

UNION COUNTY RENEWABLE ENERGY PROGRAM

REQUEST FOR PROPOSALS

For a Developer of Photovoltaic Systems with respect to certain Local Government Facilities in the County of Union, New Jersey dated August 31, 2010

Summary of Questions and Answers

No. 2, Issued on October 1, 2010

Below is a summary of the questions posed by Respondents and the Union County Improvement Authority's (the "Authority") responses to said questions. This document shall be posted on the Union County Improvement Authority's website at <http://www.ucianj.org/>, and emailed to all Respondent Contact Persons.

Q1. Can Respondents continue to ask questions concerning the RFP and the Program Documents?

A1. Respondents are permitted to ask questions concerning the RFP and the Program Documents throughout the RFP process. Respondents are encouraged to offer any suggested changes to the Program Documents that they believe would be beneficial prior to proposal submissions.

Q2. Under Appendix E-1 of the RFP, the Authority Financing Term Sheet, in the section titled "Security," the Authority requires the Company to provide, in addition to a pledge of collateral in the assets of the Company (Paragraph A), additional Security in the form of either a Letter of Credit (Paragraph B), a Guaranty from an Investment Grade Affiliate (Paragraph C), or a Guaranty from a non-Investment Grade affiliate combined with a Letter of Credit or other form of collateral acceptable to the County (Paragraph D).

The amount of the additional Security that is required is not explicitly provided, but it seems clear that the intent is for the additional Security to be in the full amount of the Lease Payments the Company is obligated to make. Respondent wants to underline the fact than any such letter of credit from a Bank or a guarantee from an investment grade company of the Lease Payments is effectively a guarantee of the bond issued by the County by such Bank or investment grade company. The Bank or Investment

Grade company providing the additional Security will charge an arms-length price for this service, and the substantial expense thus incurred would likely offset in full any benefit derived from Authority Financing. This cost will in turn result in higher PPA electricity prices that minimize the savings available to Union County, and potentially preventing such PPA from being able to meet BPU rules regarding contracting for renewable energy contracts.

In similar RFPs from other Counties and/or Municipalities, additional options were allowed to provide the county and the authorities with security to mitigate the risk to the county taxpayers under the guarantee. One such option was the following:

- (i) the Respondents were permitted to estimate the amount, in dollars, of the “worst case” exposure the County is taking in its guarantee (called in several instances a “County Deficiency Amount” in such RFPs), factoring in the minimum value the cash flows from SRECs and Power sale of the Solar Generating Facilities under very distressed conditions, and providing such analysis to the County. For example, if the total exposure of the County under its guarantee was calculated to be \$30mm, and the minimum value of the cash flows from SRECs and Solar Generating Facilities was calculated to be \$20mm, the Respondent could offer the County a Security equal to \$10mm instead of the full \$30mm;*
- (ii) the Respondents were permitted to borrow the full amount of the construction costs from the Authority financing and able to use the Federal Grant to fund the Security amount defined in (iii) below, and minimize the amount of any required third party equity (as equity from third parties has a higher cost of capital than the Authority Financing, therefore resulting in worse pricing);*
- (iii) Additionally, the Security could take the form of a reserve account invested in Investment Securities (as permissible under the Bond Resolution) and held by the Bond Trustee for the benefit of the County, which would be both a more secure form of collateral for the County as it would be held by its Trustee for its direct benefit, and a less expensive form of collateral as it would remove the need to having to pay a bank a fee to issue a Letter of Credit.*

At a minimum to generate any significant benefits from the Authority Financing, the Authority should allow the Respondents, if not to borrow the full project costs from the Authority, to at least be able to offer Security in a lower amount than the full payment obligation of the Company under the Lease Agreement, for example by following a methodology like the one described in (i) above.

A2. The Authority Financing Structure described in the Authority's RFP is intended to provide terms and conditions similar to what a conventional lender might offer. Here, the Authority may finance up to 70% of the costs of the Renewable Energy Projects. The Authority Financing Structure (including the Company Lease Agreement), if utilized, is intended to be with full recourse to the Company. Because the Company may be structured as a special purpose entity, the Authority will require the Company to provide the collateral referred to in the RFP and one or more of the other forms of security listed (e.g., a letter of credit or a guarantee from a creditworthy affiliate), as more fully provided in the RFP. The Authority's RFP offers each Proposer the flexibility to fashion a financing package that will allow it to offer the best PPA Price to the Local Units. The Authority Financing Structure is not intended to limit, in any way, the Authority's recourse against the Company or any guarantor for a breach or default under the Company Lease Agreement.

The RFP's referred to in the question (points (i), (ii) and (iii)) were not designed to match conventional loan terms. The Authority has not elected to offer those terms.

We are aware of conventionally financed solar projects that have resulted in very attractive power purchase agreement prices on financing terms that are generally comparable to, or less desirable than, those described in the Authority Financing Structure, except at a higher interest rate.

Q3. Can the sign-in sheet from the Pre-Bid meeting, September 8, 2010, be made available?

A3. Yes, it was posted on the Authority's website on September 24, 2010.

This Questions and Answers No. 2, dated October 1, 2010, has been issued and posted on the Authority's website by order of Charlotte DeFilippo, Executive Director, Union County Improvement Authority, this 1st day of October 2010.