety by reference to such documents and agreements
- The governing documents for this Auction are:
 - The Auction Bidder Manual
 - Master Solar REC General Terms and Conditions Agreement (“Master SREC Agreement”)
 - Decisions of the New Jersey Board of Public Utilities (“BPU”) related to this Program
- Draft documents were posted on September 1, 2009

Please see our Web site
for documentation
www.SolarREC-auction.com

Draft Documents Available on Our Web Site

www.SolarREC-auction.com



Sale of Solar Renewable Energy Certificates (SRECs)

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Public Service Electric and Gas ("PSE&G") will hold Auctions quarterly in January, April, July, and October to sell SRECs received as repayments of loans extended to develop solar energy projects. The SREC Auctions will be open to all SREC market participants, including SREC traders, aggregators, as well as BGS Suppliers and third party suppliers that would have an obligation to acquire SRECs for purposes of satisfying the requirements of the New Jersey Renewable Portfolio Standards ("RPS").

The first Auction is scheduled for January 2010. With full implementation of the loan program, 30,000 SRECs are expected to be available for Auction annually.

NERA Economic Consulting ("NERA") will manage the Auctions. To receive updates and information regarding the SREC Auctions directly via e-mail, please use our automated form to [register](#) for our mailing list.

If you need more information regarding the SREC Auctions, please use our automated form to [ask a question](#).

Useful Links:

NERA: www.nera.com

PSE&G: www.pseg.com/companies/pseandg/about.jsp

New Jersey Board of Public Utilities: <http://www.state.nj.us/bpu/>

[Contact Us](#)

Important Dates:

- ❖ **Thu 9/24/2009** - Conference call with prospective bidders
- ❖ **Thu 12/17/2009** - Qualifications Due
- ❖ **Mon 1/25/2010** - Signed PSMA and bid assurance collateral due
- ❖ **Fri 1/29/2010** - Auction starts

Recent Announcements:

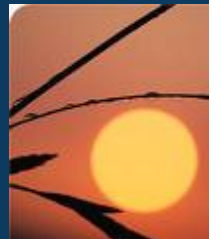
- ❖ 09/10/2009 - [Invitation to Comment on the Master Solar REC General Terms and Conditions](#) **NEW>>**
- ❖ 09/01/2009 - [Invitation to Conference Call for Prospective Bidders in PSE&G's SREC Auction](#)
- ❖ 09/01/2009 - [Posting Documents for PSE&G's SREC Auction Now Available](#)

Presentation Outline

- Overview
- Master Solar REC General Terms and Conditions Agreement
- Process to Participate
- Auction Format
- Questions



Overview



New Jersey Suppliers Are Subject to RPS

- Suppliers to New Jersey customers must comply with the New Jersey **Renewable Portfolio Standards** (“RPS”)
- RPS requires that a percentage of electricity generated come from solar energy sources
- Suppliers comply by providing Solar Renewable Energy Certificates (“**SRECs**”) or paying an alternative compliance payment
- One SREC is produced from generation of 1 MWh from a solar energy source

Board Has Encouraged Market-Based Initiatives

- In response to the Board's directive, the EDCs (PSE&G, JCP&L, ACE, and RECO) have proposed **programs** to encourage growth in solar installations to meet the solar RPS
- PSE&G has three Programs:
 - **Solar Loan I** (in the implementation phase)
 - Solar 4 All (approved by the Board)
 - Solar Loan II (proposed to the Board)
- JCP&L, ACE, and RECO are starting to implement their approved **SREC-Based Financing Programs**
- The SRECs from these Programs will be sold through quarterly SREC Auctions

Large Quantities Targeted Through These Programs

- **PSE&G Solar Loan I:** loans to customers for installation of solar photovoltaic systems on the customers' premises. Targeted quantity is 30 MW
- **PSE&G Solar 4 All:** PSE&G will directly invest in and own 80 MW of solar generation
- **PSE&G Solar Loan II:** PSE&G extends loans for qualifying solar photovoltaic projects and the targeted quantity is 40 MW

for additional information, see:

<http://www.pseg.com/customer/solar/index.jsp>

- **JCP&L, ACE, and RECO:** Three-year program to buy SRECs from a targeted 65MW of solar projects

for additional information, see:

<http://www.njedcsolar.com>

SREC Auction Overview

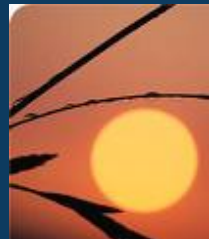
- **Auctions** held each quarter for EDCs to sell SRECs to market participants
 - First Auction is **January 29, 2010**
- The SREC Auction open to all market participants
 - SREC traders and aggregators
 - BGS Suppliers and third party suppliers with obligations under RPS
- Currently **only PSE&G's Solar Loan I Program** is producing SRECs for sale in these Auctions
 - With full implementation 30,000 SRECs are expected annually
 - Auction goes ahead if at least 2,000 SRECs available
 - Range of SRECs for January Auction announced December 3
 - Exact number of SRECs for January Auction announced January 5

Auction will use a multiple round process

- The auction is a **multi-round process**
- In **each round**
 - Auction Manager states a price
 - Each bidder bids the number of SRECs that it wants to buy at that price
 - If all bidders combined want to buy more than the number of SRECs available, price ticks up
 - **Process continues** until a price is reached at which bidders collectively purchase exactly the number of SRECs available



Contract



Single Standard Contract

- Terms of the transaction given by a **standard contract**: the Master Solar Renewable Energy Certificates General Terms and Conditions Agreement
- Standard Contract for the sale and purchase of SRECs between PSE&G and any winner at the Auction
- Potential Bidders submit a **signed Master SREC Agreement as part of qualification**
- Winners at the Auction sign a **Transaction Confirmation Letter**
 - If win again at a future Auction only need to sign a Transaction Confirmation Letter

Generally Representations Are Standard

- Each party warrants and represents
 - ❑ It is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation
 - ❑ it has all **regulatory authorizations** necessary for it to legally perform its obligations under the Master SREC Agreement
 - ❑ It is **not bankrupt** and there are no proceedings threatened against it which would result in it being or becoming bankrupt;
 - ❑ it is acting for its own account
 - ❑ it has entered into this Agreement in connection with the conduct of its business

- Master SREC Agreement is a “forward contract” and “master netting agreement” under United States Bankruptcy Code

Main Provisions Include

- Law of the State of **New Jersey is governing law** of contract
- Assignment is not possible under the Master SREC Agreement
- “**Delivery**” means that PSE&G transfers the SRECs using the PJM Generator Attribute Tracking System (“GATS”) to winning bidder’s account in GATS
- Winning bidder **pre-pays for the SRECs**: payment occurs before delivery of the SRECs through GATS

Transaction Timing

- Potential Bidder signs the Master SREC Agreement and provides to Auction Manager as part of qualification
- **Day 0:** Auction closes
- Day 1: Auction Manager sends Master SREC Agreement partially executed by each winning bidder to PSE&G
- Day 2: PSE&G signs Master SREC Agreement and sends partially executed Confirmation Letters to winning bidders
- **Day 3:** Winning bidder signs the Confirmation Letter and sends to PSE&G (**Trade Date**)
- Day 5: Winning bidder pre-pays PSE&G
- **Day 7:** PSE&G delivers SRECs to each winning bidder's PJM-GATS account

Potential Bidders Invited to Comment on **Draft** Master SREC Agreement

Your input will be considered before the Master SREC Agreement is finalized

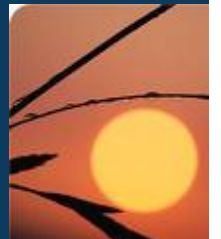
- Draft Master SREC Agreement posted to our web site:

<http://www.solarrec-auction.com/index.cfm?s=bidderInformation&p=documents>

- Submit redline of agreement (with explanations as needed) by email to AM@solarREC-auction.com
- Potential bidders provide telephone and email contact information in the event that clarifications are needed
- Submit comments by **Thursday, October 1, 2009** at noon Eastern Prevailing Time
- The final Master SREC Agreement, which will incorporate accepted comments, will be posted on **October 26, 2009**



Process to Participate



Auction Qualification Is A Two Step Process

1. Submission of Qualification Form
2. Submission of Signed Master SREC Agreement and Bid Assurance Collateral

Qualification process is simple

- Bidder submits **contact information**
- Bidder submits **GATS** Account Holder ID
- Bidder accepts terms of the Auction Rules and the Master SREC Agreement
- Auction Manager sends to each qualified bidder a **Notification** that includes:
 - A range for the number of SRECs available for Auction
 - The starting price of the Auction
 - Wire transfer information for posting of bid assurance collateral
 - Details on a bidder training session

Qualification Form available on web site

Due by noon (EPT) on December 17, 2009

Additional Materials Due Four Business Days Before Auction

- **Two signed originals** of the Master SREC Agreement
- Bid Assurance Collateral in **cash**
 - ❑ \$1,250 per block of 50 SRECs
 - ❑ In the Auction, a bidder can never bid on more blocks than are financially guaranteed by the bid assurance collateral
 - ❑ Bid assurance collateral deducted from payments owing if bidder wins at the Auction

Materials due by noon (EPT)

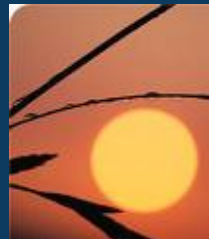
on January 25, 2010

Timeline

Invitation to Comment on Master SREC Agreement issued	September 10, 2009
Deadline to submit Comments	October 1, 2009
Final Master SREC Agreement issued	October 26, 2009
Deadline for Qualification Form	December 17, 2009
Notification of Qualification to Proceed	December 22, 2009
Number of SRECs Announced	January 5, 2010
Training Session (Trial Auction)	January 6, 2010
Deadline for Master SREC Agreement and Bid Assurance Collateral	January 25, 2010
Notification of Qualification to Bid	January 27, 2010
Auction Starts	January 29, 2010



Bid Submission



Bid Block Size

- In the January 2010 auction, bidders will bid on **blocks of 50 SRECs**
- In SREC auctions held in July the block size will be **one SREC**; bidders will have the flexibility to bid for however many SRECs necessary for compliance with the RPS in October
- It is expected that in future auctions held in January, April, or October, bidders will bid on blocks of **100 SRECs**

First Round

- The Auction Manager will have announced the **starting price** in the Notification of Qualification
- Bidder in **round 1** states the number of blocks desired at the starting price
- This number of blocks cannot be more than the amount guaranteed by bid assurance collateral
- If more blocks are bid than there are available, the **auction proceeds to round 2**
 - Otherwise, the auction ends

Round 2 and Subsequent Rounds

- A bidder can keep the number of blocks **bid the same** as in the previous round
- A bidder can **reduce the number of blocks bid**
 - Bidder submits a best and last offer called an exit price for its withdrawn blocks
 - The exit price must be above or equal to the going price in the prior round
- A bidder **cannot increase** the number of blocks bid from one round to the next

Withdrawn Blocks Example

Price Round 1	475
Bid Round 1	10
Price Round 2	525
Bid Round 2	8
Exit Price	490

- The **exit price** (a final and best offer) is
 - below current going price
 - above or equal to previous going price

Auction Structure Starting in Round 2

Round
2, 3,...

1. Bidding Phase

Bidder Indicates:

1. The **number of blocks** to buy at the going price
2. The **exit price** for any withdrawn blocks

2. Calculating Phase

The Auction Manager:

- Calculates the **total number of blocks bid**
- If there is excess demand, calculates price for next round
- Processes requests to withdraw blocks

3. Reporting Phase

Reports For Each Round:

- Range of excess demand and the price for next round

At the end of the Auction, bidder informed of its accepted bids

Auction Close

- **Auction closes** when there is no excess demand and price no longer ticks up
- In the last round, if blocks bid at going price for the round fall short of blocks available
 - Withdrawn blocks with the highest exit prices are retained first
- Winning bidders buy SRECs at the final auction price
 - All bidders **pay the same price**, the price at which the blocks bid are just sufficient to buy the blocks available

Questions?



www.SolarREC-auction.com