



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.nj.gov/bpu

DIVISION OF ENERGY

IN THE MATTER OF THE PETITION OF PUBLIC)	DECISION AND ORDER
SERVICE ELECTRIC AND GAS COMPANY FOR)	APPROVING SETTLEMENT
APPROVAL OF A SOLAR ENERGY PROGRAM AND)	
AN ASSOCIATED COST RECOVERY MECHANISM)	DOCKET NO. EO07040278

(SERVICE LIST ATTACHED)

BY THE BOARD¹:

By this Decision and Order, the New Jersey Board of Public Utilities (Board or BPU) considers a Settlement executed by Public Service Electric and Gas Company (PSE&G or Company), the Department of the Public Advocate, Division of Rate Counsel (Rate Counsel), Board Staff, the Mid Atlantic Solar Energy Industries Association (MSEIA), New Jersey Natural Gas Company (NJNG), and South Jersey Gas Company (SJG), by which the parties to the Settlement propose a resolution of the above-captioned matter and request that the Board issue an Order approving the Settlement. The remaining parties to this matter, Rockland Electric Company (RECO), Jersey Central Power and Light Company (JCP&L), the Retail Energy Supply Association (RESA), and the New Jersey Large Energy Users Coalition (NJLEUC), did not execute the Settlement, but informed the Board that they neither support nor oppose it. NJLEUC also submitted comments with regard to the proposed Settlement, which the Board considers and addresses herein in connection with consideration of the Settlement.

BACKGROUND AND PROCEDURAL HISTORY

On April 19, 2007, PSE&G filed with the Board a Petition and exhibits requesting Board approval to implement phase I of a solar photovoltaic (PV) development program within its electric service territory across all customer classes, with segments for residential, residential low-income, municipal/public entities, and commercial/industrial and not-for-profit customers. Additionally, PSE&G requested recovery through its electric Societal Benefits Charge (SBC) of the costs of the proposed program, including an incentive return and the foregone electric distribution fixed cost contribution, also referred to as "make whole payments," for foregone revenues until such cost contribution is reflected in base rates. The Company also sought

¹ Commissioner Christine V. Bator recused herself on this matter due to a potential conflict of interest.

approval of a model loan agreement. Subsequently, on June 1, 2007, the Company filed supporting direct testimonies and schedules of Ralph A. LaRossa, President and Chief Operating Officer, PSE&G; Frederick A. Lynk, Manager, Demand Side Marketing, PSE&G; and Gerald W. Schirra, Director - Rates and Regulation, PSE&G, which also included a modification to the proposed cost recovery mechanism.

The Company's proposal, as originally submitted, was for a phase I program by which PSE&G would offer loans to provide funding for up to 30 MW of solar photovoltaic systems, which would generate solar energy. PSE&G anticipated that its investment in the 30 MW phase I would be approximately \$100 million and it estimated incremental administrative costs would be approximately \$3 million per year. According to the Petition, 30 MW would, represent approximately one-half of the renewable portfolio standards (RPS) requirements² in PSE&G's service territory in the 2008-2010 time frame. The Petition also asserted that the proposed program would help New Jersey in meeting its goals of acquiring 20% of its electricity from renewable resources by 2020 and reducing greenhouse gas emissions by approximately 20% by 2020. As the program was proposed, PSE&G would provide loans to solar photovoltaic developers, commercial and industrial (C&I) customers, or other qualifying entities, for a portion of a project's cost. The program would be open for two years or until the entire 30 MW program is allocated, whichever comes first.

The Company proposed that 40% of its loans would be made to the C&I/not-for-profit segment, 30% to the municipal segment, and 30% to the residential segment (20% for the residential-

² The Board's Renewable Portfolio Standards regulations, N.J.A.C. 14:8-2.1 et seq., implement provisions of the Electric Discount and Energy Competition Act (EDECA), N.J.S.A. 48:3-49 et seq. The RPS regulations require electric power suppliers and basic generation service (BGS) providers to include minimum percentages of qualified renewable energy in the electricity they sell; those minimum percentages increase over time. The rules specify separate minimum percentages for solar electricity generation, for class I renewable energy, and for class II renewable energy, as each of these categories of renewable energy is defined by N.J.A.C. 14:8-1.2. Currently, the rules require that solar electric generation be the source of at least 0.0817% of the electricity sold in New Jersey; by the reporting year beginning June 1, 2020, that requirement will increase to 2.12%.

To comply with the solar electric generation portion of the RPS, suppliers and providers obtain and use Solar Renewable Energy Certificates (Solar RECs or SRECs). A Solar REC represents the environmental benefits or attributes of one megawatt-hour (MWh) of solar electric generation. A supplier who holds too few Solar RECs to meet the RPS can make up for the shortfall by paying a Solar Alternative Compliance Payment (SACP). N.J.A.C. 14:8-2.3(e); N.J.A.C. 14:8-2.10.

During the pendency of the Petition in the within matter, the Board, following a public stakeholder process, by Decision and Order Regarding Solar Electric Generation in In the Matter of the Renewable Energy Portfolio Standards-Alternative Compliance Payments and Solar Alternative Compliance Payments, Docket No. EO06100744 (December 6, 2007), approved a plan for transitioning the solar renewable energy market from rebates to market-based incentives, while maintaining rebates for smaller solar systems for Reporting Year 2008, with the continuation of rebates for Reporting Years 2009-2012 to be addressed in the ongoing Comprehensive Resource Analysis proceeding (Docket No. EO07030203). To facilitate the change in emphasis from rebates to SRECs, the Board ordered an increase in the SACP in reporting year 2009 and a multi-year schedule for SACP's extending out eight years. Among other things, the Board also found that a capping mechanism on the cost of SRECs should be triggered if estimated solar incentive costs exceed 2% of estimated retail electricity costs, such freeze to remain in effect until costs drop below the 2% threshold. The Board also directed rulemakings and the development of more detail on certain issues, including the cap mechanism and exploration of the need for additional securitization of the SREC value stream beyond the extension of the SACP in a multi-year schedule.

general segment and 10% to the residential low-income segment). Under the proposed program, the market allocations could change after the first year, depending on the response to the program and market conditions. The Company proposed that the loans be repaid over a 15-year period by the resulting SRECs being provided to PSE&G or by cash payments. If the market value of the SRECs exceeded an established floor, estimated in the Petition to be \$475, loans could be repaid sooner. PSE&G proposed to allocate, at no cost, the SRECs for the benefit of its electric customers to the load serving entities (LSE) serving retail load in PSE&G's service territory. If PSE&G received cash payments, it would purchase SRECs to be allocated in the same manner.

PSE&G originally proposed to recover all of the costs of the solar energy program from its electric distribution ratepayers through the energy efficiency and renewable energy program component of the electric SBC, including the actual costs of the loans, interest on the loans, the costs of metering equipment, all administrative costs of the program, and foregone electric distribution fixed cost contribution. The Petition requested that PSE&G's solar energy program costs be recognized in the calculation of the Company's overall funding level for renewable energy programs. In testimony of its witness Gerald W. Schirra, this request was modified so as to propose that the solar energy program costs be considered as incremental costs to be recovered through the SBC and thus, be in addition to the Company's Board-mandated funding level for other Clean Energy Program initiatives.

On July 12, 2007, a prehearing conference was held at the Board's Newark offices, for the purpose of establishing a procedural schedule for this matter. On September 12, 2007, the Board issued a Prehearing Order setting out, among other matters, requirements for the holding of public hearings, the conduct of discovery, the filing of testimony, and evidentiary hearings, to be presided over by President Jeanne M. Fox, on or after December 10, 2007. By the Prehearing Order, the Board also granted requests for intervention by NJLEUC, NJNG, RECO, MSEIA, RESA, and SJG, and a request by JCP&L for participant status.

On August 31, 2007, notice of the April 19, 2007 Petition was published in newspapers with circulation within the Company's electric territory. Public hearings were held on September 24, 2007, September 25, 2007, September 26, 2007, and September 27, 2007, in New Brunswick, Hackensack, Newark, and Mt. Holly, respectively.

On September 21, 2007, Rate Counsel filed the direct testimony of six witnesses: Andrea Crane, Vice President, Columbia Group; Dian Callaghan, Senior Consultant, McFadden Consulting; Dr. David Dismukes, Consulting Economist, Acadian Consulting Group; Robert Fagan, Senior Associate, Synapse Energy Economics, Inc.; Brian Kalcic, Economist, Excel Consulting; and Matthew I. Kahal, Independent Consultant. MSEIA also filed direct testimony of Thomas Leyden, President, MEISA, on September 21, 2007.

On October 26, 2007, PSE&G filed the rebuttal testimony of Frederick A. Lynk, Gerald W. Schirra, and Morton A. Plawner, Vice President and Treasurer, PSE&G. On November 30, 2007, Rate Counsel filed the surrebuttal testimony of its six witnesses. No surrebuttal testimony was submitted by MSEIA.

PROPOSED SETTLEMENT

By letter dated March 19, 2008 from counsel for PSE&G, a Settlement executed by the Company, Board Staff, and Rate Counsel was submitted for filing with the Board. By copy of the letter, the Service List was informed that other parties may either sign the Settlement or submit letters to the Board by March 24, 2008. Thereafter, NJNG, SJG and MSEIA also signed the Settlement, a copy of which, including the attachments thereto, is annexed hereto. Submissions to the Board by non-signatories are discussed below.

The Settlement³ provides the following:

1. The Parties agree that PSE&G shall implement the Program as described and set forth in the Settlement and the referenced attachments. Therefore, the Parties request that the Board issue an Order approving the Settlement without modification.

Program Description

1. The Program is a distributed photovoltaic solar initiative in which solar photovoltaic systems will be installed on customers' premises "behind the meter," using PSE&G as an essential source of capital. The Program is intended to reduce the overall cost of project development, installation, financing and maintenance, while providing the best solar energy value for all stakeholders.
2. The Program is a distributed photovoltaic solar initiative in which solar photovoltaic systems will be installed on customers' premises "behind the meter," using PSE&G as an essential source of capital. The Program is intended to reduce the overall cost of project development, installation, financing and maintenance, while providing the best solar energy value for all stakeholders.
3. The Program is for a 30 megawatt Phase 1, designed to fulfill approximately one-half of the Board's estimated 57 MW Renewable Portfolio Standard requirements for load served in the PSE&G service territory during the energy years 2009 and 2010. The Company has not proposed additional phases of the Program at this time. Any additional phases shall require a Petition, Public Notice, Public Hearings and Board approval.
4. PSE&G will provide loans to solar photovoltaic developers or customers for a portion of a project's cost. The Project Owner will repay the loan over a 15-year period by providing Solar Renewable Energy Certificates (or an equivalent amount of cash) to PSE&G. For consumer loans the repayment period will be 10 years.
5. The Program will be open for applications for 2 years from the date of Board approval. Projects will be accepted on a first-come, first served basis until 30 MW of projects have been developed or 2 years pass, whichever comes first.

³ Although the Settlement is set out at some length herein, the full Settlement document controls, subject to the Board's findings and conclusions contained herein.

6. There will be a cap of 25% on any single developer/customer of the total Program amount (i.e., 30MW). In addition, there will be a cap on any single developer/customer of 25% (of the total segment size) within any one segment. The caps will apply to all affiliated entities (e.g., if developer "A" has an affiliate "B," A and B together may not exceed 25% of any segment or 25% of the total 30 MW Program).
7. For the first year of the Program there will be hard caps of 9 MW (30%) for the Municipal/Not-for Profit segment, 9 MW (30%) for the Residential segment and the Multi-Family/Affordable Housing segment combined, and 12MW (40%) for the C&I segment. Based on market conditions and the status of projects accepted into each segment during the initial year, PSE&G reserves the right to convert these percentages into "soft" caps starting in the second year of the Program.
8. The Program will have soft caps of 6MW (20%) of the total 30 MW block for the Residential segment, and 3MW (10%) for the Multi-family/Affordable Housing segment.
9. Program Rules – PSE&G will administer the Program following the "Program Rules and Application Process," a copy of which is attached to the Settlement as Attachment A.

Generic Program Issues

1. The Program will have four segments – Commercial & Industrial (C&I), Residential, Multi-family/Affordable Housing, and Municipal/Not-For-Profit.
2. PSE&G will provide loans to solar photovoltaic system developers, large commercial or industrial customers, or other qualifying entities, and directly to residential customers to assist in the financing of qualified solar photovoltaic systems.
3. The PSE&G loans will provide financing for part of the expected project cost; an equity partner or the customer would provide the remaining financing.
4. Standard Loan and Security Agreements developed by PSE&G, accepted by the Parties, and filed with the BPU will be used for the Program. Any terms used in the settlement agreement relating to terms contained in the loan documents will be fully defined in those documents and such definitions shall apply in the Settlement.
5. Commitments for approved loans will be issued via letter within 15 days of the receipt of the following:
 - a. All required documentation and information
 - b. Credit approval
 - c. NJ Interconnection Application Net Metering Systems Approval
 - d. System output meter request approval.
15. The borrower will fully repay the loans made by the Company by providing PSE&G with Solar Renewable Energy Certificates or cash, to repay principal and interest.

16. For any cash loan payments it receives, PSE&G will use the cash to repay the loan, thereby reducing revenue requirements through a credit to the Solar Pilot Recovery Charge (SPRC). In addition, if the borrower elects to sell the SRECs to a third party rather than using them to repay the loan, the borrower must notify the lender in writing of his/her intent to sell SRECs to that third party, and shall include in that written notification the quantity of SRECs to be sold and the price for such quantity of SRECs. In addition, the borrower must utilize the entire sale price paid by that third party first towards the payment of all accrued interest on the loan; then the remainder of the sale price will be applied to the loan principal in the month the borrower receives the proceeds of the sale to a third party.
17. The SRECs, for purposes of this Program, will have an established floor value, which will be \$475, for the loan repayment period. For purposes of loan repayment, the SREC market value (Market Value) means the average monthly cumulative weighted price of SRECs as published on the New Jersey Clean Energy Program (NJCEP) website bulletin board during the calendar month preceding the month of repayment of the current balance due on the loan and accrued interest. If no price is published on the website for the relevant month, the Market Value will be the average of quotes received from three independent brokers. The higher of the \$475 floor price or the Market Value at the time the SREC is transferred to PSE&G will be applied toward loan repayment.
18. If the Market Value of the SRECs is above the floor price, the loan may be repaid sooner than its 10 or 15-year term.
19. If loans are paid off early, PSE&G retains the right to purchase SRECs through a call option. The call option price is 75% of the then current Market Value of SRECs. The Parties agree that the call option provides benefits to ratepayers after the loan has been repaid. The price will be determined at the time the Company seeks to exercise the call option.
20. If the call option is used, the SRECs purchased via the call option will be disposed of in the same manner as other Program SRECs. PSE&G will calculate the net proceeds (as that term is defined in Paragraph 45 of the Settlement) realized from the purchase and sale of the SRECs pursuant to the call option, and credit the net proceeds from the sale to the SPRC upon receipt of the proceeds, to offset the revenue requirements of the Program.
21. Customers will either: (a) own the solar PV system and receive the benefit of the solar power directly; or (b) enter into an agreement (Customer Agreement) with the owner/developer to purchase the energy at a negotiated rate.
22. The Board's net metering rules will apply to any excess electricity delivered to the PSE&G distribution system.
23. Customers host and potentially own the system. In some cases, the systems will be owned by an equity partner that can take advantage of the Federal Investment Tax Credit.
24. All PV system installations will be sized to meet no more than the customer's annual electric usage.

25. All systems must: (1) be eligible for net metering, pursuant to the BPU's net metering regulations and under the terms and conditions of PSE&G's Tariff, (2) create SRECs, and (3) be located in PSE&G's electric distribution service territory.
26. All projects will be metered and must register with the BPU's SREC administrator.
27. PSE&G will provide financing to the Project Owner in the form of a loan secured, at a minimum, by the project equipment and related agreements. There will be a loan agreement between PSE&G and the Project Owner that addresses the conditions pursuant to which the financing is made, including repayment, security/collateral, and maintenance on the project.
28. Borrowers will repay the loan by providing PSE&G with all of the project's SRECs (or cash) over a term of 15 years (10 years for consumer loans) or until the loan is repaid in full. After the loan obligation has been fully repaid, the system owner will retain title to the SRECs; however, if the loan is repaid prior to the 15-year term (10 years for consumer loans), PSE&G will have the option to call on the SRECs produced by the project at a pre-determined price (as described in Paragraph 19), over the remaining time left in the original loan term (but not thereafter).
29. PSE&G will not provide loans for construction purposes. PSE&G will close the loan and make payment within 30 days after all Program requirements are satisfied. PSE&G has no legal or financial obligation regarding the customer/homeowner contract with the solar developer for the project.
30. The project developer, if different than the customer, will enter into an agreement with the customer regarding the electricity the solar PV system produces.
31. PSE&G will not offer billing services for any power purchase agreements (PPAs) between solar developers/installers and customers in any segment during this phase of the Program.
32. PVWATTS1 assumes that the overall DC to AC default value of 0.77 will provide a reasonable estimate for modeling the energy production. However, the derate factor can be modified by either inputting another overall value or by modifying the component defaults to calculate an installation specific derate factor. PSE&G's Program will require that the calculated system output must meet the Office of Clean Energy's standards, which currently require that the calculated system output be at least 80% of the default output calculated by PVWATTS and that the calculated output of all series strings of modules must be at least 70% of the default output for each string calculated by PVWATTS.
33. PSE&G will require that all developers/system owners provide proof that the installed system has passed the Board's Office of Clean Energy's (OCE) CORE Program inspection.
34. PSE&G will close the loan and make payment within 30 days after all Program requirements are satisfied.

35. Metering and related issues.

- a. All projects will have a separate meter, installed at the customer's expense, to measure solar system output. PSE&G will install, own, and read (or telemeter) the meter (there may be exceptions under unusual circumstances, which will be dealt with on a case-specific basis). The currently estimated installed cost of a watthour meter is \$195 plus tax. If a remote meter reading device is required, the currently estimated cost is an additional \$110 plus tax, and a monthly fee of \$1.00 for single phase service; the currently estimated cost is an additional \$190 plus tax and a monthly fee of \$2.00 for three-phase service. PSE&G will charge the actual, current costs for these items at the time they are installed. For ratemaking purposes, PSE&G will treat the cost of the meter as a contribution in aid of construction. The BPU's regulations concerning electric meters will apply to all PSE&G-owned meters.
 - b. PSE&G will provide system output data to the system owner or borrower (i.e., the entity responsible for providing SRECs for loan repayment). The method and format of the data flow are in development.
 - c. Under PSE&G's revised metering proposal no electronic communications will be necessary for all residential and non-hourly metered commercial customers. Hourly customers have existing interval meters with communications and the solar system meter will also have communications installed. Remote meter reading devices will be required for customers that currently have their meters read remotely and for those projects for which PSE&G determines that remote meter reading is necessary. PSE&G will be responsible for telephone line maintenance over the life of the loan. PSE&G will work with the developer and customer to find a reliable and cost effective metering solution. The first 100 feet of communications wire will be provided at no charge (except for atypical conditions). The developer is responsible for any additional cost (i.e., for installations over 100 feet and/or atypical conditions).
36. A true up of the loan payment/amount, as described in more detail in the loan documents, will be calculated annually based on the system's energy year. In addition, PSE&G will provide periodic, but at least quarterly amortization statements to borrowers that will include but not be limited to the amount paid in cash and SRECs, the amount due, and the cumulative difference.
37. PSE&G will attempt to resolve disputes with its customers informally in the first instance. The Parties agree that consumers under any segment within the Program reserve all legal rights and remedies involving disputes concerning the loan agreement and/or monetary claims or civil damages. Disputes under any customer segment within the Program that involve the loan agreement and/or monetary claims or civil damages will be resolved in an appropriate court of law. Disputes that involve PSE&G's administration of the Program that cannot be resolved informally will be resolved through the BPU's existing process for customer complaints within the appropriate BPU Division.
38. Solar shingles, as well as any other building-integrated solar technology that becomes part of the building structure and therefore cannot be used as collateral for a personal property loan, will not be eligible in this phase of the PSE&G Solar Program.

39. Removal of the solar system is the last option for a loan that goes into default. If it is necessary to remove the solar system, PSE&G will sell the collateral and credit the net proceeds against the regulatory asset (i.e., the regulatory asset that PSE&G is recovering through the Solar Pilot Recovery Charge). Contemporaneous with the removal of the solar equipment, PSE&G will stabilize the section of the roof affected by the equipment removal to prevent leakage. Within seven days of equipment removal, PSE&G will restore the roof of the property in a workman like fashion to ensure that the stabilized area of the roof reflects the general condition of the portions of the roof not affected by the equipment removal.
40. In situations where a solar project is installed on a site where the borrower is someone other than the site owner, the owner (host site) must consent to the project being installed on their property. Where the project is being developed, constructed and owned by the developer, this agreement can be incorporated into the installation agreement between the developer and the customer. In instances where the host site is leased from a party who is not part of the installation, a suitable form of consent must be supplied.
41. Customers may choose a developer to work with or, may apply to the Program directly. PSE&G will not develop a separate listing of qualified developers for the Program, but will refer customers to the OCE list of solar distributors and installers as an information source to assist consumers in finding solar vendors and making informed choices. PSE&G will link its customer information materials directly to the vendor listing provided by the OCE. Since the OCE listing is not intended to be an all-inclusive list of qualified renewable energy systems installers, it will not be necessary for a renewable energy system installer to appear on this list in order for a system purchaser to qualify for a PSE&G solar Program loan. However, all systems will be required to pass the Office of Clean Energy's inspection process.
42. PSE&G will require that the borrower confirm that the system will be maintained in good operating condition by providing one of the following:
 1. Copy of executed Maintenance Agreement;
 2. Copy of Extended Warranty; or
 3. Statement from borrower that the system will be self-maintained.

PSE&G will retain the right to monitor system performance and, in the event of a decline in system output, may require that the borrower perform corrective action.

43. The Parties acknowledge that PSE&G makes no representations concerning any federal or state tax consequences that may result from participation in the Program. Moreover, the Parties agree that nothing in this Settlement or in any of PSE&G's filings with the BPU in this matter shall be construed as containing advice concerning federal or state tax matters. PSE&G encourages all potential participants in the Program to seek advice from their own tax advisor on any federal or state tax consequences that may result from participation in the Program.
44. PSE&G agrees to report data regarding the Program to BPU Staff with copies to the Division of Rate Counsel, on a semi-annual basis for statistical purposes. Such reports shall include the following information:

- The number of defaults by each segment that have occurred to date.
 - The number of removals by each segment that have occurred to date.
 - Monthly revenues from the sales of SRECs in the market.
 - The number of loans by each segment initiated monthly.
 - The number of consumer disputes and the nature of each dispute occurring monthly.
 - The number of solar projects by segment that were denied loans based on 1. Credit Scores; 2. liens on property; 3. bankruptcy; 4. PSE&G's bill payment standings; 5. other.
 - % of 30 MW by segment that have been installed and provided loans to date.
 - The dollar amount of loans for each segment to date.
 - The monthly revenues from cash payments for each segment to date.
 - Prices realized for SRECs sold through the auction.
 - Number of SRECs transferred to PSE&G and number of SRECs sold.
45. Instead of PSE&G allocating all SRECs it receives pursuant to the Program to Load Serving Entities (LSEs) as proposed in the Petition, the Parties agree that there should be periodic auctions of the Program's SRECs. Thus, the Program's SRECs will be sold in the open market by a third-party auction expert at least annually. PSE&G will credit the net proceeds of all Program SRECs sold to the SPRC, to offset the revenue requirements of the Program. For the purpose of this paragraph, "net proceeds" of the Program SRECs sold means the value realized from the sale less all transaction costs. If the SREC is acquired through exercising the call option, the cost to purchase the SREC is a component of the transaction cost. The Parties further agree to form a group, which began meeting in February 2008, to develop the auction details by working with the auction experts to develop an auction mechanism. A compliance filing detailing this process will be filed with the Board Secretary upon completion of this process. Attachment B to the Settlement provides initial process parameters for the Program's SREC auction process.

Customer Segment Details

Residential Segment (20%) – 6MW

46. A customer/owner will learn about the Program through PSE&G or directly from a solar developer.
47. The developer/contractor will work with the customer to design a suitable solar system application.
48. Upon finalization of the solar system design, it is input into PV WATTS to determine system performance characteristics.
49. Customer/owner applies to the PSE&G Program with application information, including PVWATTS performance characteristics.
50. The customer/owner may also apply for applicable rebates, other subsidies and tax credits, as appropriate.
51. Upon application approval, and obtaining other necessary capital the developer/contractor procures and implements installation.

52. The Board of Public Utilities will establish the rebate level available for 2009 residential solar installations under the Clean Energy Program. No set asides have been provided for the PSE&G Program. Developers/residential customers may apply for OCE rebates in the normal course of their sales to residential customers. Participation in the PSE&G Program will not impact eligibility for the Office of Clean Energy's rebate Program, subject to future decisions by the BPU.

53. PSE&G Initial Responsibilities Regarding Residential Segment

- i. PSE&G will form a subsidiary (subject to the caveat in subsection 53 iii. below) company to provide loans for residential, C&I, municipal, and affordable multi-family projects for the PSE&G Solar Energy Program. The PSE&G subsidiary will originate and close all loans under the Program.
- ii. The PSE&G subsidiary would be structured as a Delaware limited liability company.
- iii. Counsel for PSE&G has determined that in order to receive a timely determination from the New Jersey Department of Banking and Insurance (DOBI) it is necessary to have a Board approved program. Once the BPU has approved the Solar Program, PSE&G will apply to the DOBI to determine if an exemption would be appropriate for consumer lending under the terms of the Board approved Program. PSE&G (either directly or through the subsidiary) will perform all aspects and responsibilities of the Solar Loan Program, including compliance with all applicable regulations with respect to consumer lending in New Jersey, Truth in Lending and Plain Language requirements, including any and all requirements and determinations of the DOBI. If PSE&G applies for and receives a finding from DOBI that the Solar Loan Program does not constitute a Consumer Loan, PSE&G would not form a subsidiary. If PSE&G is unable to obtain either an exemption from DOBI licensure or a declaratory ruling that its proposed treatment of the equal monthly payment requirement is acceptable, and the Call Option does not constitute a prepayment penalty, the Company agrees to discuss with the other Parties suitable alternatives for the Residential Segment.
- iv. The subsidiary will be the entity that utilizes the capital provided by PSE&G to issue the loans under the Program.
- v. Section 17:11C-16 of the banking regulations requires that an applicant for a consumer lending license have a net worth of at least \$100,000 and liquid assets of at least \$100,000 to make loans.
- vi. The subsidiary will have no employees. There will be service agreements between PSE&G and the subsidiary in connection with the administration of the loan Program.

- vii. The limited liability structure of the PSE&G subsidiary should ensure that there are no adverse New Jersey State or federal tax consequences.

54. Loan Particulars – Residential Segment

- i. Term of Loan - 10 years
- ii. Interest Rate on Loans to Residential Borrowers – 6.5%
- iii. Repayment – Cash or SRECs generated by solar system during the loan term. For purposes of repayment of the loan, SRECs will be valued at the SREC Floor Price of \$475 or the market price if higher.
- iv. Collateral security for the loan will be the project equipment.
- v. Amount loaned for a project will be dictated by the installed cost per watt, the loan amortization period and the interest rate on the loan. Assuming a 10-year loan at 6.5% and an installed cost of \$6.50 per watt, the loan would be about 50% of the project cost.
- vi. If the loan is paid off early, PSE&G subsidiary will retain the call option through the end of the 10th year.
- vii. At the end of the 10 year loan period, the owner will have all rights to the remaining 5 years of SREC qualification life.
- viii. A PSE&G meter will measure system output and will be installed at the customer's expense.
- ix. Commitments for loans will be issued via letter within 15 days of the receipt of the following:
 - 1. All required documentation and information;
 - 2. Credit approval;
 - 3. Interconnection application; and
 - 4. Net metering application and system output meter request approval.

55. Credit Criteria to be used for residential customers in lending decision

- i. Applicant must submit to a credit check.
- ii. Residential customers must have an Experian FICO score of at least 720. Minimum credit score must be maintained between approval and loan closing.
- iii. Customer must be in good standing with respect to payment of energy bills (PSE&G bill payment credit assessment code of 1 or 2).
 - 1. Score of 1 means pays promptly, no delinquency.
 - 2. Score of 2 means fewer than 6 delinquencies in past 12 months or delinquent less than ½ of months a customer and no notice.
- iv. There must be no liens, other than mortgages or home equity loans, on the property where the solar equipment will be installed, so that PSE&G will have a first lien on the solar equipment.
- v. Customer will be asked to disclose the existence of any liens in the application process.
- vi. A search for liens will be conducted immediately prior to closing.
- vii. No bankruptcy filing within the last three years.
- viii. PSE&G will collect the information necessary to determine the

number of residential Program applicants rejected due to credit score, PSE&G bill payment credit assessment, or other credit reasons specified. Credit scores and bill payment credit assessment codes will be tracked to determine whether a different credit screen should be used. Low Income Home Energy Assistance Program (LIHEAP) recipients' credit acceptance/rejection information will be tracked separately. This information will be included in PSE&G's reporting data referenced in paragraph 44 of the Settlement.

56. The Parties agree to form a separate group to develop appropriate education materials for distribution to residential customers participating in the Program. For example, this group will develop a number of Frequently Asked Questions and answers and PSE&G will provide them to residential loan applicants. The Parties will work with Rate Counsel's consultants to produce Program Documents for a compliance filing to be made to the Board Secretary upon completion of this process.
57. The Parties agree to form a separate group to work with Rate Counsel's experts and Board Staff to develop appropriate residential loan documents for use in this Program. Upon completion of this process, a compliance filing will be made with the Board Secretary of the agreed upon Program residential loan documents. In addition, this group will help to develop a Terms and Conditions sheet that will explain in plain language the residential customer's rights, obligations, and liabilities in the event of a default, sale of the customer's home, solar energy system failure, assumption of the loan by PSE&G, disposition of the SRECs, etc. PSE&G will provide the Term and Conditions sheet to residential Program applicants.

C&I Segment (40%) – 12MW

58. The project owner is a solar developer or customer.
59. For projects in which a developer is involved, the host customer receives the energy through an agreement with the developer.
60. If the customer is the project owner, it will own the system and receive the solar energy directly, under the Board's net metering rules.
61. The loan interest rate for the C&I segment will be 11.11%
62. If the loan is paid off early, PSE&G (or its subsidiary) will retain the call option through the end of the 15th year.

Multi-family/Affordable Housing Segment (10%) – 3MW

63. The Multi-family/Affordable Housing segment will target existing multi-family, new construction and single family homes.
64. PSE&G will originate loans for the Multi-Family/Affordable Housing segment based on income guidelines established in the NJHMFA funding programs for multi-family affordable housing projects. NJHMFA's multi-family affordable housing income limits

vary based on household size and housing type. The most recent data available from the NJHMFA is presented in a chart set forth in the attached Settlement.

65. The interest rate for loans in the Multi-family/Affordable Housing segment will be 11.11%.

66. The repayment term will be 15 years.

67. If the loan is paid off early, PSE&G (or its subsidiary) will retain the call option through the end of the 15th year.

Municipal Segment/Not-for-Profit Segment (30%) – 9MW

68. This segment is similar to the C&I segment.

69. PSE&G will provide financing to the project owner, which would likely be an equity partner.

70. The participating municipal entity would benefit from receiving solar electricity that the PV system generates under an agreement with the project owner.

71. The interest rate for loans in the Municipal/Not-for-Profit segment will be 11.11%.

72. The repayment term will be 15 years.

73. If the loan is paid off early, PSE&G (or its subsidiary) will retain the call option through the end of the 15th year.

74. Credit Criteria to be used for all segments other than residential single family:

- i. Applicant must submit to a credit check.
- ii. Commercial/industrial customers must have an Experian Commercial Intelliscore or an Experian Small Business Intelliscore of 70 or higher. Minimum credit score must be maintained between approval and loan closing.
- iii. Customer must be in good standing with respect to payment of energy bills (PSE&G bill payment credit assessment code of 1 or 2)
 - Score of 1 means pays promptly, no delinquency.
 - Score of 2 means fewer than 6 delinquencies in past 12 months or delinquent less than ½ of months a customer and no notice.
- iv. There must be no liens on the property where the solar equipment will be installed that will interfere with PSE&G's ability to obtain a first lien on the solar equipment.
- v. Customer will be asked to disclose the existence of any liens in the application process.
- vi. A search for liens will be conducted immediately prior to closing.
- viii. No bankruptcy filing within the last three years.

Cost Recovery and Related Issues

75. The parties agree that PSE&G will recover the net monthly revenue requirements associated with this Program through a new charge of the Company's electric tariff called the SPRC. The SPRC will be a new charge in the Company's electric tariff, applicable to all electric Rate Schedules on an equal cents per kilowatthour. The SPRC rates will not be implemented at this time. PSE&G will defer costs and net monthly revenue requirements it incurs for the Program to the SPRC for future recovery, consistent with the terms of the Settlement Agreement. Interest on the deferred SPRC balance (both on under- and over-recovered balances) will be calculated at the same rate and methodology as PSE&G currently uses for the electric Societal Benefits Charge. PSE&G will implement the SPRC rates through a future filing it will make with the Board. The Parties agree that the SPRC filings shall be filed annually by PSE&G. Each future SPRC filing will include estimated costs to be incurred under the Program in the upcoming period, along with the amortization of any prior period over or under recovery, with the resulting SPRC rate being either positive (a charge to customers), negative (a credit to customers) or zero. Attachment C to the Settlement provides a proposed SPRC tariff sheet showing the SPRC structure with the initial value of the new component set at zero, as well as additional tariff language that will be added to each electric Rate Schedule.

The net monthly revenue requirements would be calculated and deferred as follows:
Net Monthly Revenue Requirements = (Cost of Capital * Net Plant) + Amortization + recoverable Administrative Costs - net proceeds from the sale of SRECs - cash payments received in lieu of SRECs.

The amortization of each loan shall occur when an SREC or a cash payment is received by the Company from the borrower, after deducting accrued interest expense. Any loan amortization accumulated in a month will be booked as Amortization expense to the SPRC. If an SREC is received, the SPRC will be credited when the SREC is sold. If a cash payment is received, the SPRC will be credited in the month that the cash payment is received.

76. The parties agree that the Cost of Capital for this Program is 11.11%, including a return on Common Equity of 9.75%, which is the most recent Return On Equity established by the Board for PSE&G electric in Docket No, ER02050303, and including income tax effects. The resulting monthly Cost of Capital used for calculating the Net Monthly Revenue Requirements is 0.92583%. Net Plant equals the original loan amounts booked less the accumulated amortization through the SPRC. The Amortization is equal to the sum of the amortizations of all of the outstanding loans for each month until the total amount is recovered (Net Plant equals zero). Any cash payments received by PSE&G from the Project Owner for early termination of a contract will be credited against the Net Plant for the specific project. The Company agrees that it will not seek collection of make whole payments (lost revenue) resulting from Phase I of the Solar Program through the SPRC.

77. PSE&G agrees that it shall recover 50% of the administrative costs of the Solar Program through the SPRC, based on the annual grand total amounts set forth in Attachment D to the Settlement. Administrative costs are defined as reasonable and incremental costs incurred by the Company to implement the Program. The maximum administrative cost recovery through the SPRC in any year is \$1.0 million.

78. Because of the changes in the interest rate for residential loans and other changes agreed to in the Settlement, the total amount of PSE&G's loans under this phase of the Program will be approximately \$105 million.
79. The Parties agree that the cost recovery mechanism as set forth in the Settlement Agreement is reasonable. The Parties also agree that PSE&G, as a public utility, will be engaging in and administering the Program as a regulated service. The Parties further agree that the Program is a pilot program that is separate and apart from the renewable energy programs administered by the Office of Clean Energy for budgetary and cost recovery purposes. Each Party agrees that it shall not seek to modify the cost recovery methodology for Phase I of the PSE&G Solar Program for any reason.

Other Issues

80. PSE&G will use its best efforts to develop a solar energy program that provides sufficient incentives and subsidies to low-income, single-family homeowners so that they can benefit from participation. The Company will work with Rate Counsel, BPU Staff, private nonprofit organizations such as New Jersey Shares, and others to develop this Program, and present it to the Parties and the Board within one year after Board approval of this Solar Energy Program.
81. The Parties agree that the Settlement is being entered into exclusively for the purpose of resolving the issues in this matter.
82. The Parties agree that this Settlement was negotiated and agreed to in its entirety with each section being mutually dependent on approval of all other sections. Therefore, if the Board modifies any of the terms of the Settlement, each Party is given the option, before implementation of any different terms in this case, to accept the change or to resume the proceeding as if no agreement had been reached. If these proceedings are resumed, each Party is given the right to return to the position it was in before the Settlement was executed.
83. The Parties agree that the Settlement has been made exclusively for the purpose of this proceeding and that the Settlement, in total or by specific item, is in no way binding upon them in any other proceeding, except to enforce the terms of the Settlement.
84. Nothing in the Settlement of this Program is intended in any way to bind any determination made by the DOBI.
85. PSE&G will fully comply with all requirements and determinations of the DOBI.

COMMENTS OF OTHER PARTIES

On March 21, 2008, JCP&L filed a letter with the Board stating that JCP&L would not be signing the Settlement and takes no position in support of or opposition to the Settlement. Similar letters were filed by RECO and RESA on March 27, 2008.

By letter dated March 24, 2008, NJLEUC submitted comments indicating that it would not sign the Settlement and would not formally support or oppose it. Noting that the parties' settlement efforts had improved upon the solar pilot program originally proposed by PSE&G, which NJLEUC states it would have actively opposed, NJLEUC enumerates the improvements as including: administrative costs to be passed onto ratepayers are capped at a specific dollar amount per year; a reduced return on common equity; a separate mechanism, the SPRC, rather than the SBC, to recoup program costs not otherwise recovered through the SREC auction or other loan payments; ratepayers receive direct monetary benefits from SREC auction proceeds; elimination of "make whole" payments; and clearly labeling the program as a one-time, pilot effort without binding effect. NJLEUC indicates that in light of these improvements, it does not affirmatively oppose the proposed Settlement.

While not affirmatively opposing the proposed Settlement, NJLEUC raises five primary concerns about the proposed Settlement, which it states cause it to not affirmatively support it. NJLEUC takes the position that: 1) the cost of capital (11.11%) and return on equity (9.75%) remain too high for what it refers to as a risk free investment; 2) the allocation of the costs among ratepayer classes on a per-kWh basis is unfair to high load factor customers like its members; 3) interclass subsidies are created due to the 6.5% interest rate for consumer program loans made to residential ratepayers as opposed to the 11.11% interest rate for commercial, industrial, non-profit, and government participants; 4) the proposed Settlement has language which could be construed as an effort to place the pilot program outside the reach of the Board's recently adopted 2% cap on ratepayer subsidies to solar initiatives and the Board should make the proposed Settlement subject to the outcome in the Board's ongoing separate consideration regarding implementation of the cap; and 5) the Board should not view the proposed Settlement in isolation, but in the broader context of the State's evolving energy policies as a whole.

Specifically, NJLEUC argues that the return on equity provided for the pilot program remains too generous. NJLEUC states that the settling parties selected the 9.75% settlement figure because it "is the most recent Return on Equity established by the Board for PSE&G electric in Docket No. ER02050303."⁴ NJLEUC asserts that in a rate case, PSE&G receives nothing more than the opportunity to recover its cost of service; PSE&G assumes the risk of doing business and the rate case return on equity reflects the assumption of that risk. NJLEUC contends that conversely, in the proposed pilot program, PSE&G is generally guaranteed to recover its entire program investment making the investment risk free. NJLEUC requests that the program's return on common equity be reduced to eliminate the risk-related portion of the 9.75% return on equity approved in the last PSE&G electric base rate case. Alternatively, NJLEUC states that if the Board were to eliminate any recovery through the SPRC, then including the risk component in PSE&G's Settlement return on equity would be appropriate.

Additionally, NJLEUC states that it remains concerned with the allocation of the costs among ratepayer classes that underlies the SPRC. As spelled out in the Settlement, the SPRC would spread pilot program costs among ratepayers on a per kWh basis. NJLEUC argues that the program is intended to foster capacity investment and opposes the allocation of capacity related costs on a per kWh basis because it asserts that it is systematically unfair to high load factor customers like its members. NJLEUC maintains that any program costs recovered via the

⁴ Final Order, In the Matter of the Petition of Public Service Electric and Gas Company for Approval of Changes in Electric Rates, for Changes in the Tariff for Electric Service, B.P.U.N.J. No. 14, Electric, Pursuant to N.J.S.A. 48:2-21 & 48:2-21.1; for Changes in its Electric Depreciation Rates Pursuant to N.J.S.A. 48:2-18; and for Other Relief, Docket No. ER02050303 (April 22, 2004).

SPRC should be allocated among rate classes on a coincident peak demand basis, rather than a per kWh basis.

According to NJLEUC, the Settlement as proposed would create a new interclass subsidy to be paid by non-residential ratepayers based on the disparate treatment afforded those who apply for pilot program loans from PSE&G. As proposed, the pilot program would lend to participants from commercial, industrial, non-profit, and governmental sectors at an 11.11% interest rate. For residential participants, PSE&G would charge a 6.5% interest rate. NJLEUC argues that to alleviate this concern, the Board could raise the interest rate for residential participants to 11.11%, lower the interest rate for all program loans to 6.5%, or direct that only residential ratepayers subsidize PSE&G's reduced-rate loans to residential pilot participants.

NJLEUC further argues that language in paragraph 79 that the "pilot program is separate and apart from the renewable energy programs administered by the Office of Clean Energy for budgetary and cost recovery purposes" could be construed as an effort to have the pilot program be outside the reach of the Board's recently adopted 2% cap on ratepayers' subsidies to solar power initiatives. NJLEUC requests that the Board make the proposed Settlement subject to the outcome in the Board's ongoing separate consideration of how to best implement the 2% cap.⁵

NJLEUC also urges the Board to not view the proposed Settlement in isolation, but rather in the broader context of the State's evolving energy policies as a whole. NJLEUC notes that since the filing of the pilot program much has transpired that should be considered in any assessment of the proposed Settlement. NJLEUC believes the wiser course of action would be to hold in abeyance any final action on the proposed Settlement pending greater clarity with respect to other aspects of the State's energy policy debate.

DISCUSSION AND FINDINGS

The Board has carefully reviewed the record in this matter, including the Petition, comments from the public hearings, the Settlement, and the comments submitted by NJLEUC and submissions by the other non-signatories. As discussed below, the Board finds that the Settlement represents a fair and reasonable resolution of this matter and is in the public interest.

In reaching its determination herein, the Board notes that during the pendency of this matter, L. 2007, c. 340 was enacted into law on January 13, 2008. The statute contains provisions relevant to the Regional Greenhouse Gas Initiative, or RGGI, which is a cooperative effort by states to reduce carbon dioxide emissions from power plants in a 10-state region that includes all of New England, New York, Delaware, Maryland, and New Jersey. The statute authorizes the auction or other sale of greenhouse gas emissions allowances; establishes a "Global Warming Solutions Fund" to receive the revenues from the sale of allowances and such other moneys as may be appropriated by the Legislature and designates uses for those revenues; directs the Board to adopt a greenhouse gas emissions portfolio standard or other regulatory mechanism to mitigate leakage; and authorizes participation by the Department of Environmental Protection Commissioner and Board President, or their designees, in agreements or arrangements with representatives of other states. In enacting the statute, the Legislature declared that energy efficiency (EE) and conservation measures and increased use of renewable energy (RE) resources must be essential elements of the State's energy future and that greater reliance on EE, conservation, and RE resources will provide significant benefits

⁵ See n.2 regarding the cap referenced by NJLEUC.

to New Jersey citizens. L. 2007, c. 340, §1; N.J.S.A. 26:2C-45. The Legislature further found that public utility involvement and competition in the RE, conservation and EE industries are essential to maximize efficiencies and the use of RE and the provisions of the statute should be implemented to further competition. Ibid. To that end, the statute provides that an electric or gas public utility may invest in class I RE resources or offer class I RE programs on a regulated basis in accordance with the statute; provides similar authorization with regard to EE and conservation programs; and authorizes program cost recovery as determined by the Board. L. 2007, c. 340, §13(a); N.J.S.A. 48:3-98.1(a). Ratemaking treatment may “include placing appropriate technology and program cost investments in the respective utility’s rate base, or recovering the utility’s technology and program costs through another ratemaking methodology approved by the board, including, but not limited to, the societal benefits charge.” L. 2007 c. 340, §13(b); N.J.S.A. 48:3-98.1(b).

Turning to the proposed Settlement, the Board **FINDS** that the proposed pilot program, by which PSE&G will offer a class I renewable energy program in its service territory on a regulated basis and with ratemaking treatment for certain program costs as set forth in the proposed Settlement through the SPRC, is in accordance with the law as set out by L. 2007 c. 340.⁶ Furthermore, while the Board has carefully considered NJLEUC’s comments regarding the proposed Settlement, the Board **FINDS** that the proposed Settlement represents a fair and reasonable resolution of this matter and is in the public interest. The pilot program whereby PSE&G will provide upfront capital to install up to 30MW of solar capacity for its customers, will further the State’s and this Board’s goals and commitment to foster clean renewable energy in the State. Specifically, pursuant to the Board’s RPS regulations, the State will have 20% of electricity used in the State come from class I renewable energy sources, with 2.120% from solar, in the reporting year ending May 31, 2021. In addition, Governor Corzine’s Executive Order No. 54 and the Global Warming Response Act, L. 2007, c. 112, N.J.S.A. 26:2C-37 et seq., call for reducing New Jersey’s greenhouse gas emissions to a level at or below 1990 levels by 2020, and to a level 80% below 2006 levels by 2050.

NJLEUC requests that the Board view the proposed Settlement as an interlocking part of a long-term energy strategy and await final action on the proposed Settlement pending greater clarity with respect to aspects of the State’s energy policy debate. Although the State’s Energy Master Plan is currently being updated, the Board has sufficient information about the relevant aspects of the State’s energy policy to proceed with final action on the proposed Settlement. Specifically, Executive Order No. 54, the Global Warming Response Act, and L. 2007, c. 340, as well as the Board’s 2006 adoption of the solar renewable portfolio standard through May 31, 2021, which was left unchanged by all of those subsequent actions, already express not only the State’s commitment to reducing greenhouse gas emissions but also its commitment to meeting more of our energy needs through the use of renewable sources, including solar. The Board, therefore, finds that the pilot program, as set forth in the Settlement, is consistent with and will help achieve those commitments. Accordingly, the Board concludes that Board action on the Settlement should not be deferred.

⁶ L. 2007, c. 340 requires the Board to issue an order allowing electric public utilities and gas public utilities to offer EE and conservation programs, to invest in class I RE resources, and to offer class I RE programs in their respective service territories on a regulated basis. The order is to be issued within 120 days of the enactment of L. 2007, c. 340, or by May 12, 2008, and is to thereafter be reflected in regulations. L. 2007, c. 340, §13(c); N.J.S.A. 48:3-98.1(c). Such an order will be forthcoming and will be followed thereafter by a rulemaking. The within Decision and Order is limited to the particular matter and the circumstances presented herein.

As to NJLEUC's comment that language in paragraph 79 of the proposed Settlement that the "pilot program is separate and apart from the renewable energy programs administered by the Office of Clean Energy for budgetary and cost recovery purposes" could be construed as an effort to have the pilot program be outside the reach of the Board's recently adopted 2% cap on ratepayers' subsidies to solar power initiatives, the Board does not read the cited Settlement provision as exempting the pilot program from consideration within the 2% solar cost cap in connection with achieving the solar RPS requirements as set forth in the Board's December 6, 2007 Order, Docket No. EO06100744. The net cost of the SPRC, which is the cost of the SPRC minus the revenues of the SRECs, shall be considered in the ongoing regulatory proposal to implement the 2% solar capping mechanism pursuant to the Board's December 6, 2007 Order, Docket No. EO06100744.

The Board also has considered NJLEUC's other comments on particular terms of the proposed Settlement and pilot program. NJLEUC requested that the program's return on common equity be reduced to eliminate the risk-related portion of the 9.75% return on equity approved in the last PSE&G electric rate case. The Board notes that PSE&G originally requested a return on equity of 11.00%, as well as make whole payments. As reflected in the Settlement, the Company has agreed to a lower ROE, and has agreed to forego its request for any make whole payments associated with the pilot program, to cap the annual administrative costs to be borne by ratepayers, and to bear a portion of the administrative costs. The Board also notes that this is a pilot program for two years, or 30 MW of projects, whichever comes first, and any additional phases will require a petition, public notice and hearing, and Board review and approval. The issue of the appropriate return on equity on any program beyond the initial pilot will be addressed in any such proceeding. Therefore, while the Board has carefully considered NJLEUC's comments with respect to the return on equity, given the entirety of the proposed Settlement, the Board is not persuaded that the proposed Settlement should be modified in this regard for the purposes of the pilot program.

With respect to NJLEUC's concern regarding the allocation of SPRC charges on a per kWh basis, the Board notes that the pilot program provides needed incentives for the installation of solar photovoltaic systems to generate electricity. The benefits of the program are not specific to one rate class, but to PSE&G's service territory as a whole. Additionally, the Board notes that under the terms of the proposed pilot program, the program will have four segments, with the following hard caps in the first year, subject to possible conversion to "soft" caps in the program's second year depending on market conditions and the status of projects accepted into each segment in the initial year: 9 MW (30%) for municipal/ not-for-profit segment, 9 MW (30%) for residential and multi-family/affordable housing segments combined, and 12 MW (40%) for the C&I segment. Thus, while the C&I class as large users may pay more, that segment will constitute a larger part of the program than other customers. The C&I customers will benefit proportionately more by any reduction in usage due to solar, both on a peak and annual basis. Therefore, the Board finds the Settlement's allocation of the pilot program costs on a per kWh basis to be reasonable.

The Board also has considered NJLEUC's concern regarding the potential interclass subsidies created by the 6.5% interest rate for consumer program loans made to residential ratepayers as opposed to the 11.11% interest rate for commercial, industrial, non-profit, and government participants. With regard to the installation of solar photovoltaic systems, the market barrier largely is with the residential segment. To reduce that barrier, the Board finds acceptable the Settlement's proposed differential in the incentive. Furthermore, in assessing the reasonableness of the cost recovery, this particular individual pilot program cannot be viewed in

isolation. Different market barriers for different programs must be considered. Also to be considered is that all ratepayers will benefit on the whole from an increase in solar generation.

In addition to having considered NJLEUC's comments, the Board has carefully considered other aspects of the proposed Settlement's cost recovery mechanism. While there will not be a change to the SPRC at this time, and hence there will be no immediate change in customers' electricity distribution bills, the Board has considered whether the proposed cost recovery mechanism will result in rates which are unjust or unreasonable. The Settlement attempts to mitigate future rate impacts by requiring PSE&G to recover only 50% of the annual grand total amounts of administrative costs through the SPRC and to cap the recovery of these costs through the SPRC in any year. Although the exact amounts of any increase and the subsequent impact on customers cannot precisely be quantified and known at this time due to variations that may occur, including the number of loans issued and the value of SRECs sold by PSE&G and credited to the SPRC, the Board is satisfied that the cost recovery mechanism proposed is reasonable and should not cause rates to be unjust or unreasonable.

Accordingly, the Board **HEREBY ADOPTS** and **APPROVES** the attached Settlement as its own, and incorporates its provisions herein, as if they were fully set forth herein, effective on the date of this Decision and Order. PSE&G is **HEREBY DIRECTED** to file the appropriate tariff sheets conforming to the terms and conditions of this Decision and Order within ten (10) business days from the date of this Decision and Order.

In issuing this Decision and Order, the Board reiterates its commitment to the market structure created in its December 6, 2007 Decision and Order Regarding Solar Electric Generation in In the Matter of the Renewable Energy Portfolio Standards-Alternative Compliance Payments and Solar Alternative Compliance Payments, Docket No. EO06100744. The implementation of the PSE&G solar loan program, particularly the disposition of program SRECs, should be undertaken, to the extent possible, so as to minimize the impact, if any, on the non-pilot program SREC market. The Settlement provides for PSE&G to report data regarding the pilot program on a semi-annual basis to Board Staff with copies to Rate Counsel. In reviewing the data, the Board reserves its right to initiate an audit of the pilot program at any time it deems appropriate to determine whether the program is consistent with this Decision and Order and the Settlement and is achieving its intended objectives, as well as any relevant objectives set forth in the forthcoming Energy Master Plan.

This Decision and Order and the Board's approval herein is conditioned, as is the Settlement pursuant to paragraph 85, upon PSE&G conducting the solar program in full compliance with any and all requirements and determinations of the New Jersey Department of Banking and Insurance as may be applicable. Nothing in this Decision and Order adopting and approving the Settlement is intended in any way to bind any determination by the New Jersey Department of Banking and Insurance. The Board **HEREBY ORDERS** PSE&G to report back to the Board and all parties within 30 days regarding the status of the New Jersey Department of Banking and Insurance's determination per paragraph 53 of the Settlement and to provide copies to the Board and all parties of all determinations and decisions by the New Jersey Department of Banking and Insurance with respect to PSE&G's Solar Program. If PSE&G is unable to obtain either an exemption from New Jersey Department of Banking and Insurance licensure or a declaratory ruling that its proposed treatment of the equal monthly payment requirement is acceptable, and the Call Option does not constitute a prepayment penalty, PSE&G shall, within 60 days of the date of this Order, meet to discuss with the other parties suitable alternatives for the residential segment or to discuss the status of any requests that remain pending at the New Jersey Department of Banking and Insurance and report back to the Board and obtain any

Board approvals which may be necessary. In addition, PSE&G shall file for such Board approval as may be required by law of the service agreements between PSE&G and the subsidiary should PSE&G be required to form a subsidiary.

DATED: 4/16/08

BOARD OF PUBLIC UTILITIES
BY:

Jeanne M. Fox
JEANNE M. FOX
PRESIDENT

Frederick F. Butler
FREDERICK F. BUTLER
COMMISSIONER

Joseph L. Fiordaliso
JOSEPH L. FIORDALISO
COMMISSIONER

Nicholas Asselta
NICHOLAS ASSELTA
COMMISSIONER

ATTEST:

Kristi Izzo
KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities

Kristi Izzo

Frances I. Sundheim
Vice President and Corporate Rate Counsel

Public Service Electric and Gas Company
80 Park Plaza - T8C, Newark, New Jersey 07102-4194
973-430-6298 fax: 973-648-0838
email: frances.sundheim@pseg.com



March 19, 2008

**In The Matter Of The Petition Of
Public Service Electric And Gas Company
For Approval Of A Solar Energy Program And An
Associated Cost Recovery Mechanism**

BPU Docket No. EO07040278

Kristi Izzo, Secretary
Office of the Secretary
Board of Public Utilities
Two Gateway Center
Newark, New Jersey 07102

Dear Secretary Izzo:

Enclosed for filing are the original and ten copies of the Settlement in the above-referenced matter which has been signed by Public Service Electric and Gas Company, the Division of Rate Counsel, and the Office of the Attorney General on behalf of the Board of Public Utilities' Staff. It is our understanding that other parties may either sign the document or send in letters by March 24, 2008. Any signature pages received here at PSE&G will be forwarded to the BPU for inclusion in the settlement document.

Respectfully submitted,

*Original Signed by
Frances I. Sundheim, Esq.*

C Attached Service List

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION)
OF PUBLIC SERVICE ELECTRIC AND) SETTLEMENT
GAS COMPANY FOR APPROVAL OF A SOLAR)
ENERGY PROGRAM AND AN ENERGY) BPU Docket No. EO07040278
PROGRAM AND AN ASSOCIATED COST)
RECOVERY MECHANISM)

On April 19, 2007, Public Service Electric and Gas Company (PSE&G or Company) filed a Petition with the Board of Public Utilities (Board or BPU) seeking approval of an innovative solar energy initiative. Under this initiative, PSE&G proposed to implement a solar photovoltaic (PV) program (the "Program") across all customer classes within its electric service territory, with segments for residential, residential low-income, municipal/public entities, and commercial/industrial (C&I) and not-for-profit customers. The Company also proposed a comprehensive cost recovery mechanism.

On June 1, 2007, PSE&G filed the direct testimony of three witnesses in support of the Program and updated the proposed cost recovery mechanism. On May 31, 2007, the Board conducted an initial conference. On July 12, 2007 the Board held a prehearing conference establishing a procedural schedule. On August 1, 2007, the Board issued an order granting the following entities' motions to intervene: the Mid-Atlantic Solar Energy Industries Association (MSEIA); the New Jersey Large Energy Users Coalition (NJLEUC); New Jersey Natural Gas Company (NJNG); the Retail Energy Supply Association (RESA), Rockland Electric Company (RECO), South Jersey Gas Company (SJG) and Jersey Central Power and Light Company (as a participant)(JCP&L). MSEIA, NJLEUC, NJNG, RESA, RECO, SJG, JCP&L, BPU Staff, the

Department of the Public Advocate, Division of Rate Counsel (Rate Counsel), and PSE&G are hereinafter collectively referred to as the "Parties" or individually as a "Party."

During the summer of 2007, PSE&G conducted a series of public stakeholder working group meetings. A variety of interested stakeholders participated and provided feedback and suggestions for modifications to the proposed Program.

On August 31, 2007, PSE&G published notices of public hearings on its proposal. The Board held public hearings on September 24 (New Brunswick), September 25 (Hackensack), September 26 (Newark), and September 27 (Mount Holly) to solicit comments from members of the public on PSE&G's proposal. Several members of the public appeared and provided comments.

On September 21, 2007 intervenors Rate Counsel and MSEIA filed their direct testimony. On October 26, 2007 PSE&G filed its rebuttal testimony. On November 30, 2007 Rate Counsel filed surrebuttal testimony. Thereafter, the stakeholders, intervenors, and BPU Staff held settlement conferences and negotiations concerning this matter.

On January 13, 2008, P.L. 2007, Ch. 340 was enacted into law.

NOW, THEREFORE, THE UNDERSIGNED PARTIES AGREE AS FOLLOWS:

1. The Parties agree that PSE&G shall implement the Program as described and set forth in this Settlement Agreement (Settlement) and the referenced attachments. Therefore, the Parties request that the Board issue an Order approving this Settlement without modification.

This Settlement has been made exclusively for the purpose of this pilot and that this Settlement, in total or by specific item, is in no way binding in any other proceeding, except to enforce the terms of the Settlement of this pilot.

Program Description

2. The Program is a distributed photovoltaic solar initiative in which solar photovoltaic systems will be installed on customers' premises "behind the meter," using PSE&G as an essential source of capital. The Program is intended to reduce the overall cost of project development, installation, financing and maintenance, while providing the best solar energy value for all stakeholders.

3. The Program is for a 30 megawatt (MW) Phase 1, designed to fulfill approximately one-half of the Board's estimated 57 MW Renewable Portfolio Standard (RPS) requirements for load served in the PSE&G service territory during the energy years 2009 and 2010. The Company has not proposed additional phases of the Program at this time. Any additional phases shall require a Petition, Public Notice, Public Hearings and Board approval.

4. PSE&G will provide loans to solar photovoltaic developers or customers for a portion of a project's cost. The Project Owner will repay the loan over a 15-year period by providing Solar Renewable Energy Certificates (SRECs) (or an equivalent amount of cash) to PSE&G. For consumer loans the repayment period will be 10 years.

5. The Program will be open for applications for 2 years from the date of Board approval. Projects will be accepted on a first-come, first served basis until 30 MW of projects have been developed or 2 years pass, whichever comes first.

6. There will be a cap of 25% on any single developer/customer of the total Program amount (i.e., 30MW). In addition, there will be a cap on any single developer/customer of 25% (of the total segment size) within any one segment. The caps will apply to all affiliated entities (e.g., if developer "A" has an affiliate "B", A and B together may not exceed 25% of any segment or 25% of the total 30 MW Program).

7. For the first year of the Program there will be hard caps of 9 MW (30%) for the Municipal/Not-for Profit segment, 9 MW (30%) for the Residential segment and the Multi-Family/Affordable Housing segment combined, and 12MW (40%) for the C&I segment. Based on market conditions and the status of projects accepted into each segment during the initial year, PSE&G reserves the right to convert these percentages into "soft" caps starting in the second year of the Program.

8. The Program will have soft caps of 6MW (20%) of the total 30 MW block for the Residential segment, and 3MW (10%) for the Multi-family/Affordable Housing segment.

9. Program Rules – PSE&G will administer the Program following the "Program Rules and Application Process," a copy of which is attached hereto as Attachment A.

Generic Program Issues

10. The Program will have four segments – Commercial & Industrial (C&I), Residential, Multi-family/Affordable Housing, and Municipal/Not-For-Profit.

11. PSE&G will provide loans to solar photovoltaic system developers, large commercial or industrial customers, or other qualifying entities, and directly to residential customers to assist in the financing of qualified solar photovoltaic systems.

12. The PSE&G loans will provide financing for part of the expected project cost; an equity partner or the customer would provide the remaining financing.

13. Standard Loan and Security Agreements developed by PSE&G, accepted by the Parties, and filed with the BPU will be used for the Program. Any terms used in this settlement agreement relating to terms contained in the loan documents will be fully defined in those documents and such definitions shall apply herein.

14. Commitments for approved loans will be issued via letter within 15 days of the receipt of the following:

- a. All required documentation and information
- b. Credit approval
- c. NJ Interconnection Application Net Metering Systems Approval
- d. System output meter request approval.

15. The borrower will fully repay the loans made by the Company by providing PSE&G with Solar Renewable Energy Certificates (SRECs) or cash, to repay principal and interest.

16. For any cash loan payments it receives, PSE&G will use the cash to repay the loan, thereby reducing revenue requirements through a credit to the Solar Pilot Recovery Charge (SPRC). In addition, if the borrower elects to sell the SRECs to a third party rather than using them to repay the loan, the borrower must notify the lender in writing of his/her intent to sell SRECs to that third party, and shall include in that written notification the quantity of SRECs to be sold and the price for such quantity of SRECs. In addition, the borrower must utilize the entire sale price paid by that third party first towards the payment of all accrued interest on the loan; then the remainder of the sale price will be applied to the loan principal in the month the borrower receives the proceeds of the sale to a third party.

17. The SRECs, for purposes of this Program, will have an established floor value, which will be \$475, for the loan repayment period. For purposes of loan repayment, the SREC market value (Market Value) means the average monthly cumulative weighted price of SRECs as published on the New Jersey Clean Energy Program (NJCEP) website bulletin board during the calendar month preceding the month of repayment of the current balance due on the loan and accrued interest. If no price is published on the website for the relevant month, the Market Value will be the average of quotes received from three independent brokers. The higher of the \$475 floor price or the Market Value at the time the SREC is transferred to PSE&G will be applied toward loan repayment.

18. If the Market Value of the SRECs is above the floor price, the loan may be repaid sooner than its 10 or 15-year term.

19. If loans are paid off early, PSE&G retains the right to purchase SRECs through a call option. The call option price is 75% of the then current Market Value of SRECs. The Parties agree that the call option provides benefits to rate-payers after the loan has been repaid. The price will be determined at the time the Company seeks to exercise the call option.

20. If the call option is used, the SRECs purchased via the call option will be disposed of in the same manner as other Program SRECs. PSE&G will calculate the net proceeds (as that term is defined in Paragraph 45 of this Settlement) realized from the purchase and sale of the SRECs pursuant to the call option, and credit the net proceeds from the sale to the SPRC upon receipt of the proceeds, to offset the revenue requirements of the Program.

21. Customers will either: (a) own the solar PV system and receive the benefit of the solar power directly; or (b) enter into an agreement ("Customer Agreement") with the owner/developer to purchase the energy at a negotiated rate.

22. The Board's net metering rules will apply to any excess electricity delivered to the PSE&G distribution system.

23. Customers host and potentially own the system. In some cases, the systems will be owned by an equity partner that can take advantage of the Federal Investment Tax Credit (ITC).

24. All PV system installations will be sized to meet no more than the customer's annual electric usage.

25. All systems must; (1) be eligible for net metering, pursuant to the BPU's net metering regulations and under the terms and conditions of PSE&G's Tariff, (2) create SRECs, and (3) be located in PSE&G's electric distribution service territory.

26. All projects will be metered and must register with the BPU's SREC administrator.

27. PSE&G will provide financing to the Project Owner in the form of a loan secured, at a minimum, by the project equipment and related agreements. There will be a loan agreement between PSE&G and the Project Owner that addresses the conditions pursuant to which the financing is made, including repayment, security/collateral, and maintenance on the project.

28. Borrowers will repay the loan by providing PSE&G with all of the project's SRECs (or cash) over a term of 15 years (10 years for consumer loans) or until the loan is repaid in full. After the loan obligation has been fully repaid, the system owner will retain title to the SRECs; however, if the loan is repaid prior to the 15-year term (10 years for consumer loans), PSE&G will

have the option to call on the SRECs produced by the project at a pre-determined price (as described in Paragraph 19), over the remaining time left in the original loan term (but not thereafter).

29. PSE&G will not provide loans for construction purposes. PSE&G will close the loan and make payment within 30 days after all Program requirements are satisfied. PSE&G has no legal or financial obligation regarding the customer/homeowner contract with the solar developer for the project.

30. The project developer, if different than the customer, will enter into an agreement with the customer regarding the electricity the solar PV system produces.

31. PSE&G will not offer billing services for any power purchase agreements (PPAs) between solar developers/installers and customers in any segment during this phase of the Program.

32. PVWATTS¹ assumes that the overall DC to AC default value of 0.77 will provide a reasonable estimate for modeling the energy production. However, the derate factor can be modified by either inputting another overall value or by modifying the component defaults to calculate an installation specific derate factor. PSE&G's Program will require that the calculated system output must meet the Office of Clean Energy's standards, which currently require that the calculated system output be at least 80% of the default output calculated by PVWATTS and that the calculated output of all series strings of modules must be at least 70% of the default output for each string calculated by PVWATTS.

33. PSE&G will require that all developers/system owners provide proof that the installed system has passed the Board's Office of Clean Energy's (OCE) CORE Program inspection.

¹ PVWATTS calculates electrical energy by a photovoltaic (PV) system. PVWATTS was developed by researchers at the National Renewable Energy Laboratory

34. PSE&G will close the loan and make payment within 30 days after all Program requirements are satisfied.

35. Metering and related issues.

- a. All projects will have a separate meter, installed at the customer's expense, to measure solar system output. PSE&G will install, own, and read (or telemeter) the meter (there may be exceptions under unusual circumstances, which will be dealt with on a case-specific basis). The currently estimated installed cost of a watthour meter is \$195 plus tax. If a remote meter reading device is required, the currently estimated cost is an additional \$110 plus tax, and a monthly fee of \$1.00 for single phase service; the currently estimated cost is an additional \$190 plus tax and a monthly fee of \$2.00 for three-phase service. PSE&G will charge the actual, current costs for these items at the time they are installed. For ratemaking purposes, PSE&G will treat the cost of the meter as a contribution in aid of construction. The BPU's regulations concerning electric meters will apply to all PSE&G-owned meters.
- b. PSE&G will provide system output data to the system owner or borrower (i.e., the entity responsible for providing SRECs for loan repayment). The method and format of the data flow are in development.
- c. Under PSE&G's revised metering proposal no electronic communications will be necessary for all residential and non-hourly metered commercial customers. Hourly customers have existing interval meters with communications and the solar system meter will also have communications

installed. Remote meter reading devices will be required for customers that currently have their meters read remotely and for those projects for which PSE&G determines that remote meter reading is necessary. PSE&G will be responsible for telephone line maintenance over the life of the loan. PSE&G will work with the developer and customer to find a reliable and cost effective metering solution. The first 100 feet of communications wire will be provided at no charge (except for atypical conditions). The developer is responsible for any additional cost (i.e., for installations over 100 feet and/or atypical conditions).

36. A true up of the loan payment/amount, as described in more detail in the loan documents, will be calculated annually based on the system's energy year. In addition, PSE&G will provide periodic, but at least quarterly amortization statements to borrowers that will include but not be limited to the amount paid in cash and SRECs, the amount due, and the cumulative difference.

37. PSE&G will attempt to resolve disputes with its customers informally in the first instance. The Parties agree that consumers under any segment within the Program reserve all legal rights and remedies involving disputes concerning the loan agreement and/or monetary claims or civil damages. Disputes under any customer segment within the Program that involve the loan agreement and/or monetary claims or civil damages will be resolved in an appropriate court of law. Disputes that involve PSE&G's administration of the Program that cannot be resolved informally will be resolved through the BPU's existing process for customer complaints within the appropriate BPU Division.

38. Solar shingles, as well as any other building-integrated solar technology that becomes part of the building structure and therefore cannot be used as collateral for a personal property loan, will not be eligible in this phase of the PSE&G Solar Program.

39. Removal of the solar system is the last option for a loan that goes into default. If it is necessary to remove the solar system, PSE&G will sell the collateral and credit the net proceeds against the regulatory asset (i.e., the regulatory asset that PSE&G is recovering through the Solar Pilot Recovery Charge). Contemporaneous with the removal of the solar equipment, PSE&G will stabilize the section of the roof affected by the equipment removal to prevent leakage. Within seven days of equipment removal, PSE&G will restore the roof of the property in a workman like fashion to ensure that the stabilized area of the roof reflects the general condition of the portions of the roof not affected by the equipment removal.

40. In situations where a solar project is installed on a site where the borrower is someone other than the site owner, the owner (host site) must consent to the project being installed on their property. Where the project is being developed, constructed and owned by the developer, this agreement can be incorporated into the installation agreement between the developer and the customer. In instances where the host site is leased from a party who is not part of the installation, a suitable form of consent must be supplied.

41. Customers may choose a developer to work with or, may apply to the Program directly. PSE&G will not develop a separate listing of qualified developers for the Program, but will refer customers to the OCE list of solar distributors and installers as an information source to assist consumers in finding solar vendors and making informed choices. PSE&G will link its customer information materials directly to the vendor listing provided by the OCE. Since the

OCE listing is not intended to be an all-inclusive list of qualified renewable energy systems installers, it will not be necessary for a renewable energy system installer to appear on this list in order for a system purchaser to qualify for a PSE&G solar Program loan. However, all systems will be required to pass the Office of Clean Energy's inspection process.

42. PSE&G will require that the borrower confirm that the system will be maintained in good operating condition by providing one of the following:

1. Copy of executed Maintenance Agreement;
2. Copy of Extended Warranty; or
3. Statement from borrower that the system will be self-maintained.

PSE&G will retain the right to monitor system performance and, in the event of a decline in system output, may require that the borrower perform corrective action.

43. The Parties acknowledge that PSE&G makes no representations concerning any federal or state tax consequences that may result from participation in the Program. Moreover, the Parties agree that nothing in this Settlement or in any of PSE&G's filings with the BPU in this matter shall be construed as containing advice concerning federal or state tax matters. PSE&G encourages all potential participants in the Program to seek advice from their own tax advisor on any federal or state tax consequences that may result from participation in the Program.

44. PSE&G agrees to report data regarding the Program to BPU Staff with copies to the Division of Rate Counsel, on a semi-annual basis for statistical purposes. Such reports shall include the following information:

- The number of defaults by each segment that have occurred to date.
- The number of removals by each segment that have occurred to date.
- Monthly revenues from the sales of SRECs in the market.

- The number of loans by each segment initiated monthly.
- The number of consumer disputes and the nature of each dispute occurring monthly
- The number of solar projects by segment that were denied loans based on 1. Credit Scores; 2. liens on property; 3. bankruptcy; 4. PSE&G's bill payment standings; 5. other
- % of 30 MW by segment that have been installed and provided loans to date.
- The dollar amount of loans for each segment to date.
- The monthly revenues from cash payments for each segment to date.
- Prices realized for SRECs sold through the auction.
- Number of SRECs transferred to PSE&G and number of SRECs sold.

45. Instead of PSE&G allocating all SRECs it receives pursuant to the Program to Load Serving Entities (LSEs) as proposed in the Petition, the Parties agree that there should be periodic auctions of the Program's SRECs. Thus, the Program's SRECs will be sold in the open market by a third-party auction expert at least annually. PSE&G will credit the net proceeds of all Program SRECs sold to the SPRC, to offset the revenue requirements of the Program. For the purpose of this paragraph, "net proceeds" of the Program SRECs sold means the value realized from the sale less all transaction costs. If the SREC is acquired through exercising the call option, the cost to purchase the SREC is a component of the transaction cost. The Parties further agree to form a group, which began meeting in February 2008, to develop the auction details by working with the auction experts to develop an auction mechanism. A compliance filing detailing this process will be filed with the Board Secretary upon completion of this process. Please see the Attachment B to this Settlement, which provides initial process parameters for the Program's SREC auction process.

Customer Segment Details

Residential Segment (20%) – 6MW

46. A customer/owner will learn about the Program through PSE&G or directly from a solar developer.

47. The developer/contractor will work with the customer to design a suitable solar system application.

48. Upon finalization of the solar system design, it is input into PV WATTS to determine system performance characteristics.

49. Customer/owner applies to the PSE&G Program with application information, including PVWATTS performance characteristics.

50. The customer/owner may also apply for applicable rebates, other subsidies and tax credits, as appropriate.

51. Upon application approval, and obtaining other necessary capital the developer/contractor procures and implements installation.

52. The Board of Public Utilities will establish the rebate level available for 2009 residential solar installations under the Clean Energy Program. No set asides have been provided for the PSE&G Program. Developers/residential customers may apply for OCE rebates in the normal course of their sales to residential customers. Participation in the PSE&G Program will not impact eligibility for the Office of Clean Energy's rebate Program, subject to future decisions by the BPU.

53. PSE&G Initial Responsibilities Regarding Residential Segment

- i. PSE&G will form a subsidiary (subject to the caveat in subsection 53 iii. below) company to provide loans for residential, C&I, municipal, and affordable multi-family projects for the PSE&G Solar Energy Program. The PSE&G subsidiary will originate and close all loans under the Program.
- ii. The PSE&G subsidiary would be structured as a Delaware limited liability company.
- iii. Counsel for PSE&G has determined that in order to receive a timely determination from the New Jersey Department of Banking and Insurance ("DOBI") it is necessary to have a Board approved program. Once the BPU has approved the Solar Program, PSE&G will apply to the DOBI to determine if an exemption would be appropriate for consumer lending under the terms of the Board approved Program. PSE&G (either directly or through the subsidiary) will perform all aspects and responsibilities of the Solar Loan Program, including compliance with all applicable regulations with respect to consumer lending in New Jersey, Truth in Lending and Plain Language requirements, including any and all requirements and determinations of the DOBI. . If PSE&G applies for and receives a finding from DOBI that the Solar Loan Program does not constitute a Consumer Loan, PSE&G would not form a subsidiary. If PSE&G is unable to obtain either an exemption from DOBI licensure or a declaratory ruling that its proposed treatment of the equal monthly payment requirement is acceptable, and the Call Option does not constitute a prepayment penalty, the Company agrees to discuss with the other Parties suitable alternatives for the Residential Segment.
- iv. The subsidiary will be the entity that utilizes the capital provided by PSE&G to issue the loans under the Program.
- v. Section 17:11C-16 of the banking regulations requires that an applicant for a consumer lending license have a net worth of at least \$100,000 and liquid assets of at least \$100,000 to make loans.
- vi. The subsidiary will have no employees. There will be service agreements between PSE&G and the subsidiary in connection with the administration of the loan Program.
- vii. The limited liability structure of the PSE&G subsidiary should ensure that there are no adverse New Jersey State or federal tax consequences.

54. Loan Particulars – Residential Segment

- i. Term of Loan - 10 years
- ii. Interest Rate on Loans to Residential Borrowers – 6.5%

- iii. Repayment – Cash or SRECs generated by solar system during the loan term. For purposes of repayment of the loan, SRECs will be valued at the SREC Floor Price of \$475 or the market price if higher.
- iv. Collateral security for the loan will be the project equipment.
- v. Amount loaned for a project will be dictated by the installed cost per watt, the loan amortization period and the interest rate on the loan. Assuming a 10-year loan at 6.5% and an installed cost of \$6.50 per watt, the loan would be about 50% of the project cost.
- vi. If the loan is paid off early, PSE&G subsidiary will retain the call option through the end of the 10th year.
- vii. At the end of the 10 year loan period, the owner will have all rights to the remaining 5 years of SREC qualification life.
- viii. A PSE&G meter will measure system output and will be installed at the customer's expense.
- ix. Commitments for loans will be issued via letter within 15 days of the receipt of the following:
 - 1. All required documentation and information;
 - 2. Credit approval;
 - 3. Interconnection application; and
 - 4. Net metering application and system output meter request approval.

55. Credit Criteria to be used for residential customers in lending decision

- i. Applicant must submit to a credit check.
- ii. Residential customers must have an Experian FICO score of at least 720. Minimum credit score must be maintained between approval and loan closing.
- iii. Customer must be in good standing with respect to payment of energy bills (PSE&G bill payment credit assessment code of 1 or 2)
 - 1. Score of 1 means pays promptly, no delinquency
 - 2. Score of 2 means fewer than 6 delinquencies in past 12 months or delinquent less than ½ of months a customer and no notice.
- iv. There must be no liens, other than mortgages or home equity loans, on the property where the solar equipment will be installed, so that PSE&G will have a first lien on the solar equipment.
- v. Customer will be asked to disclose the existence of any liens in the application process.
- vi. A search for liens will be conducted immediately prior to closing.
- vii. No bankruptcy filing within the last three years.
- viii. PSE&G will collect the information necessary to determine the number of residential Program applicants rejected due to credit score, PSE&G bill payment credit assessment, or other credit reasons specified. Credit scores and bill payment credit assessment codes will be tracked to determine whether a different credit screen should be used. Low Income Home Energy

Assistance Program (LIHEAP) recipients' credit acceptance/rejection information will be tracked separately. This information will be included in PSE&G's reporting data referenced in paragraph 44 of this Settlement.

56. The Parties agree to form a separate group to develop appropriate education materials for distribution to residential customers participating in the Program. For example, this group will develop a number of Frequently Asked Questions and answers and PSE&G will provide them to residential loan applicants. The Parties will work with Rate Counsel's consultants to produce Program Documents for a compliance filing to be made to the Board Secretary upon completion of this process.

57. The Parties agree to form a separate group to work with Rate Counsel's experts and Board Staff to develop appropriate residential loan documents for use in this Program. Upon completion of this process, a compliance filing will be made with the Board Secretary of the agreed upon Program residential loan documents. In addition, this group will help to develop a Terms and Conditions sheet that will explain in plain language the residential customer's rights, obligations, and liabilities in the event of a default, sale of the customer's home, solar energy system failure, assumption of the loan by PSE&G, disposition of the SRECs, etc. PSE&G will provide the Term and Conditions sheet to residential Program applicants.

C&I Segment (40%) – 12MW

58. The project owner is a solar developer or customer.

59. For projects in which a developer is involved, the host customer receives the energy through an agreement with the developer.

60. If the customer is the project owner, it will own the system and receive the solar energy directly, under the Board's net metering rules.

61. The loan interest rate for the C&I segment will be 11.11%

62. If the loan is paid off early, PSE&G (or its subsidiary) will retain the call option through the end of the 15th year.

Multi-family/Affordable Housing Segment (10%) – 3MW

63. The Multi-family/Affordable Housing segment will target existing multi-family, new construction and single family homes.

64. PSE&G will originate loans for the Multi-Family/Affordable Housing segment based on income guidelines established in the NJHMFA funding programs for multi-family affordable housing projects. NJHMFA's multi-family affordable housing income limits vary based on household size and housing type. The most recent data available from the NJHMFA is presented in the following chart.

2006 NEW JERSEY INCOME LIMITS

COUNTIES	INCOME	INCOME LIMIT %	Studio	1 bedroom	2 bedroom		3 bedroom		4 bedroom			7.5 PERSON	8 PERSON
			1 PERSON	1.5 PERSON	2 PERSON	3 PERSON	4 PERSON	4.5 PERSON	5 PERSON	6 PERSON	7 PERSON		
ATLANTIC	\$45,100	50%	\$22,550	\$24,150	\$25,750	\$29,000	\$32,200	\$33,500	\$34,800	\$37,350	\$39,950	\$41,225	\$42,500
	\$45,100	60%	\$27,060	\$28,980	\$30,900	\$34,800	\$38,640	\$40,200	\$41,760	\$44,820	\$47,940	\$49,470	\$51,000
	\$45,100	100%	\$45,100	\$48,300	\$51,500	\$58,000	\$64,400	\$67,000	\$69,600	\$74,700	\$79,900	\$82,450	\$85,000
BERGEN PASSAIC	\$61,300	50%	\$30,650	\$32,825	\$35,000	\$39,400	\$43,750	\$45,500	\$47,250	\$50,750	\$54,250	\$56,000	\$57,750
	\$61,300	60%	\$36,780	\$39,390	\$42,000	\$47,280	\$52,500	\$54,600	\$56,700	\$60,900	\$65,100	\$67,200	\$69,300
	\$61,300	100%	\$61,300	\$65,650	\$70,000	\$78,800	\$87,500	\$91,000	\$94,500	\$101,500	\$108,500	\$112,000	\$115,500
HUDSON	\$44,900	50%	\$22,450	\$24,050	\$25,650	\$28,850	\$32,050	\$33,325	\$34,600	\$37,200	\$39,750	\$41,025	\$42,300
	\$44,900	60%	\$26,940	\$28,860	\$30,780	\$34,620	\$38,460	\$39,990	\$41,520	\$44,640	\$47,700	\$49,230	\$50,760
	\$44,900	100%	\$44,900	\$48,100	\$51,300	\$57,700	\$64,100	\$66,650	\$69,200	\$74,400	\$79,500	\$82,050	\$84,600
MIDDLESEX SOMERSET HUNTERDON	\$66,800	50%	\$33,400	\$35,775	\$38,150	\$42,950	\$47,700	\$49,600	\$51,500	\$55,350	\$59,150	\$61,050	\$62,950
	\$66,800	60%	\$40,080	\$42,930	\$45,780	\$51,540	\$57,240	\$59,520	\$61,800	\$66,420	\$70,980	\$73,260	\$75,540
	\$66,800	100%	\$66,800	\$71,550	\$76,300	\$85,900	\$95,400	\$99,200	\$103,000	\$110,700	\$118,300	\$122,100	\$125,900
MONMOUTH OCEAN	\$57,300	50%	\$28,650	\$30,700	\$32,750	\$36,850	\$40,950	\$42,600	\$44,250	\$47,500	\$50,800	\$52,425	\$54,050
	\$57,300	60%	\$34,380	\$36,840	\$39,300	\$44,220	\$49,140	\$51,120	\$53,100	\$57,000	\$60,960	\$62,910	\$64,860
	\$57,300	100%	\$57,300	\$61,400	\$65,500	\$73,700	\$81,900	\$85,200	\$88,500	\$95,000	\$101,600	\$104,850	\$108,100
ESSEX MORRIS SUSSEX UNION	\$59,100	50%	\$29,550	\$31,650	\$33,750	\$38,000	\$42,200	\$43,900	\$45,600	\$48,950	\$52,350	\$54,025	\$55,700
	\$59,100	60%	\$35,460	\$37,980	\$40,500	\$45,600	\$50,640	\$52,680	\$54,720	\$58,740	\$62,820	\$64,830	\$66,840
	\$59,100	100%	\$59,100	\$63,300	\$67,500	\$76,000	\$84,400	\$87,800	\$91,200	\$97,900	\$104,700	\$108,050	\$111,400
BURLINGTON CAMDEN GLOUCESTER SALEM	\$50,500	50%	\$25,250	\$27,050	\$28,850	\$32,450	\$36,050	\$37,500	\$38,950	\$41,800	\$44,700	\$46,150	\$47,600
	\$50,500	60%	\$30,300	\$32,460	\$34,620	\$38,940	\$43,260	\$45,000	\$46,740	\$50,160	\$53,640	\$55,380	\$57,120
	\$50,500	100%	\$50,500	\$54,100	\$57,700	\$64,900	\$72,100	\$75,000	\$77,900	\$83,600	\$89,400	\$92,300	\$95,200
CAPE MAY	\$44,900	50%	\$22,450	\$24,050	\$25,650	\$28,850	\$32,050	\$33,325	\$34,600	\$37,200	\$39,750	\$41,025	\$42,300
	\$44,900	60%	\$26,940	\$28,860	\$30,780	\$34,620	\$38,460	\$39,990	\$41,520	\$44,640	\$47,700	\$49,230	\$50,760
	\$44,900	100%	\$44,900	\$48,100	\$51,300	\$57,700	\$64,100	\$66,650	\$69,200	\$74,400	\$79,500	\$82,050	\$84,600
WARREN	\$57,800	50%	\$28,900	\$30,975	\$33,050	\$37,150	\$41,300	\$42,950	\$44,600	\$47,900	\$51,200	\$52,850	\$54,500
	\$57,800	60%	\$34,680	\$37,170	\$39,660	\$44,580	\$49,560	\$51,540	\$53,520	\$57,480	\$61,440	\$63,420	\$65,400
	\$57,800	100%	\$57,800	\$61,950	\$66,100	\$74,300	\$82,600	\$85,900	\$89,200	\$95,800	\$102,400	\$105,700	\$109,000
MERCER	\$59,800	50%	\$29,900	\$32,025	\$34,150	\$38,450	\$42,700	\$44,400	\$46,100	\$49,550	\$52,950	\$54,650	\$56,350
	\$59,800	60%	\$35,880	\$38,430	\$40,980	\$46,140	\$51,240	\$53,280	\$55,320	\$59,460	\$63,540	\$65,580	\$67,620
	\$59,800	100%	\$59,800	\$64,050	\$68,300	\$76,900	\$85,400	\$88,800	\$92,200	\$99,100	\$105,900	\$109,300	\$112,700
CUMBERLAND	\$39,500	50%	\$19,750	\$21,150	\$22,550	\$25,400	\$28,200	\$29,325	\$30,450	\$32,700	\$34,950	\$36,075	\$37,200
	\$39,500	60%	\$23,700	\$25,380	\$27,060	\$30,480	\$33,840	\$35,190	\$36,540	\$39,240	\$41,940	\$43,290	\$44,640
	\$39,500	100%	\$39,500	\$42,300	\$45,100	\$50,800	\$56,400	\$58,650	\$60,900	\$65,400	\$69,900	\$72,150	\$74,400

Source: U.S. Department of Housing and Urban Development

Effective: 03/08/06

The information contained in this chart was compiled from information derived from the United States Department of Housing and Urban Development and is intended solely as a courtesy to assist applicants in preparation of their application for low income housing tax credits. NJHMFA is not responsible for any errors contained in this chart, typographical or otherwise. Applicants are independently responsible for checking rents which do not exceed the rent restrictions prescribed under federal law for low income housing tax credits, notwithstanding the information contained in this chart.

<http://www.nj.gov/dca/hmfa/biz/dev/multi/application.html>

65. The interest rate for loans in the Multi-family/Affordable Housing segment will be 11.11%.

66. The repayment term will be 15 years.

67. If the loan is paid off early, the PSE&G (or its subsidiary) will retain the call option through the end of the 15th year.

Municipal Segment/Not-for-Profit Segment (30%) – 9MW

68. This segment is similar to the C&I segment

69. PSE&G will provide financing to the project owner, which would likely be an equity partner.

70. The participating municipal entity would benefit from receiving solar electricity that the PV system generates under an agreement with the project owner.

71. The interest rate for loans in the Municipal/Not-for-Profit segment will be 11.11%

72. The repayment term will be 15 years.

73. If the loan is paid off early, the PSE&G (or its subsidiary) will retain the call option through the end of the 15th year.

74. Credit Criteria to be used for all segments other than residential single family:

- i. Applicant must submit to a credit check.
- ii. Commercial/industrial customers must have an Experian Commercial Intelliscore or an Experian Small Business Intelliscore of 70 or higher. Minimum credit score must be maintained between approval and loan closing.
- iii. Customer must be in good standing with respect to payment of energy bills (PSE&G bill payment credit assessment code of 1 or 2)
 - Score of 1 means pays promptly, no delinquency
 - Score of 2 means fewer than 6 delinquencies in past 12 months or delinquent less than ½ of months a customer and no notice.
- iv. There must be no liens on the property where the solar equipment will be installed that will interfere with PSE&G's ability to obtain a first lien on the solar equipment.
- v. Customer will be asked to disclose the existence of any liens in the application process.
- vi. A search for liens will be conducted immediately prior to closing.
- vii. No bankruptcy filing within the last three years.

Cost Recovery and Related Issues

75. The parties agree that PSE&G will recover the net monthly revenue requirements associated with this Program through a new charge of the Company's electric tariff called the SPRC. The SPRC will be a new charge in the Company's electric tariff, applicable to all electric Rate Schedules on an equal cents per kilowatthour. The SPRC rates will not be implemented at this time. PSE&G will defer costs and net monthly revenue requirements it incurs for the Program to the SPRC for future recovery, consistent with the terms of this Settlement Agreement. Interest on the deferred SPRC balance (both on under- and over-recovered balances) will be calculated at the same rate and methodology as PSE&G currently uses for the electric Societal Benefits Charge. PSE&G will implement the SPRC rates through a future filing it will make with the Board. The Parties agree that the SPRC filings shall be filed annually by PSE&G. Each future SPRC filing will include estimated costs to be incurred under the Program in the upcoming period, along with the amortization of any prior period over or under recovery, with the resulting SPRC rate being either positive (a charge to customers), negative (a credit to customers) or zero. Attachment C provides a proposed SPRC tariff sheet showing the SPRC structure with the initial value of the new component set at zero, as well as additional tariff language that will be added to each electric Rate Schedule.

The net monthly revenue requirements would be calculated and deferred as follows:

Net Monthly Revenue Requirements = (Cost of Capital * Net Plant) + Amortization + recoverable Administrative Costs - net proceeds from the sale of SRECs - cash payments received in lieu of SRECs.

The amortization of each loan shall occur when an SREC or a cash payment is received by the Company from the borrower, after deducting accrued interest expense. Any loan amortization accumulated in a month will be booked as Amortization expense to the SPRC. If an SREC is received, the SPRC will be credited when the SREC is sold. If a cash payment is received, the SPRC will be credited in the month that the cash payment is received.

76. The parties agree that the Cost of Capital for this Program is 11.11%, including a return on Common Equity of 9.75%, which is the most recent Return On Equity established by the Board for PSE&G electric in Docket No, ER02050303, and including income tax effects. The resulting monthly Cost of Capital used for calculating the Net Monthly Revenue Requirements is 0.92583%. Net Plant equals the original loan amounts booked less the accumulated amortization through the SPRC. The Amortization is equal to the sum of the amortizations of all of the outstanding loans for each month until the total amount is recovered (Net Plant equals zero). Any cash payments received by PSE&G from the Project Owner for early termination of a contract will be credited against the Net Plant for the specific project. The Company agrees that it will not seek collection of make whole payments (lost revenue) resulting from Phase I of the Solar Program through the SPRC.

77. PSE&G agrees that it shall recover 50% of the administrative costs of the Solar Program through the SPRC, based on the annual grand total amounts set forth in Attachment D. Administrative costs are defined as reasonable and incremental costs incurred by the Company to implement the Program. The maximum administrative cost recovery through the SPRC in any year is \$1.0 million.

78. Because of the changes in the interest rate for residential loans and other changes agreed to in this Settlement, the total amount of PSE&G's loans under this phase of the Program will be approximately \$105 million.

79. The Parties agree that the cost recovery mechanism as set forth in this Settlement Agreement is reasonable. The Parties also agree that PSE&G, as a public utility, will be engaging in and administering the Program as a regulated service. The Parties further agree that the Program is a pilot program that is separate and apart from the renewable energy programs administered by the Office of Clean Energy for budgetary and cost recovery purposes.

Each Party agrees that it shall not seek to modify the cost recovery methodology for Phase I of the PSE&G Solar Program for any reason.

Other Issues

80. PSE&G will use its best efforts to develop a solar energy program that provides sufficient incentives and subsidies to low-income, single-family homeowners so that they can benefit from participation. The Company will work with Rate Counsel, BPU Staff, private nonprofit organizations such as New Jersey Shares, and others to develop this Program, and present it to the Parties and the Board within one year after Board approval of this Solar Energy Program.

81. The Parties agree that this Settlement is being entered into exclusively for the purpose of resolving the issues in this matter.

82. The Parties agree that this Settlement was negotiated and agreed to in its entirety with each section being mutually dependent on approval of all other sections. Therefore, if the

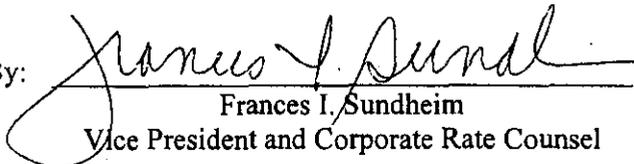
Board modifies any of the terms of this Settlement, each Party is given the option, before implementation of any different terms in this case, to accept the change or to resume the proceeding as if no agreement had been reached. If these proceedings are resumed, each Party is given the right to return to the position it was in before this settlement was executed.

83. The Parties hereby agree that this Settlement has been made exclusively for the purpose of this proceeding and that this Settlement, in total or by specific item, is in no way binding upon them in any other proceeding, except to enforce the terms of this Settlement.

84. Nothing in the Settlement of this Program is intended in any way to bind any determination made by the DOBI.

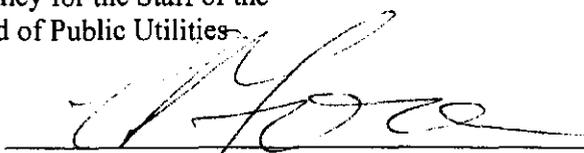
85. PSE&G will fully comply with all requirements and determinations of the DOBI.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

By: 
Frances I. Sundheim
Vice President and Corporate Rate Counsel

DATED: _____

ANNE MILGRAM
ATTORNEY GENERAL OF NEW JERSEY
Attorney for the Staff of the
Board of Public Utilities

By: 
Alex Moreau
Deputy Attorney General

DATED: 03/18/05

RONALD K. CHEN
PUBLIC ADVOCATE OF NEW JERSEY
STEFANIE A. BRAND, DIRECTOR
DIVISION OF RATE COUNSEL

By: Stefanie A. Brand
Stefanie A. Brand, Director

DATED: 3/18/08

MID-ATLANTIC SOLAR ENERGY INDUSTRIES ASSOCIATION

By: _____
Susan P. LeGros, Esq.
Executive Director

DATED: _____

RETAIL ENERGY SUPPLY ASSOCIATION

By: _____

DATED: _____

NEW JERSEY NATURAL GAS COMPANY

By: _____

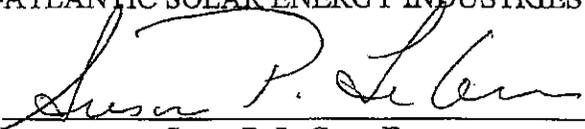
DATED: _____

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PUBLIC ADVOCATE OF NEW JERSEY
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DIVISION OF RATE COUNSEL

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Stefanie A. Brand, Director

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MID-ATLANTIC SOLAR ENERGY INDUSTRIES ASSOCIATION

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Susan P. LeGros, Esq.
Executive Director

DATED: 3/24/08

RETAIL ENERGY SUPPLY ASSOCIATION

By: _____

DATED: _____

NEW JERSEY NATURAL GAS COMPANY

By: _____

DATED: _____

RONALD K. CHEN
PUBLIC ADVOCATE OF NEW JERSEY
STEFANIE A. BRAND, DIRECTOR
DIVISION OF RATE COUNSEL

By: _____
Stefanie A. Brand, Director

DATED: _____

MID-ATLANTIC SOLAR ENERGY INDUSTRIES ASSOCIATION

By: _____
Susan P. LeGros, Esq.
Executive Director

DATED: _____

RETAIL ENERGY SUPPLY ASSOCIATION

By: _____

DATED: _____

NEW JERSEY NATURAL GAS COMPANY

By: Jersey Thayer

DATED: 3-19-08

ROCKLAND ELECTRIC COMPANY

By: _____

DATED: _____

SOUTH JERSEY GAS COMPANY

By: Stanley Mitchell - Cozen O'Connor

DATED: 3/24/08

NEW JERSEY LARGE ENERGY USERS COALITION

By: _____

DATED: _____

PROGRAM RULES AND APPLICATION PROCESS

General Rules

1. PSE&G will communicate the amount of the block remaining on a web page. The block information will be updated weekly until it is 80% subscribed, and daily when the block is more than 80% subscribed.

2. Approved projects must be completed within 12 months after PSE&G issues a loan commitment. If a residential borrower experiences project delays beyond their control, the borrower will be given 6 additional months before loan commitment is withdrawn. If a project is not installed within one-year after PSE&G has issued a commitment, it will be cancelled and the associated capacity will become available for reallocation to other projects waiting in line.

3. Projects to be approved in 3 - month cycles.

4. Maximum of 10 MW available for each 3 - month cycle.

5. Applications to be accepted on a first-come, first-serve basis.

Procedures for Filling Subscription Blocks

6. The matrix below shows how the blocks will be allocated among the market segments.

Block	MF/Affordable			Total
	C&I	Residential	Residential	
Totals	12 MW	6 MW	3 MW	9 MW

7. For the first year of the Program, there will be hard caps of 9MW for Municipal/ Not-for-Profit, 9 MW (30%) for residential, and 12 MW (40%) for the C&I segment. Based on market conditions and the status of projects accepted into each segment during the initial year, PSE&G reserves the right to convert these percentages into “soft” caps starting in the second year of the petition.

8. For the residential segment, the program will set soft caps of 6MW (20%) of the total 30 MW block for general residential and 3 MW (10%) Multi-family/Affordable Housing segment.

Eligibility Requirements

9. Definition of Solar Project – A system that converts sunlight into measurable and verifiable alternating current (AC) electric power.

10. Any project must be installed within PSE&G's service territory at a customer location that receives (or will receive for new construction) retail electricity service from PSE&G.

11. The solar panels must be covered by a 20 year warranty.

12. With the exception of residential projects, any project accepted under this program will be ineligible for any other benefits from other PSE&G or BPU renewable energy programs, except for net metering. Residential projects may take advantage of rebates that may be available from the BPU's Clean Energy Program.

13. Project Size – All projects which are eligible for net metering are eligible for this program.

14. Only one application can be submitted for each project.

15. Applicant must be registered to do business in New Jersey.

16. Applicant must meet minimum Insurance Requirements as specified in the Solar Program Loan Agreement

17. Applicant must satisfy PSE&G's credit check.

18. Applicant must provide for Maintenance of the Solar System.

Application Process

Threshold Requirements

The Application must include the following information (note: this is not meant to be an all-inclusive list. Additional information may be required in order to make a complete project review):

19. PSE&G customer name and address.
20. Legal name of borrower
21. Street and mailing address of borrower
22. Telephone and fax numbers
23. Contact name and title
24. Tax Payer ID number; Year Established
25. Type of business (e.g., corporation, limited partnership, Limited Liability Corporation, sole proprietorship, etc.)
26. State (s) where borrower is authorized or eligible to conduct business.
27. Business Year-end
28. Description of the nature of the business.
29. Number of employees
30. Requested loan amount
31. Liens – amount secured and name of lien holder
32. Insurance company, agent and telephone number, with policy dates and types of coverage.
33. Names and titles of persons authorized to borrow money on behalf of the business.
34. Customer PSE&G account number.

35. Signatures of the host customer or site owner.
36. Contact information including name of project developer, address and telephone number.
37. Size of solar project, rated in direct current (DC) watts.
38. Completed PVWATTS worksheet showing system performance.
39. An estimate of the number of monthly SRECs to be generated, by year over the life of the project.
40. Cost of project.
41. Identification of project participants and management team.
42. Specifications regarding solar equipment to be installed.
43. An operation and maintenance plan.
44. Each application must contain a binding agreement from the owner of the site that allows for the installation and construction of the solar project and the delivery of measurable energy for 15 years. This agreement must specify that PSE&G has the right to inspect the site during the time PSE&G is receiving SRECs.

Basis for Rejection

45. PSE&G will have final authority on whether any particular application is eligible.
46. Receipt by PSE&G of an application after the open block is fully subscribed.
47. Failure to meet eligibility and/or threshold requirements
48. Failure to submit required supporting documentation within the required time frame or the inability to verify or document any material representation within the application.
49. Willful or material misrepresentations in the solar project application.
50. Illegal conduct of the applicant or attempts by applicant to influence PSE&G's acceptance.
51. Changes in laws or regulations affecting this program.

52. Failure to permit disclosure of information contained in an application to the BPU, PSE&G, or PSE&G agents or contractors charged with evaluating the solar project application.

53. Determination by PSE&G that the solar application does not represent a bona fide project or that the applicant will be unable to fulfill the requirements of this solar program.

Program Procedures

54. Applications must be submitted on forms provided by PSE&G. These forms may require specific project information to be submitted electronically and/or entered on a web site.

55. Project approvals will be granted on a first-come, first-served basis, so long as: (a) the capacity limits are not exceeded, and (b) the soft caps per segment are not exceeded. The application process will accept projects according to commercially reasonable performance and credit criteria. More particularly, creditworthiness determinations will be based upon an assessment of an applicant's ability to fully collateralize the loan. Because of the relationship between the total project costs, equipment costs and loan amount, in many instances the applicant will provide PSE&G with a first lien and security interest in the project equipment and related project collateral.

56. An application fee is required. Applicants must pay PSE&G \$10.00 per kW installed kW to a maximum fee of \$2,500 per application. Projects that are rejected for any reason other than a fully-subscribed program block, PSE&G will retain the application fee and use it offset administrative costs. Applicant will be allowed thirty days to cure any application deficiencies.

57. Applications received after the block has been fully subscribed will be returned along with the application fee.

58. Applications will be submitted to PSE&G for evaluation. PSE&G will date and time stamp each application. Applications will be reviewed in the order they were received.

59. Applicant will make reasonable accommodations to allow PSE&G to audit the project. At its sole discretion PSE&G may conduct audits before, during and after the solar project is constructed. The period for potential audits will begin with receipt of the solar project application and end when PSE&G no longer has right to the SRECs generated by the project.

Loan Defaults

60. Removal of the solar system is the last option for a loan that goes into default. If it is necessary to remove the solar system, PSE&G will sell the collateral and credit the net proceeds against the regulatory asset (i.e., the regulatory asset that PSE&G is recovering through the Solar Pilot Recovery Charge (SPRC)). Contemporaneous with the removal of the solar equipment, PSE&G will stabilize the section of the roof affected by the equipment removal to prevent leakage. Within seven days of equipment removal, PSE&G will restore the roof of the property in a workman like fashion to ensure that the stabilized area of the roof reflects the general condition of the portions of the roof not affected by the equipment removal.

Dispute Resolution

61. PSE&G will attempt to resolve disputes with its customers informally in the first instance. Disputes under any customer segment within the Program that involve the loan agreement and/or monetary claims or civil damages will be resolved in an appropriate court of law. Disputes that involve PSE&G's administration of the Program that cannot be resolved informally will be resolved through the BPU's existing process for customer complaints within the appropriate Division.

PRELIMINARY

Via E-Mail

Memo

To: **Frances I. Sundheim**
Vice President & Corporate Rate Counsel, PSE&G
Date: March 14, 2008
From: Chantale LaCasse
Subject: **Proposed Solar Program**

Introduction

On April 19, 2007, PSE&G filed a Petition for approval from the New Jersey Board of Public Utilities (“Board” or “BPU) for implementation of a solar program. PSE&G proposes to partially fund the installation of new projects to generate solar energy by providing loans to customers or to their developers. Customers repay the loan by providing to PSE&G any Solar Renewable Energy Certificates (“SRECs”) associated with the solar energy generated. The period of repayment for the loan is fifteen (15) years. The floor value of the SRECs, as determined by the amounts necessary to repay the loan, is estimated at \$475/MWh.

PSE&G initially proposed to provide SRECs to its Basic Generation Service (“BGS”) Suppliers and to its Third Party Suppliers (“TPSs”) on a pro-rata basis. However, in consultation with Board Staff and all stakeholders, PSE&G is considering selling the SRECs to market participants. The proceeds from the sale would be a credit against the Solar Pilot Recovery Charge (“SPRC”). PSE&G has asked NERA how best to structure the sale so as to maximize value for its customers. This memo presents a proposal to maximize the value of the SRECs for customers for consideration by PSE&G, Board Staff, and all stakeholders.

Elements of the Proposal

The proposal seeks to maximize value to customers through three key channels. First, the proposal aims to attract as many market participants as possible to purchase the SRECs that PSE&G has available. Second, use of an auction is proposed to harness the competition among these market participants to yield a price that is consistent with the market. Third, the proposal aims to provide as much certainty to market participants as possible so as to elicit the most competitive bidding from them.

The main elements of the proposal are as follows:

1. PSE&G would provide information to market participants.

- This information will include the number of systems currently in operation and an estimate the number of SRECs that could be available for purchase.
- This information will be updated periodically for the benefit of potential bidders.
- Providing this information will increase the visibility of the sale and will help attract market participants.

2. PSE&G would sell the SRECs transferred to its account from customers through a clock auction.

- The SREC is transferred to PSE&G's account once 1 MWh of solar energy is generated through a solar system installed under the program.
- At the auction, market participants bid the number of SRECs that they want to purchase at the going price of the round. The auction clears once a price is reached at which all the SRECs are sold.
- The winners at the auction pay PSE&G the price at the auction and PSE&G transfers the SRECs to the winners' account.
- The sale, if done on-line, could easily be completed in a few hours.
- The winners then have two years to use the SRECs to satisfy the Board's Renewable Portfolio Standards.
- The transaction is simple. The auction format provides market information to participants. This information is valuable as SRECs are not widely or transparently traded as of yet. These factors reduce the uncertainty for market participants and helps to elicit the best bids.

3. The floor price of \$475/MWh will be the starting price of the auction.

- The price in the auction would tick up in a round if there is excess demand for the SRECs.
- The price in the auction will be expected to settle between \$475/MWh and the Solar Alternative Compliance Payment.

PRELIMINARY

- As PSE&G generates revenue from the auction, the floor price may be lowered.

4. The qualification requirements and the promotion of the sale will be designed to maximize participation; the qualification requirements will also ensure that payment will be received.

- Any market participant with an account established and maintained with the New Jersey Clean Energy Program for SRECs could participate.
- BGS Suppliers, TPSs, and other traders could participate.
- Information concerning the opportunity to purchase SRECs through the auction will be disseminated widely.
- Bidders would be asked to post cash shortly before the sale to ensure that they are able to pay for the SRECs that they could win.
- The qualification requirements and the promotion of the auction will be designed to attract as many bidders as possible to the process.

5. PSE&G would conduct sales at least once a year.

- PSE&G would set the volume in the sale taking into account SRECs available and interest expressed by market participants.
- Any SRECs unsold in one auction would be re-offered in the following auction.
- Market participants would benefit from the setting of transparent market prices on a regular basis. This would increase their certainty in the value of SRECs. This would also increase certainty for developers of solar projects in New Jersey.

Response to Selected Questions

1. Forward Sale of RECs on a long-term basis

The number of SRECs that will be generated during a given period is uncertain. The sale of RECs on a long term basis would need to address the possibility that the RECs that were expected will not be generated because of failure of the system to perform. This in turn will necessitate a contract between PSE&G and the market participant to determine who will shoulder the financial consequence of this risk. Although it is certainly possible to devise such a contract, it appears unnecessary. Selling on an immediate basis SRECs that have already

PRELIMINARY

been transferred to PSE&G is a simple transaction with no uncertainty attached. Reducing the uncertainty maximizes the value of the SRECs as participants do not have to bear any of the risk of a sale on a long term basis.

2. Option upon loan repayment

PSE&G has an option to buy SRECs from customers that have repaid their loan early and to credit a portion of the value to customers through the SPRC. Such an option allows PSE&G to evaluate with more certainty the supply of SRECs that it will make available to the market participants. SRECs may be made available to market participants whether or not PSE&G exercises its option as the customers themselves may sell the SRECs. This feature of the plan improves the certainty of supply and does not detract from the objective of maximizing the value of the SRECs for all of PSE&G's customers.

PRELIMINARY

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

B.P.U.N.J. No. 14 ELECTRIC

Original Sheet No. 64B

SOLAR PILOT RECOVERY CHARGE

	Charge (cents per kilowatthour)
SOLAR PILOT RECOVERY CHARGE:	
Charge.....	.0.0000
Charge including New Jersey Sales and Use Tax (SUT)	0.0000

SOLAR PILOT RECOVERY CHARGE

This charge is designed to recover the revenue requirements associated with the Public Service Solar Pilot Program per the Board Order in Docket No. EO07040278 less the net proceeds from the sale of associated Solar Renewable Energy Certificates (SRECs) or cash received in lieu of SRECs. The net recovery by the Company is subject to deferred accounting. Interest at the two-year constant maturity treasury rate plus 60 basis points will be accrued monthly on any under- or over-recovered balances. This interest rate shall change each August 1.

Date of Issue:

Issued by FRANCES I. SUNDHEIM, Vice President and Corporate Rate Counsel
80 Park Plaza, Newark, New Jersey 07102
Filed pursuant to Order of Board of Public Utilities dated
in Docket No.

Effective:

Insertion in each Rate Schedule under Delivery Charges after Base Rate Distribution Kilowatthour Adjustment:

SOLAR PILOT RECOVERY CHARGE

This charge is designed to recover the revenue requirements associated with the Public Service Solar Pilot Program per the Board Order in Docket No. EO07040278 less the net proceeds from the sale of associated Solar Renewable Energy Certificates (SRECs) or cash received in lieu of SRECs. Refer to the Solar Pilot Recovery Charge sheet of this tariff for the current charge.

Modification in each Rate Schedule under Delivery Charges after Solar Pilot Recovery Charge:

RS, RHS, RLM, WH, And WHS:

The Distribution Charges, Societal Benefits Charge, Non-utility Generation Charge, Securitization Transition Charges, System Control Charge, the Base Rate Distribution Kilowatthour Adjustment and the Solar Pilot Recovery Charge shall be combined for billing.

HS:

The Distribution Charges, Societal Benefits Charge, Non-utility Generation Charge, Securitization Transition Charges, System Control Charge, the Base Rate Distribution Kilowatthour Adjustment and the Solar Pilot Recovery Charge shall be combined for billing. The CIEP Standby Fee shall also be combined with these charges where applicable.

GLP and LPL:

The Distribution Kilowatthour Charge, the Non-utility Generation Charge, the System Control Charge, the Base Rate Distribution Kilowatthour Adjustment and the Solar Pilot Recovery Charge shall be combined for billing. The CIEP Standby Fee shall also be combined with these charges where applicable.

HTS and HEP:

The Distribution Kilowatthour Charge, the Non-utility Generation Charge, the System Control Charge, the Base Rate Distribution Kilowatthour Adjustment, the Solar Pilot Recovery Charge and the CIEP Standby Fee shall be combined for billing.

BPL, BPL-POF and PSAL:

The Distribution Charge, Societal Benefits Charge, Non-utility Generation Charge, Securitization Transition Charges, the System Control Charge, the Base Rate Distribution Kilowatthour Adjustment and the Solar Pilot Recovery Charge shall be combined for billing.

ATTACHMENT D

SOLAR PROGRAM
ADMINISTRATIVE COSTS

	<u>Grand Total</u> <u>(000's)</u>	<u>50%</u> <u>(000's)</u>
2008	\$1,830	\$915
2009	2,615 (1)	1000
2010	1,493	747
2011	1,539	770
2012	1,586	793
2013	1,624	812
2014	1,674	837
2015	1,726	863
2016	1,779	890
2017	1,834	917
2018	967	484
2019	998	499
2020	1,029	515
2021	1,062	531
2022	1,096	548
2023	1,131	566

(1) Note: Per agreement with the parties to the stipulation the maximum administrative cost recovery through the SPRC in any year is \$1.0 million.

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY
SOLAR ENERGY PROGRAM
BPU DOCKET NO. EO07040278**

BPU

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