



2015 Greenhouse Gas Offset Credit Request For Offers

Webinar

March 5, 2015



Agenda

Presenter: Andrew Lee

- **RFO Objectives**
- **Independent Evaluator**
- **Target Schedule**
- **Offer Requirements**
- **Overview of Agreement**
- **Overview of Credit and Collateral Requirements**
- **Evaluation Methodology**
- **Keys to a Successful Offer**

Break to Review Questions

- **Q & A**



Webinar Q&A

Submit questions via email to the GHG RFO mailbox at GHGRFO@pge.com.

PG&E will answer questions at the end of this Webinar. Questions that are not answered during the Webinar may be answered on the RFO Web site at www.pge.com/rfo.

To the extent that there are any inconsistencies between the information provided in this presentation and the requirements in the RFO materials, the RFO materials shall govern.

This presentation will also be posted on PG&E's Web site.



RFO Objectives

- 1. Meet our Cap-and-Trade obligation in the most cost-effective manner for our customers**
- 2. Receive offers for ARB Offset Credits**
- 3. Comply with all legal and regulatory requirements**
- 4. Support Offset Credits as a low-cost source of GHG emission reductions in the California market**



Independent Evaluator (IE)

IE for PG&E's 2015 GHG Offset Credit RFO is Lewis Hashimoto, Arroyo Seco Consulting

- Provides third-party oversight of the procurement process
- May review all data and communications with Participants

.Please copy the IE at arroyosecoconsulting@gmail.com on all email correspondence to PG&E regarding this RFO



Target Schedule

Event	Date/Time
Deadline to submit completed Offer(s)	March 20, 2015, 1:00 PM
PG&E notifies Shortlisted Participants	April 3, 2015
Shortlisted Participants accept shortlist position and return Confidentiality Agreement	April 9, 2015

All times Pacific Prevailing Time (PPT)

This schedule is subject to change. PG&E will endeavor to notify Participants of any change via PG&E's RFO Web site.



Offer Requirements

Participant Eligibility: Must be registered with ARB or have registration pending

Product: Must be ARB-issued Offset Credits

Volume: Minimum volume is 25,000 metric tons, in aggregate—must be fixed quantity (no unit-contingent offers)

Pricing: Fixed price at execution—offer may be indexed, to be converted to fixed price at execution of agreements

Delivery: Must have an ARB Holding Account and be authorized to transfer full title and ownership of Offset Credits to PG&E

Invalidation: Seller must assume risk of invalidation and Offset Credits must be converted to a shortened invalidation period either prior to delivery or by a deadline specified in the agreement

Identification: Non-investment grade entities must specify the source project, vintage, and status of the Offset Credits



Issuance Status and Delivery Preferences

Delivery Date(s) must be specified in the Offer

PG&E prefers offers for Offset Credits:

- Issued by ARB or verified and awaiting issuance by ARB as of the offer date, with delivery by December 15, 2015
- For future ARB issuance, delivery preferred by December 15, 2016

Latest deliveries allowed under this RFO will be December 15, 2018



Overview of Agreement

“Agreement” includes:

- Master Allowance/Offset Credit Purchase Agreement
 - Credit Support Addendum (CSA)
- Offset Credit Confirmation

Agreement must reflect the Offer Form

Participant should provide an Agreement that reflects the final terms and conditions to which the Participant will agree and execute



Key Terms of Agreement: ALD and ALC (Master)

Adverse Legal Determination: Either Party may terminate an Affected Transaction due to an action, order, or decision that restrains the implementation and enforcement of the Cap-and-Trade Regulations

Adverse Legal Challenge: PG&E may terminate an Affected Transaction if it reasonably determines that a legal action by a third-party could result in an action, order, or decision that restrains the implementation and enforcement of the Cap-and-Trade Regulations



Key Terms of Agreement: Invalidation (Confirmation)

Sellers must assume risk of invalidation: Must provide replacement instruments or financial compensation in the event of invalidation

Sellers must provide shortened invalidation period: Failure to do so is considered an event of default



Credit and Collateral Overview

Prior to delivery of Offset Credits:

- Sellers will be required to post collateral based on a mark-to-market methodology and a daily margining process
- Sellers with credit ratings below investment grade (or no credit rating) will be required to also post 10% of the notional value of the contract as an Independent Amount

After delivery of Offset Credits:

- Sellers will be required to post 20% of the notional value as Invalidation Security Amount for the invalidation term

Sellers may be eligible for unsecured credit from PG&E, which can be applied toward these amounts



Performance Assurance

- For all Sellers, acceptable forms of performance assurance are letters of credit and cash
- Sellers with investment grade guarantors may be required to post a guarantee to support their unsecured credit



Mark-to-Market and Daily Margining

- Mark-to-market determines the amount of collateral to be held by PG&E based on the difference between the market value and the notional value of the contract. If the market price rises relative to the contract price, Seller is responsible for posting additional collateral, assuming Seller's Threshold (Unsecured Credit) is zero (\$0).
- The process of calculating mark-to-market daily and requesting additional collateral is called "daily margining".
- Example: If PG&E agrees to buy 50,000 Offset Credits at a contract price of \$10.00/Offset Credit, the notional value would be \$500,000.
 - The day following the contract effective date, if the market price for Offset Credits rises to \$10.10, the seller would be required to post collateral to cover the difference in price, assuming a zero Threshold
 - Additional collateral required to post = $\$0.10 * 50,000 = \$5,000$



Collateral Example

50,000 Offset Credits @ \$10.00/Offset Credit = \$500,000 notional value

Seller has credit rating below investment grade, or no credit rating

Upon Effective Date of Agreement

- Seller posts 10% of notional value (\$50,000) as Independent Amount
- PG&E begins daily margining, as required, until delivery in accordance with the Agreement

Upon Delivery of ARB Offset Credits

Option A

- Seller posts additional 10% of notional value (\$50,000) to bring collateral to 20% of notional value (Invalidation Security Amount)
- PG&E pays \$500,000 notional value

Option B

- PG&E pays \$450,000 (Notional value less additional 10% required for Invalidation Security Amount)

End of Invalidation Term

If no invalidation:

- PG&E returns 20% of notional value to Seller (\$100,000)

Note: This is a simplified example and is not intended to replace Participants' independent review of the requirements in the RFO Protocol, Master Agreement, and Offset Credit Confirmation.



Evaluation Methodology

Primary criteria:

- Market valuation
- Credit
- Portfolio fit
- Modifications to the Agreement

Secondary criteria:

- Offset Credit status
- Project Developer and Operator Experience (only for future Offset Credits)
- Supplier diversity



Keys to a Successful Offer

- Submit a complete offer to GHGRFO@pge.com and the IE at arroyosecoconsulting@gmail.com
- Multiple offers are allowed—one offer represents one set of underlying Offset Credits, with a maximum of three variations per offer
- Limit your modifications to the Agreement
- Reminders:
 - Offset Credits must be ARB-issued by time of delivery, so consider timing of issuance in your offer
 - By submitting an Offer, Participants are required to abide by the obligations specified in the Offer Agreement (Appendix B)



Components of a Complete Offer

Form

Appendix A: Offer Form

Appendix B: Offer Agreement

Appendix C: RFO Confidentiality Agreement

Appendix D: Form of Master Allowance/Offset Credit Purchase Agreement

Appendix E: Form of Offset Credit Confirmation

Appendix F: Credit and Finance Information



Your Next Steps

- Review documents on PG&E's website and sign up for the general RFO Distribution List at www.pge.com/rfo
- Send any questions to GHGRFO@pge.com, and copy the Independent Evaluator (IE), Lewis Hashimoto: arroyosecoconsulting@gmail.com
- Submit your offer(s) by March 20, 2015, 1:00 pm PPT



Q & A