



Agenda Date: 11/10/09
Agenda Item: 2D

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

DIVISION OF ENERGY &
OFFICE OF CLEAN ENERGY

IN THE MATTER OF PETITION OF PUBLIC)	DECISION AND ORDER
SERVICE ELECTRIC AND GAS COMPANY FOR)	APPROVING STIPULATION
APPROVAL OF A SOLAR LOAN II PROGRAM)	
AND AN ASSOCIATED COST RECOVERY)	
MECHANISM)	DOCKET NO. EO09030249

(SERVICE LIST & STIPULATION ATTACHED)

APPEARANCES:

Frances Sundheim, Vice President & Corporate Rate Counsel and Gregory Eisenstark, Assistant General Corporate Rate Counsel, for the Petitioner, Public Service Electric and Gas Company

Paul E. Flanagan, Esq., Litigation Manager, Felicia Thomas-Friel, Esq., Deputy Public Advocate, Sarah H. Steindel, Esq., and Judith B. Appel, Esq., and James W. Glassen, Esq., Assistant Deputy Public Advocates, Department of the Public Advocate, Division of Rate Counsel (Ronald K. Chen, Esq., Public Advocate, Stefanie A. Brand, Esq., Director)

Kerri Kirschbaum and Alex Moreau, Deputy Attorneys General, for the Staff of the New Jersey Board of Public Utilities (Anne Milgram, Attorney General of New Jersey)

Susan LeGros, Esq., for the Intervenor The Solar Alliance

Basem Ramadan, Esq., for the Intervenor New Jersey Solar Industry Manufacturers Association.

James Meyer, Esq., (Riker Danzig, LLP) for the Intervenor Rockland Electric Company
R. William Potter, Esq., (Potter & Dickson) for the Intervenor Mid-Atlantic Solar Energy Industries Association

BY THE BOARD:

By Order¹ dated August 7, 2008 ("August Order"), the New Jersey Board of Public Utilities ("Board") directed Public Service Electric and Gas Company ("PSE&G" or "Company") to file

¹ I/M/O the Renewable Energy Portfolio Standard – Amendments to the Minimum Filing Requirements for Energy Efficiency, Renewable Energy and Conservation Programs, and for Electric Distribution Company Submittals of Filings in Connection with Solar Financing, Docket No. EO06100744, August 7, 2008

with the Board a solar renewable energy certificate ("SREC") based financing program by March 31, 2009. Pursuant to the August Order, PSE&G's proposed SREC-based financing program could be structured as a modification of the solar loan program² approved by the Board on April 16, 2008 ("Solar Loan I Program") provided that the modifications are sufficient to enable the SREC-based financing program to support the transition to a market-based approach to delivering incentives for solar electric generation.

Pursuant to N.J.S.A. 48:3-98.1 *et seq* ("the RGGI Act") and the directives in the Board's Order³ dated May 12, 2008 ("May Order"), on February 25, 2009, PSE&G, the Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel") and Board's staff ("Staff") held a pre-filing meeting to discuss the nature of and cost recovery mechanism for PSE&G's SREC-based financing program. On March 31, 2009, PSE&G filed its program ("Solar Loan II Program" or "Program"). PSE&G supplemented this filing on April 13, 2009, and Staff sent a letter stating that the filing was administratively complete on April 30, 2009.⁴

The Company's proposal, as originally filed, included several features of the Solar Loan I Program such as: (i) long-term loan contracts covering between 40 to 60 percent of the cost of qualifying projects; (ii) loan repayment in SRECs or cash, at the borrower's option; and (iii) auction of SRECs received with net proceeds being deducted from the Program's revenue requirements. The Program also requested two waivers of the August Order's requirements regarding the maximum project size of 500kW and the entity cap. However, the Solar Loan II Program modified the Solar Loan I Program model by proposing a floor SREC price based on the clearing price resulting from periodic competitive solicitations, and by allowing grid-connected projects to participate. The segments of the Program as filed were residential and nonresidential, with the non-residential portion being further divided into three subsegments based on system size (i.e. $\leq 50\text{kW}$, $>50\text{ kW} \leq 500\text{ kW}$, and $>500\text{kW}$). PSE&G proposed to recover all Program costs through the Regional Greenhouse Gas Initiative Recovery Charge, ("RRC"), and to earn a return on its net investment in the Program based on a Weighted Average Cost of Capital ("WACC") of 8.2423% annually (not including tax effects).

By Order dated July 15, 2009 ("Procedural Order"), the Board retained this matter for review, designated Commissioner Fiordaliso as presiding officer, and adopted a procedural schedule. In addition, the Procedural Order granted the motions to intervene of the Mid-Atlantic Solar Energy Industries Association ("MSEIA"), the Solar Alliance ("SA") and Rockland Electric Company ("RECO"). Petra Solar, Inc filed motion to intervene on June 4, 2009 and later withdrew its motion by letter dated July 30, 2009. By Order dated July 31, 2009, Commissioner Fiordaliso granted the motion to intervene of the New Jersey Solar Industry Manufacturers Association ("NJSIMA").

PSE&G published notice of the filing in newspapers of general circulation in its service territory. The notice included a description of the filing and the date, time and place of the public hearings. The Company served the notice on the county executives and clerks of all municipalities within the Company's service territory. Six public hearings were held on the following dates and locations in PSE&G's service territory: two hearings on June 22, 2009, in Newark, New Jersey; two hearings on June 23, 2009, in New Brunswick, New Jersey; and two

² I/M/O the Petition of Public Service Electric and Gas Company for Approval of a Solar Energy Program and an Associated Cost Recovery Mechanism – Decision and Order Approving Settlement, Docket No. E007040278, April 16, 2008

³ I/M/O Electric Public Utilities and Gas Public Utilities Offering Energy Efficiency and Conservation Programs, Investing in Class I Renewable Energy and Offering Class I Renewable Energy Programs in their Respective Service Territories on a Regulated Basis Pursuant to N.J.S.A. 48:3-98.1, Docket No. E008030164, May 12, 2008.

⁴ Pursuant to N.J.S.A. 48:3-98.1(b) and the terms of the May Order, the Board's 180-day period under the RGGI Act for ruling on the Program's cost recovery commenced on April 13, 2009 and would expire on October 13, 2009 ("RGGI Date").

hearings on June 25, 2009, in Mount Holly, New Jersey. A total of 10 members of the public appeared at the six public hearings. Commenters supported the Program's positive contribution to the creation of green jobs in New Jersey and to the stimulation of solar development until the financing markets are better able to respond to the needs of New Jersey's solar community. However, some commenters emphasized the need to use the Program to provide economic opportunities for the poor, and criticized the high FICO score required to qualify for the Solar Loan I Program. Two commenters recommended increasing the eligible system size under the Program, and one commenter suggested changing the definition of "SREC market value" to the SREC spot price instead of the average monthly cumulative weighted price of SRECs as published on the website of the New Jersey Clean Energy Program ("NJCEP").

On July 29, 2009, Rate Counsel filed its direct testimony. On August 31, 2009, the Company filed its rebuttal testimony. Between May and October 2009, PSE&G, RECO, MSEIA, SA, NJSIMA, Staff, and Rate Counsel (jointly, the "Parties") engaged in settlement discussions. PSE&G responded to the data requests propounded by the Parties during settlement discussions and through the discovery process. In addition, Rate Counsel propounded discovery requests on MSEIA and SA, which MSEIA and SA responded to.

By Order dated October 8, 2009, the Board approved a Stipulation extending the RGGI Date until November 12, 2009.

As a result of settlement discussions, PSE&G, Staff, Rate Counsel, MSEIA and SA (jointly, the "Signatory Parties") signed a stipulation on November 4, 2009 ("Stipulation"), which is now before the Board for consideration.⁵

PROPOSED STIPULATION

The Stipulation has nine (9) exhibits including: (a) program rules, (b) illustrative loan amounts at various system sizes and floor prices (c) administrative costs' cap by year, (d) credit requirements, (e) revenue requirements, (f) interest calculation schedule, (g) minimum filing requirements, (h) tariff sheet, and (i) residential bill impact chart. All the exhibits annexed to or filed with the Stipulation are considered to be part of the Stipulation with the key provisions described below⁶.

General Features of the Program

1. Total Size of the Program: 51MW with the possibility of adding any unused capacity from the Solar Loan I Program.
2. System Size: The maximum system size of eligible projects is 500kW.

⁵ By letters dated November 4, 2009, Rockland has indicated that it takes no position on Board approval of the Stipulation while NJSIMA has indicated that it will not submit opposition to the settlement.

⁶ Although described at some length in this Order, should there be any conflict between this summary and the Stipulation, the terms of the Stipulation control, subject to the findings and conclusion in this Order.

3. Segments: The Program will have the following segments and total capacities:

SEGMENT	CAPACITY
Greater than 150 kW up to 500 kW (non-residential)	25 MW
Up to 150 kW (non-residential)	17 MW
Residential	9 MW

4. Application Schedule: Loan applications will be accepted on a quarterly basis, with eight application periods over a two-year period ending December 31, 2011. The first application period will begin as soon as practicable after Board approval of the Program and will include the remaining period in 2009 through March 31, 2010. The following table shows the schedule of quarterly application periods:

Application Period/Capacity Schedule			Available (MW)							
Class	% of Total	Total MW	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Residential										
	17.7%	9	0.4	0.6	0.8	1.20	1.50	1.50	1.50	1.50
Non Residential										
	82.3%	42	20%	20%	15%	15%	8%	8%	8%	6%
≤150kW	33.3%	17	1.0	1.5	2.0	2.8	2.5	2.5	2.5	2.2
>150kW ≤500kW	49.0%	25	8.1	7.4	4.6	3.4	0.5	0.5	0.5	0
Total	100%	51	9.5	9.5	7.4	7.4	4.5	4.5	4.5	3.7

5. Entity Cap: No one entity (including any affiliated entities) shall receive loans in a given quarterly application period for more than 20% of the available capacity in that quarterly application period. The entity cap shall not apply in any quarterly application period when the total capacity for that quarter has not been filled. In such event, PSE&G may accept applications that would otherwise be barred by the entity cap, up to the total amount of under-subscription for that quarterly period. If more than one entity has submitted applications in excess of the quarterly entity cap, then the shortfall capacity for that quarterly period shall be awarded on a first-come, first-served basis. PSE&G will determine whether the exception to the entity cap applies for any particular applicant after the conclusion of each quarterly application period, and include any such determination, as well as general information regarding the application of the entity cap, in the required quarterly status reports.
6. Flexibility Provisions on Capacity:
- Reallocation within Each Segment*. The quarterly allocations of capacity for each segment in Paragraph 4 may be increased by up to 10% or 500kW, whichever is smaller, based on the results of the application process for each quarterly application period.
 - Reallocation between Segments*. PSE&G may reallocate unused capacity in a segment within a quarterly period to other oversubscribed segments for that same quarterly period. PSE&G will provide notice to the Signatory Parties not less than twenty (20) days before

such capacity reallocation between segments. If, in a given quarterly period all three segments are under-subscribed, there will be no reallocation of capacity for that quarter.

- c) *Quarterly Rollover.* After the reallocation of capacity described in Paragraph 6.b (if any), any unused capacity in a quarterly application period will be carried over and added to the same segment in the next quarterly application period, and shall not expire.
7. Waiting List: If after using the flexibility provisions of Paragraph 6, there is an excess of qualified applications during any quarterly period for any segment, PSE&G will establish a waiting list based on the order in which the applications were received. Those applications on the waiting list will be first in line for the next quarterly period. However, the size of the waiting list created in any one quarterly period will be limited to the amount of capacity that will be available in the next quarterly period within the same segment. Customers on the waiting list will be given the option to be assigned capacity in a subsequent quarterly period, at the SREC floor price ("Floor Price") in effect at that time.
8. Capacity from Solar Loan I: Available capacity from the Solar Loan I Program will first be made available to customers on the Solar Loan I Program waiting list through the end of the Solar Loan I Program. For customers on this waiting list, the \$475 per SREC floor price will continue, and the 500 kW system size limit will not apply. No new projects will be added to the Solar Loan I waiting list after Board approval of the Solar Loan II Program. Capacity not used by the Solar Loan I Program waiting list will be added to the Solar Loan II Program in the next quarterly application period in the >150 kW to 500 kW segment.
9. SREC Floor Prices: The SREC Floor Price for each of the eight quarterly application periods and segments will be as follows:

FLOOR PRICE SCHEDULE (\$/SREC)				
	Q1&2	Q3&4	Q5&6	Q7&8
Residential				
	450	435	420	400
Non- Residential				
≤150 kW	410	395	380	360
>150 kW to 500 kW	380	365	350	330

Program Rules

10. Scope: The Program Rules contained in Exhibit A of the Stipulation detail the eligibility requirements, basis for rejection of applications, general program features, general program rules, process in event of loan default, and dispute resolution.
11. Modification of Program Rules: PSE&G will have the right to amend the Program Rules as required for commercial reasons, after ten (10) business days' advance notice to the Board and the Signatory Parties, unless a Signatory party notifies PSE&G in writing within that same period or ten (10) business days that it objects to the amendment. In such event, a party will have the right to seek Board review of the proposed amendment. The Signatory Parties agreed to recommend that the Board consider such matter on an expedited basis so as not to delay Program implementation.

Credit Eligibility

12. Bankruptcy: All residential applicants must not have had bankruptcy filings within the last seven years.
13. Credit Score: For residential applications, the minimum FICO credit score shall be 680 for applicants that are salaried employees, on a fixed income, or have been self-employed for not less than two years. For residential applicants that have been self-employed for less than two years, the minimum FICO credit score shall be 720.
14. Credit Screen: PSE&G will perform the balance of the credit review in a similar manner to what it currently does for Solar Loan I. In addition:
 - a) For residential applications, at closing the customer must submit a signed affidavit stating that there has been no adverse material change to the customer's financial status affecting the customer's ability to repay the loan. If the closing occurs 6 months or more after PSE&G's loan commitment, the borrower may be required to provide updated financial documentation to demonstrate that there is no material adverse change to their financial status along with the signed affidavit.
 - b) For non-residential applications, the customer's financial status will be reviewed prior to closing to confirm that there have been no material adverse changes.

Cost Recovery

15. PSE&G will recover the net revenue requirements associated with the Solar Loan II Program via a new Program component of the Company's electric RRC ("SLP"). The SLP will be applicable to all electric rate schedules on an equal cents per kilowatt-hour basis for recovery of costs associated with the Program. The initial SLP will be based on estimated Program revenue requirements from the date of the written Board Order, to December 31, 2010. Thereafter, the SLP will be changed nominally on an annual basis, incorporating a true-up for actual and an estimate of the revenue requirements for the upcoming year.
16. The revenue requirements recovered through the SLP will be calculated to include a return on investment and a return of investment over the lives of the capital assets. The Program investments are proposed to be treated as separate utility assets, and depending on the type of investment, either depreciated or amortized as described in the corresponding section below. The revenue requirements associated with the direct costs of the Program would be expressed as:

$$\text{Revenue Requirements} = (\text{Pre-Tax Cost of Capital} * \text{Net Investment}) - \text{Net Loan Accrued Interest} + \text{Amortization and/or Depreciation} + \text{Operation and Maintenance Costs} - \text{Net Proceeds from the sale of SRECs} - \text{Cash Payments in lieu of SRECs}$$

17. The details of each of the above terms are described as follows:

Pre-Tax Cost of Capital – For the initial rate period, the WACC used will be 7.9591%, (11.3092% on a pre-tax basis), based on a return on equity of 10.0%.

Net Investment – The net investment for the Program would be comprised of the following: (i) Total Loan Outstanding Balances; (ii) SREC Inventory; and (iii) Capitalized Plant less its associated accumulated depreciation less its Accumulated Deferred

Income Tax ("ADIT"). The detailed monthly return calculation, (Pre-Tax Cost of Capital * Net Investment) related to these net investment components is described below.

- o *Total Loan Outstanding Balances* – The detailed monthly return calculation on the total loan outstanding balances would be as follows:

Loan Accrued Interest + Loan Interest Rate to WACC Differential Cost

Where

$Loan\ Accrued\ Interest = Average\ Daily\ Outstanding\ Loan\ Balance * (Annual\ Loan\ Interest\ Rate / 365) * (\#\ of\ Days\ in\ Month)$

And

$Loan\ Interest\ Rate\ to\ WACC\ Differential\ Cost = Loan\ Accrued\ Interest * ((Pre\ Tax\ WACC / Loan\ Interest\ Rate) - 1)$

- o *SREC Inventory* – The detailed monthly return calculation on the SREC Inventory would be as follows:

$Average\ Daily\ Outstanding\ SREC\ Inventory\ Balance * (Pre\ Tax\ WACC / 365) * (\#\ of\ Days\ in\ Month)$

- o *Capitalized Plant less its associated accumulated depreciation less its ADIT* – The corresponding detailed monthly return calculation would be based upon its prior month ending balance and current month ending balance divided by 2 times monthly Pre Tax WACC.

Net Loan Accrued Interest – It is defined as (*Loan Accrued Interest – Loan Interest Paid*). It accounts for timing differences from when loan interest is accrued and loan interest is paid. Over the life of loan, the Loan Accrued Interest is equal to the Loan Interest Paid.

Depreciation/Amortization – This is composed of Loan Principal Paid / Amortized and Capitalized Plant Depreciation. The capitalized plant depreciation is based on a monthly vintaging methodology utilizing an expected life to determine the depreciable amount.

Operations and Maintenance Costs – Operations and Maintenance Costs include: (i) PSE&G labor and other related on-going costs required to manage and administer the Program, and (ii) the Program related information technology expenses.

Net Proceeds from the sale of SRECs – The net SREC proceeds reduce revenue requirements and are defined as:

$SREC\ Value\ Credited\ to\ Loans + Gain/ (Loss)\ on\ Sale\ of\ SRECs - SREC\ Disposition\ Expenses + SREC\ Call\ Option\ Net\ Benefit - SREC\ Floor\ Price\ Costs$

- o *SREC Value Credited to Loans* – The SREC Value Credited to Loans is defined in as the number of SRECs generated and credited to the loans times the higher of the "market value" of SRECs as defined in Section 1 of the Loan Agreements or the Floor Price.
- o *Gain/ (Loss) on Sale of SRECs* – The proceeds from the Sale of SRECs less their corresponding inventory cost. Inventory cost is the value the SREC received when they were credited to loans as defined above.
- o *SREC Disposition Expenses* – All costs related to the disposition of SRECs

for the Program.

- *SREC Call Option Net Benefit* – The SREC Call Option is defined in Section 2.7 of the Loan Agreements. The net benefit of this option is 25% of the value of SRECs received from the Borrowers once their outstanding loan balance is reduced to zero.
- *SREC Floor Price Costs* – When the market value of the SRECs credited to loans, as defined in Section 1 of the loan agreements, is less than the value of the SRECs priced at the Floor Price, the differential value reduces the Net Proceeds from the sale of SRECs.

Cash Payments in lieu of SRECs – This includes when the borrower chooses to repay loan with cash and any required true up cash payments.

18. The revenue requirements include costs for administration, sales, training, evaluation and IT capital. The initial calculation will use a WACC of 7.9591%, (11.3092% on a pre-tax basis) based on a return on equity of 10.0%. Any change in the WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent monthly revenue requirement calculations, effective as of the date of the Board's base rate case order authorizing a change in the WACC. Any change in the revenue requirement resulting from the change in the WACC will not be included in the monthly revenue requirement calculation for over and under recoveries until the date of the next scheduled annual true-up but in any event, no later than January 1 of the subsequent year. The Signatory Parties stipulate that after the initial revenue requirements period, the SLP will be calculated utilizing projected cost data subject to annual adjustments. The calculation of the revenue requirement for the purpose of setting the initial SLP for the period ending December 31, 2010 is set forth in Exhibit E of the Stipulation.
19. In calculating the monthly interest on net over and under recoveries, the interest rate shall be based upon the Company's interest rate obtained on its commercial paper and/or bank credit lines utilized in the preceding month. If both commercial paper and bank credit lines have been utilized, the weighted average of both sources of capital shall be used. In the event that neither commercial paper nor bank credit lines were utilized in the preceding month, the last calculated rate will be used. The interest rate shall not exceed PSE&G's overall rate of return as authorized by the Board. The calculation of monthly interest shall be based on the net of tax average monthly balance, consistent with the methodology set forth in Exhibit F. Simple interest shall accrue on any under and over recovered balance, and shall be included in the deferred SLP balance at the end of each reconciliation period. The true-up calculation of over- and under- recoveries shall be included in the Company's Annual Filing.
20. The SLP will be subject to adjustment and true-up through the deferral process and any required adjustment will be included in the over/under recovered balance to be recovered from or returned to ratepayers over the following year. Any Board ordered cost recovery adjustments resulting from the review of the actual costs will be made to the over/under deferred balance and reflected in the charges established for the following year pursuant to a Final Board Order.
21. PSE&G will file an annual petition ("Annual Filing") to adjust its SLP, commencing for the 2011 annual period on a calendar basis, with copies provided to the Signatory Parties, no later than September 1, 2010, and annually thereafter for the implementation of the proposed revised SLP, on January 1 of the subsequent year. Each Annual Filing will

contain a reconciliation of PSE&G's actual SLP recoveries (which were based on PSE&G's projected SLP costs) and actual revenue requirements for the prior period, and a forecast of revenue requirements for the remainder of the current period and for the upcoming 12-month period that shall be based upon the Company's most current authorized ROE and capital structure. The Annual Filing also will present actual costs incurred since the previous annual review and such costs will then be reviewed for reasonableness and prudence. The Annual Filing will also provide information set forth in the minimum filing requirements detailed in Exhibit G of the Stipulation and made a part of this Stipulation. The Annual Filing will be subject to review by the Signatory Parties with opportunity for discovery and filed comments prior to the issuance of a Board Order establishing the Company's revised SLP. The issuance of a written Board Order will be preceded by adequate Public Notice and Public Hearings if required by law.

Administrative Costs:

22. PSE&G will recover reasonable and prudent incremental administrative costs associated with the Program as detailed in Exhibits B and C.
23. PSE&G will recover a portion of the Program's administrative costs through the SREC Floor Price in the following amounts: \$25 for the residential segment, \$10 for the non-residential up to 150 kW segment, and \$5 for the > 150 kW to 500 kW segment.
24. PSE&G's recovery of administrative costs is subject to the annual and total program caps set forth in Exhibit C. If PSE&G's actual administrative costs are below the annual capped amount in any given year between 2009 and 2012 (inclusive), the amount below the cap shall be rolled forward on a cumulative basis and be added to the cap for the next year. However, some categories of administrative costs listed in Exhibit C are not eligible for this roll-over provision.

Miscellaneous

25. Reporting Requirements: The Company will provide quarterly status reports to Staff, with a copy to the Signatory Parties using the same format currently used for the Solar Loan I Program. In addition to the information currently reported for Solar Loan I, PSE&G will also report the following data, by segment, for Solar Loan II: number and MWs of applications received, approved, closed, withdrawn; and on waiting list, and information regarding the entity cap as described in Paragraph 18 of the Program Rules.
26. Rate Impact: The initial rate increase for a typical residential BGS-FP electric customer using 722 kilowatt-hours per summer month and 6,960 kilowatt-hours on an annual basis would be an increase from an annual bill of \$1,282.44 to \$1,282.80, or \$0.36, or approximately 0.03%. As currently projected, the maximum rate impacts for the same typical residential electric customer from the SLP would occur in 2012, and would be \$0.84 (0.066 %) on annual basis or about \$0.07 per month.

FINDINGS AND DISCUSSION

The Board has carefully reviewed the record in this matter, including the petition, comments from the public hearings, the Stipulation, and the comments submitted by the non-signing Parties. As discussed below, the Board **FINDS** that the Stipulation represents a fair and reasonable resolution of this matter and is in the public interest.

The Board has previously determined that the public interest is served by expanding opportunities for solar electric generation due to the significant associated benefits⁷. Some of these benefits are: (i) reduced greenhouse gas ("GHG") emissions with the associated health benefits and support towards the GHG emissions reduction goals of the Global Warming Response Act ("GWRA"), N.J.S.A. 26:2C-37 et seq., (ii) increased reliance on local energy sources with the associated reduction of energy imports and improved local supplies of reactive power, (iii) improved diversity of New Jersey's electricity supply, and (iv) furthered economic development by means of technology innovation and creation of green-collar jobs. Because of all these benefits the Board established increasing requirements for solar electric generation under the Renewable Portfolio Standards ("RPS") rules⁸, N.J.A.C. 14:8-2.3.

By Order⁹ dated December 6, 2007, ("Solar Transition Order"), the Board set the framework for transitioning from rebates to a market-based approach to delivering incentives for increased solar electric generation. In the Solar Transition Order the Board recognized that additional incentives remain necessary to encourage investment in solar electric generation needed to meet the solar RPS requirements at an acceptable cost to ratepayers, and directed Staff to initiate a stakeholder process and provide specific recommendations to the Board regarding the methods and costs of providing solar financing.

The August Order adopted an approach to market-based incentives for solar generation in the form of SREC-based financing programs to be administered by the four New Jersey Electric Distribution Companies ("EDCs"). The August Order directed PSE&G to file an SREC-based financing program, with the option that the program could be structured as a modification of the Solar Loan I Program. However, this modification had to be sufficient to enable the Program to support the transition to market-based incentives for solar electric generation. In particular, the Board expressed concern that the Solar Loan I Program model may discourage entry and participation of non-utility lenders into the solar market because the Company's loans guaranteed an SREC Floor Price supported by ratepayer funds, and had a first lien on the solar electric generation system leaving non-utility loans for the remaining cost of the solar projects essentially unsecured. The Solar Loan II Program has addressed these concerns not only by limiting the duration and size of the Program but also by not requiring PSE&G to obtain a first lien on the solar systems, thereby leaving non-utility lenders the opportunity to enter the market to finance and secure the unfunded portion of the solar project costs. Based on the information provided, the Board **FINDS** that the Solar Loan II Program, if properly implemented, should not discourage non-utility lenders' participation in the solar market.

In the August Order, the Board clarified that it was not adopting an expansion of the Solar Loan I Program but that it would consider PSE&G's modifications to bring that model into compliance with the elements of the August Order. The Stipulation under consideration evidences the efforts of the Parties to meet the requirements of the August Order:

⁷ See, e.g. the "Solar Transition Rules" proposal published in the New Jersey Register on June 16, 2008 at 40 N.J.R. 3586(a); the Renewable Portfolio Standards, N.J.A.C. 14:8-2 et seq.; Energy Competition Standards – Proposed Recodification with Amendments published in the New Jersey Register on October 17, 2005 at 37 N.J.R. 3911.

⁸ The Board's RPS 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.

⁹ I/M/O Renewable Energy Portfolio Standards, Alternative Compliance Payments and Solar Alternative Compliance Payments – Order Regarding Solar Electric Generation, docket No. EOO6100744, December 6, 2007

- *First*, the SREC price for the purpose of loan repayment will continue to be the greater of the SREC Floor Price or the SREC market value as defined in the standard loan contract. The SREC Floor Price will continue to be administratively established; however, in the Solar Loan II Program there will be a schedule of Floor Prices reflecting different project costs by sector and size of the system instead of just one SREC Floor Price.
- *Second*, PSE&G can modify the SREC Floor Price schedule following a notification process giving the Company flexibility to adapt the SREC Floor Price schedule to reflect real project costs in varying market conditions because the Floor Price must be sufficient to repay the loan which represents a percentage of the costs of the solar project.
- *Third*, the Floor Price schedule has been designed to encourage competition among solar developers and manufacturers by pushing them to meet the administratively set SREC Floor Price, which represents the minimum amount needed to finance a percentage of the solar projects' costs.
- *Fourth*, although the Company will accept projects on first-come first-served basis, diversity of participation in the Program is fostered by the use of an entity cap. The August Order called for a 20% annual entity cap; however, the Signatory Parties reached an agreement that applies a 20% entity cap on the quarterly capacity in each quarterly application period and allows the Company not to apply the entity cap if the Program is undersubscribed for that period so that the desire for diversity does not prevent full subscription in the Program. PSE&G will include information about the application of the cap in its quarterly status reports to Staff and the Signatory Parties, which will allow for periodic review to determine whether the mechanism is achieving the desired balance between a) enrolling sufficient projects to meet the Program's goals, and b) maintaining diversity of participation in the Program by solar companies.
- *Fifth*, the Program complies with other requirements of the August Order such as a project eligibility criteria excluding solar systems above 500kW and projects that have received CORE rebates, a limited term as the Program will be implemented only until December 31, 2011 (reporting year 2011/12), and use of the existing SREC auction process for the Solar Loan I Program.

For the foregoing reasons the Board **FINDS** that the Solar Loan II Program adequately satisfies the requirements of the August Order in a manner that should support the Board's goal of transitioning to market-based incentives for solar electric generation. The Board will continue to monitor the effectiveness of the Program in meeting these goals through the required quarterly status reports and annual filings.

The Board has considered the costs to ratepayers for the Program. Based on currently available information, the initial rate increase for a typical residential electric customer on BGS-FP service using 722 kilowatt-hours per summer month and 6,960 kilowatt-hours on an annual basis, would be an annual increase from \$1,282.44 to \$1,282.80, or \$0.36, or approximately 0.03%. As currently projected, the maximum rate impacts for the same typical residential electric customers from the SLP would occur in 2012 and could be \$0.84 (0.066 %) on annual basis or about \$0.07 per month. Administrative costs are subject to both annual and total Program caps, and are recoverable only after they are reviewed, determined and approved by the Board to be reasonable and prudent incremental administrative costs associated with the Program. The Board is persuaded that the environmental, social and economic benefits that the Program will bring to New Jersey residents outweigh the costs of the Program.

In consideration of the record and based on the above discussion, the Board **HEREBY FINDS** the Stipulation to be reasonable, in the public interest, and in accordance with law, and **HEREBY APPROVES** the Stipulation including all its exhibits in the entirety, incorporating the terms and conditions as though fully stated herein.

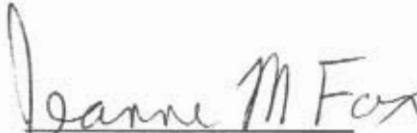
The Board **HEREBY RATIFIES** all provisional rulings by Commissioner Fiordaliso for the reasons stated in his Orders.

The Board **HEREBY SETS** the effective date of the initial SLP as the date of this Order. The Company is **HEREBY DIRECTED** to file tariff sheets consistent with this Order within five (5) business days.

The Company's rates will remain subject to audit by the Board. This Decision and Order shall not preclude the Board from taking any actions deemed to be appropriate as a result of any Board audit.

DATED: 11/10/09

BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER


JOSEPH L. FIORDALISO
COMMISSIONER

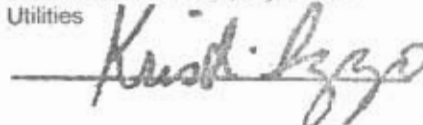

NICHOLAS ASSELTA
COMMISSIONER


ELIZABETH RANDALL
COMMISSIONER

ATTEST:


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



**PUBLIC SERVICE ELECTRIC AND GAS COMPANY
SOLAR LOAN II
BPU DOCKET NO. EO09030249**

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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF)
PUBLIC SERVICE ELECTRIC AND GAS) **SETTLEMENT AGREEMENT**
COMPANY FOR APPROVAL OF A SOLAR)
LOAN II PROGRAM AND AN ASSOCIATED) BPU Docket No. EO09030249
COST RECOVERY MECHANISM)

APPEARANCES¹:

Frances Sundheim, Vice President & Corporate Rate Counsel and **Gregory Eisenstark**, Assistant General Corporate Rate Counsel, for the Petitioner, Public Service Electric and Gas Company

Paul E. Flanagan, Esq., Litigation Manager, **Felicia Thomas-Friel, Esq.**, Deputy Public Advocate, **Sarah H. Steindel, Esq.**, and **Judith B. Appel, Esq.**, and **James W. Glassen, Esq.**, Assistant Deputy Public Advocates, Department of the Public Advocate, Division of Rate Counsel (**Ronald K. Chen, Esq.**, Public Advocate, **Stefanie A. Brand, Esq.**, Director)

Kerri Kirschbaum and Alex Moreau, Deputy Attorneys General, for the Staff of the New Jersey Board of Public Utilities (**Anne Milgram**, Attorney General of New Jersey)

Susan LeGros, Esq., for the Intervenor The Solar Alliance

Basem Ramadan, Esq., for the Intervenor New Jersey Solar Industry Manufacturers Association.

James Meyer, Esq., (Riker Danzig, LLP) for the Intervenor Rockland Electric Company

R. William Potter, Esq., (Potter & Dickson) for the Intervenor Mid-Atlantic Solar Energy Industries Association

TO THE HONORABLE BOARD OF PUBLIC UTILITIES:

It is hereby AGREED, as of the 4th day of November 2009, by and between

¹ These are the Parties to this proceeding, as distinguished from the Signatory Parties to this

Public Service Electric and Gas Company (“PSE&G”, “Public Service” or the “Company”), the Staff of the Board of Public Utilities (“Board Staff”), the Department of the Public Advocate, Division of Rate Counsel (“Rate Counsel”), the Solar Alliance (“Solar Alliance”), and the Mid-Atlantic Solar Energy Industries Association (“MSEIA (hereinafter referred to as the “Signatory Parties”) to execute this Settlement Agreement (“Settlement”) for Public Service’s Solar Loan II Program and Associated Cost Recovery Mechanism (“Solar Loan II” or “Program”).

The Signatory Parties do hereby join in recommending that the Board of Public Utilities (“Board” or “BPU”) issue a Final Decision and Order approving this Settlement, including the attached proposed sheets of PSE&G’s Tariff for Electric Service, as set forth herein.

BACKGROUND

1. Pursuant to *N.J.S.A.* 48:3-98.1 *et seq.*, on February 25, 2009, Public Service held the required Regional Greenhouse Gas Initiative (RGGI) pre-filing meeting with Board Staff and Rate Counsel to discuss the nature of the Solar Loan II Program and describe the cost recovery mechanism to be proposed by the Company. The Company scheduled this pre-filing meeting in response to the Board’s August 7, 2008 Order in Docket No. EOO6100744, which required each of the State’s four electric utilities to file a petition for

Settlement Agreement.

approval of a Solar Renewable Energy Certificate (“SREC”)-based financing program. *In the Matter of the Renewable Energy Portfolio Standards*, Docket No. EOO6100744, Order dated August 7, 2008.

2. On March 31, 2009, Public Service filed its Petition with the Board requesting approval of the Program and associated rate recovery mechanism pursuant to *N.J.S.A.* 48:3-98.1 *et seq.* (“Petition”). More specifically, PSE&G proposed to provide loans to borrowers to develop 40 MW of solar photovoltaic systems. In addition, PSE&G proposed to roll the unused capacity from the solar loan program approved by Board Order dated April 16, 2008 in Docket No. E007040278 (“Solar Loan I Program”) (which the Company at that time estimated would be 15 MW) into Solar Loan II, for a total capacity of 55 MW. As filed, the total amount of loans for this 55 MW would be approximately \$206 million.

3. PSE&G’s Petition proposed two main segments: residential and non-residential. The Company proposed that the non-residential segment be further divided into three sub-segments as follows: (1) less than or equal to 50kW; (2) greater than 50 kW, but less than or equal to 500 kW; and (3) greater than 500kW.

4. PSE&G also proposed that the basic Program structure be the same as in the Company’s Solar Loan I Program – PSE&G would offer long-term loans for between 40 and 60 percent of the cost of qualifying solar photovoltaic projects. The loans would be repaid in SRECs (or cash, at the borrower’s option). SRECs used for purposes of loan repayment would be assigned a value of the higher of (a) a minimum guaranteed value, referred to in the standard

form of loan agreement as the “Floor Price,” or (b) the average cumulative value of SRECs as published on the NJCEP website during the preceding calendar month, referred to in the standard form of loan agreement as the “Market Value.” PSE&G would auction the SRECs received in periodic auctions, in the same auction and format the Board approved in its Order dated November 7, 2008 in Docket No. EOO7040278. The net proceeds from the sale of SRECs would be applied against the Program’s revenue requirements.

5. The Company also proposed the following changes for Solar Loan II (compared to the Solar Loan I Program):

- a. Rather than have an administratively-determined Floor Price of \$475 for all loan agreements under the Program, the minimum guaranteed value of SRECs for purpose of loan repayment would be determined via periodic competitive loan solicitations. Thus, the SREC Floor Prices would be set periodically by the market participants.
- b. The requirement that PSE&G obtain a first-priority lien on the solar project equipment will no longer apply. This change was recently approved for the Solar Loan I Program. *See I/M/O the Petition of Public Service Electric and Gas Company, et al., Decision and Order Approving Modification to March 24, 2008 Stipulation, Docket No. EO07040278 (March 17, 2009).*
- c. The Program would be open to all solar projects that are eligible for SRECs, whether net-metered or grid-connected.
- d. Except for a small set-aside for residential loans, the other Program segments would not follow the type of end-use customer, but rather would be based on the size (i.e., capacity) of the solar installation.
- e. There would be no entity caps.

6. PSE&G proposed to recover all Program costs through the RGGI Recovery Charge tariff (“RRC”). PSE&G proposed to earn a return on its net investment in the

Program based on a Weighted Average Cost of Capital (“WACC”) of 8.2423% annually. Including tax effects, the proposed weighted pre-tax cost was 11.9525%.

- a. For all of the proposed segments, the Company proposed to partially offset the Program’s revenue requirements with the net revenues realized from the sale of SRECs in the periodic auctions.

7. On April 13, 2009, PSE&G supplemented its Petition with additional attachments and schedules.

8. On April 30, 2009, Board Staff issued a determination that the Company’s filing, as supplemented on April 13, 2009, was administratively complete. Therefore, the Board’s 180-day review period commenced on April 13, 2009. By Order dated October 8, 2009, the Board adopted the Stipulation extending the 180-day RGGI Period until November 12, 2009.

9. By an Order dated June 15, 2009, the Board determined to retain this matter for review, designated Commissioner Joseph L. Fiordaliso as the presiding hearing officer, and adopted a procedural schedule.

10. On April 29, 2009, the Solar Alliance filed a motion to intervene. On May 11, 2009, the Mid-Atlantic Solar Energy Industries Association (“MSEIA”) and Rockland Electric Company filed motions to intervene. In its June 15, 2009 Order, the Board granted these motions.

11. On June 4, 2009 the New Jersey Solar Industry Manufacturers Association (“NJSIMA”) filed a motion to intervene. By an Order dated July 31, 2009, Commissioner

Fiordaliso granted intervenor status to NJSIMA. Petra Solar, Inc. also filed a motion to intervene, but later withdrew its motion.

12. Board Staff and Rate Counsel propounded written discovery requests on the Company, which provided responses thereto. In addition, Rate Counsel propounded discovery requests on MSEIA and the Solar Alliance, and responses were provided thereto.

13. Notice setting forth the particulars of the Company's filing, including the date, time and place of the public hearings, was placed in newspapers having a circulation within the Company's service territory and was served on the county executives and clerks of all municipalities within the Company's service territory.

14. Six public hearings were held on the following dates at three locations in Public Service's service territory: two hearings on June 22, 2009, in Newark, New Jersey; two hearings on June 23, 2009, in New Brunswick, New Jersey; and two hearings on June 25, 2009, in Mount Holly, New Jersey. A total of 10 members of the public provided comments at the six public hearings.

15. On July 29, 2009, Rate Counsel filed its direct testimony. On August 31, 2009, the Company filed its rebuttal testimony.

16. Settlement conferences commenced during summer, 2009 and continued through the date of this Settlement. Advance notice of each such conference was provided to all parties, and parties were able to participate in the settlement conferences either in person or by telephone.

17. Following said settlement conferences, the Signatory Parties agreed to submit this Settlement, the terms of which are set forth below. Specifically, the Signatory Parties hereby **STIPULATE AND AGREE** to the following:

STIPULATED MATTERS

Program Size, Segments, and Schedule for Quarterly Application Periods

18. The Signatory Parties agree that the Solar Loan II Program shall be 51 MW (DC) in total size (plus capacity transferred from the Solar Loan I Program, if any), and shall be open to net-metered solar systems that are 500 kW and smaller.

19. The Program will have the following segments and capacities

- | | |
|--|-------|
| a. Greater than 150 kW up to 500 kW(non-residential) | 25 MW |
| b. Up to 150 kW (non-residential) | 17 MW |
| c. Residential | 9 MW |

20. Loan applications will be accepted on a quarterly basis, with eight application periods over a two-year period ending December 31, 2011. The first application period will begin as soon as practicable after BPU approval and will be inclusive of the remaining period in 2009 through March 31, 2010. The following table shows the initial proposed schedule of quarterly application periods:

Application Period/Capacity Schedule			Available (MW)							
Class	% of Total	Total MW	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Residential	17.7%	9	0.4	0.6	0.8	1.20	1.50	1.50	1.50	1.50
Non Residential										
Quarterly Amount	100%	51	20%	20%	15%	15%	8%	8%	8%	6%
Non Resi ≤150kW	33.3%	17	1.0	1.5	2.0	2.8	2.5	2.5	2.5	2.2
Non-Resi >150kW ≤500kW	49.0%	25	8.1	7.4	4.6	3.4	0.5	0.5	0.5	0
Total		51	9.5	9.5	7.4	7.4	4.5	4.5	4.5	3.7

21. The quarterly allocations of capacity for each segment set forth in Paragraph 20 may be increased by up to 10% or 500kW, whichever is smaller, based on the results of each quarterly application period. PSE&G shall report the actual installed capacities in each segment per quarter as part of the quarterly status reports referred to in paragraph 44 herein.

22. PSE&G may reallocate unused capacity in a segment within a quarterly period to other oversubscribed segments for that same quarterly period. PSE&G will provide notice to the Signatory Parties not less than twenty days before such capacity reallocation between segments. If, in a given quarterly period all three segments are under-subscribed, there will be no reallocation of capacity for that quarter.

23. After the reallocation of capacity described in Paragraph 22 (if any), any unused capacity in a quarterly application period will be carried over and added to the same segment in the next quarterly application period, and shall not expire.

24. During each quarterly application period, qualified projects will be accepted on a first-come, first-served basis within each segment.

25. An entity cap shall apply to the Program under certain circumstances. The details of the entity cap, as well as additional details about the quarterly application periods and related processes, is included in the Program Rules, which are attached as Exhibit A.

SREC Floor Prices

26. The SREC Floor Prices for each of the eight quarterly application periods and segments will be as follows:

(\$/SREC)	Q1&2	Q3&4	Q5&6	Q7&8
Residential	450	435	420	400
Non-res. up to 150 kW	410	395	380	360
>150 KW to 500 kW	380	365	350	330

(Note: the above-listed Floor Prices include consideration of the administrative fee that PSE&G will retain at closing from each loan issued to cover a portion of the Program's administrative costs. See Paragraph 31(a))

27. Loan commitments and SREC Floor Prices will be based on the original project design and system capacity as stated in the application. If the final project design

(as-built) is larger than the original design, the final project size (as built) will determine the appropriate Floor Price for purposes of the Loan Agreement and the final loan calculation.

Transition from Solar Loan I to Solar Loan II

28. Available capacity from the Solar Loan I Program will first be made available to customers on the Solar Loan I Program waiting list through the end date of Solar Loan I (4/16/2010), at a fixed SREC Floor Price of \$475 and the 500 kW limit shall not apply for such projects. No new projects will be added to the Solar Loan I waiting list after the BPU issues the final, written order approving Solar Loan II.

29. Capacity not used by the Solar Loan I Program waiting list will be added to the next quarterly application period in the >150 kW to 500 kW segment of Solar Loan II.

Program Rules

30. The Signatory Parties agree that the Program Rules shall be as set forth in Exhibit A. PSE&G shall have the right to amend the Program Rules as required for commercial reasons, after ten business days advance notice to the Board and the Signatory Parties, unless a Signatory Party notifies PSE&G in writing within that same ten business day period that it objects to the amendment. In such event, a Signatory Party shall have the right to seek Board review of the amendment and the Signatory Parties agree and

recommend that the Board should consider such matter on an expedited basis so as not to delay the Program implementation.

Administrative Costs

31. PSE&G shall recover reasonable and prudent incremental administrative costs associated with the Solar Loan II Program as follows and as further set forth in Exhibits B and C hereto.

- a. PSE&G will retain a percentage of the proceeds of each loan as an administrative fee to cover a portion of the Program's administrative costs, as detailed in Exhibit B. In order to accommodate this mechanism, the Signatory Parties agree that the SREC Floor Prices for each segment and period listed herein above are inclusive of the following amounts to accommodate this mechanism: \$25 for the residential segment, \$10 for the non-residential up to 150 kW segment, and \$5 for the > 150 kW to 500 kW segment.
- b. Exhibit C contains an annual schedule of PSE&G's forecast administrative costs for the Program. The Signatory Parties agree that PSE&G shall recover actual, reasonable and prudent incremental administrative costs subject to the annual and total program caps set forth in Exhibit C. If PSE&G's actual administrative costs in the following categories are below the annual capped amount in any given year between 2009 and 2012 (inclusive), the amount

below the cap shall be rolled forward on a cumulative basis and be added to the cap for the next year: Volume Related Labor (internal and external) (Column d); Other Costs: marketing, market research, Experian/Credit data and Loan II closing costs (recording fees, filings) (Column g). The following categories of administrative costs, as listed in Exhibit C, shall not be eligible for this roll-over provision: Program Management Labor (Internal and External) (Column e); Tracking System Maintenance costs (Column e); and Other Costs: office supplies, monthly desktop/SAP/ phones, and website (Column f). In addition, while Exhibit C ends with the year 2027, PSE&G shall be allowed to recover administrative costs after 2027 so long as the total Program cap is not exceeded. The only caps applicable to administrative costs for Solar Loan II are the annual and total Program amounts set forth in Exhibit C.

Credit Criteria

32. For residential applications, the minimum Experian FICO credit score shall be 680 for applicants that are salaried employees, on a fixed income, or have been self-employed for not less than two years. For residential applicants that have been self-employed for less than two years, the minimum Experian FICO credit score shall be 720. In addition, all residential applicants shall have had no bankruptcy filings in the last seven years. PSE&G will perform the remaining elements of the credit review in a similar manner as it currently does for Solar Loan I.

33. For residential applications: At closing, borrower must provide a signed affidavit stating that there has been no adverse material change to borrower's financial status affecting borrower's ability to repay the loan. If the closing occurs 6 months or more after PSE&G's loan commitment, the borrower may be required to provide updated financial documentation to demonstrate that there is no material adverse change to the borrower's financial status along with the signed affidavit.

34. For non-residential applications, the customer's financial status will be reviewed prior to closing to confirm that there have been no material adverse changes.

35. The credit criteria for the Program are attached hereto as Exhibit D.

Cost Recovery

36. PSE&G will recover the net revenue requirements associated with the Solar Loan II Program via a new Solar Loan II Program component of the Company's electric RRC ("SLP"). The SLP will be applicable to all electric rate schedules on an equal cents per kilowatt-hour basis for recovery of costs associated with the Program. The initial SLP will be based on estimated Program revenue requirements from the date of the written BPU Order, to December 31, 2010. Thereafter, the SLP will be changed nominally on an annual basis, incorporating a true-up for actuals and an estimate of the revenue requirements for the upcoming year.

37. The Signatory Parties stipulate that the revenue requirements recovered through the SLP will be calculated to include a return on investment and a return of

investment over the lives of the capital assets. The Program investments are proposed to be treated as separate utility assets, and depending on the type of investment, either depreciated or amortized as described in the corresponding section below. The revenue requirements associated with the direct costs of the Program would be expressed as:

$$\text{Revenue Requirements} = (\text{Pre-Tax Cost of Capital} * \text{Net Investment}) - \text{Net Loan Accrued Interest} + \text{Amortization and/or Depreciation} + \text{Operation and Maintenance Costs} - \text{Net Proceeds from the sale of SRECs} - \text{Cash Payments in lieu of SRECs}$$

The details of each of the above terms are described as follows:

Pre-Tax Cost of Capital – The weighted average cost of capital (WACC) for the Program. For the initial rate period, the Signatory Parties stipulate that the WACC used will be 7.9591%, (11.3092% on a pre-tax basis), based on a return on equity of 10.0%.

Net Investment – The net investment for the Program would be comprised of the following:

- Total Loan Outstanding Balances. The Total Loan Outstanding Balances are defined as: *Loan Accrued Interest Balances + Loan Principal Balances*
- SREC Inventory
- Capitalized Plant less its associated accumulated depreciation less its Accumulated Deferred Income Tax (ADIT).

The detailed monthly return calculation, (Pre-Tax Cost of Capital * Net Investment) related to these net investment components is described below:

Total Loan Outstanding Balances – The detailed monthly return calculation on the total loan outstanding balances would be as follows:

$$\text{Loan Accrued Interest} + \text{Loan Interest Rate to WACC Differential Cost}$$

where

$$\text{Loan Accrued Interest} = \text{Average Daily Outstanding Loan Balance} * (\text{Annual Loan Interest Rate} / 365) * (\# \text{ of Days in Month})$$

And

*Loan Interest Rate to WACC Differential Cost = Loan Accrued Interest * ((Pre Tax WACC / Loan Interest Rate) - 1)*

SREC Inventory – The detailed monthly return calculation on the SREC Inventory would be as follows:

*Average Daily Outstanding SREC Inventory Balance * (Pre Tax WACC / 365) * (# of Days in Month)*

Capitalized Plant less its associated accumulated depreciation less its Accumulated Deferred Income Tax (ADIT) – The corresponding detailed monthly return calculation would be based upon its prior month ending balance and current month ending balance divided by 2 times monthly Pre Tax WACC.

Net Loan Accrued Interest – This amount is subtracted from revenue requirements. It is defined as *(Loan Accrued Interest – Loan Interest Paid)*. It accounts for timing differences from when loan interest is accrued and loan interest is paid. Over the life of loan, the Loan Accrued Interest is equal to the Loan Interest Paid.

Depreciation/Amortization – This is composed of Loan Principal Paid / Amortized and Capitalized Plant Depreciation. The capitalized plant depreciation is based on a monthly vintaging methodology utilizing an expected life to determine the depreciable amount.

Operations and Maintenance Costs – Operations and Maintenance Costs would include:

- PSE&G labor and other related on-going costs required to manage and administer the Program.
- Program related information technology expenses.

Net Proceeds from the sale of SRECs – The net SREC proceeds reduce revenue requirements and is defined as:

SREC Value Credited to Loans + Gain/(Loss) on Sale of SRECs - SREC Disposition Expenses + SREC Call Option Net Benefit - SREC Floor Price Costs

SREC Value Credited to Loans – The SREC Value Credited to Loans is defined as the number of SRECs generated and credited to the loans times the higher of the “market value” of SRECs as defined in Section 1 of the Loan Agreements or the Floor Price.

Gain/(Loss) on Sale of SRECs – The proceeds from the Sale of SRECs less their corresponding inventory cost. Inventory cost is the value the SREC received when they were credited to loans as defined above.

SREC Disposition Expenses – All costs related to the disposition of SRECs for the Program.

SREC Call Option Net Benefit – The SREC Call Option is defined in Section 2.7 of the Loan Agreements. The net benefit of this option is 25% of the value of SRECs received from the Borrowers once their outstanding loan balance is reduced to zero.

SREC Floor Price Costs – When the market value of the SRECs credited to loans, as defined in Section 1 of the loan agreements, is less than the value of the SRECs priced at the Floor Price, the differential value reduces the Net Proceeds from the sale of SRECs.

Cash Payments in lieu of SRECs – This includes when the borrower chooses to repay loan with cash and any required true up cash payments.

The amortization/depreciation will be based on a monthly vintaging methodology instead of the mass property accounting typically used for utility property.

38. The revenue requirements include costs regarding administration, sales, training, evaluation, and IT capital. The Signatory Parties further stipulate that this initial calculation will use a WACC of 7.9591%, (11.3092% on a pre-tax basis) based on a return on equity of 10.0%. The Signatory Parties agree that any change in the WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent monthly

revenue requirement calculations, effective as of the date of the Board's base rate case order authorizing a change in the WACC. The Signatory Parties further agree that any change in the revenue requirement resulting from the change in the WACC will not be included in the monthly revenue requirement calculation for over and under recoveries until the date of the next scheduled annual true-up but in any event, no later than January 1 of the subsequent year. The Signatory Parties stipulate that after the initial revenue requirements period, the SLP will be calculated utilizing projected cost data subject to annual adjustments. The calculation of the revenue requirement for the purpose of setting the initial SLP for the period ending December 31, 2010 is set forth in Exhibits E1 and E2 attached hereto and made a part of this Settlement.

39. In calculating the monthly interest on net over and under recoveries, the interest rate shall be based upon the Company's interest rate obtained on its commercial paper and/or bank credit lines utilized in the preceding month. If both commercial paper and bank credit lines have been utilized the weighted average of both sources of capital shall be used. In the event that neither commercial paper nor bank credit lines were utilized in the preceding month, the last calculated rate will be used. The interest rate shall not exceed PSE&G's overall rate of return as authorized by the Board as identified in Paragraph 38 above. The interest amount charged to the SLP balance will be computed using the methodology set forth in Exhibit F attached hereto and made a part of this Settlement Agreement. The calculation of monthly interest shall be based on the net of tax average

monthly balance, consistent with the methodology set forth in Exhibit F. Simple interest shall accrue on any under and over recovered balance, and shall be included in the deferred SLP balance at the end of each reconciliation period. The true-up calculation of over- and under- recoveries shall be included in the Company's Annual Filing.

40. The Signatory Parties request that the Board set the effective date of the initial SLP as of the date of the Board's written Order approving this Settlement.

41. The SLP will be subject to adjustment and true-up through the deferral process and any required adjustment will be included in the over/under recovered balance to be recovered from or returned to ratepayers over the following year. Any Board ordered cost recovery adjustments resulting from the review of the actual costs will be made to the over/under deferred balance and reflected in the charges established for the following year pursuant to a Final Board Order. The Signatory Parties stipulate that the Company will file an annual petition ("Annual Filing") to adjust its SLP, commencing for the 2011 annual period on a calendar basis, with copies provided to the Signatory Parties, no later than September 1, 2010 and annually thereafter for the implementation of the proposed revised SLP, on January 1 of the subsequent year. Each Annual Filing will contain a reconciliation of PSE&G's actual SLP recoveries (which were based on PSE&G's projected SLP costs) and actual revenue requirements for the prior period, and a forecast of revenue requirements for the remainder of the current period and for the upcoming 12-month period that shall be based upon the Company's most current authorized ROE and capital structure. The Annual

Filing also will present actual costs incurred since the previous annual review and such costs will then be reviewed for reasonableness and prudence. The Annual Filing will also provide information set forth in the Minimum Filing Requirements (MFRs) attached hereto as Exhibit G and made a part of this Settlement Agreement. The Annual Filing will be subject to review by the Signatory Parties with opportunity for discovery and filed comments prior to the issuance of a Board Order establishing the Company's revised SLP. The issuance of a written Board Order will be preceded by adequate Public Notice and Public Hearings if required by law.

42. The Signatory Parties agree that PSE&G should be authorized to implement the rates set forth in the proposed tariff sheets attached hereto as Exhibit H on the date of the written BPU Order approving this Settlement Agreement.

43. A typical residential electric customer using 722 kilowatthours per summer month and 6,960 kilowatthours on an annual basis and on BGS-FP service with PSE&G would see an initial increase in the annual bill from \$1,282.44 to \$1,282.80 or \$0.36 or approximately 0.03%. *See* Exhibit I for residential customer bill impacts. As currently projected, the maximum rate impacts for the same typical residential electric customers from the SLP would occur in 2012. The expected maximum increase from the SLP for a typical residential customer in 2012 would be \$0.000117 per kWh (including sales and used tax (SUT)), for a typical annual residential bill impact of \$0.84 (0.066 %) or about \$0.07 per month.

44. The Company will provide quarterly status reports to the Board Staff, with a copy to the Signatory Parties, using the same format currently used for the Solar Loan I Program. In addition to the information currently reported for Solar Loan I, PSE&G will also report the following data, by segment, for Solar Loan II: number and MWs of applications received, approved, closed, withdrawn, and on waiting list; and information regarding the entity cap as described in Paragraph 18 of the Program Rules.

45. On February 17, 2009, the federal American Recovery and Reinvestment Act of 2009 (ARRA) (Pub. L. No. 111-5) was signed into law by President Barack Obama. Subject to any restrictions set forth in the ARRA and other applicable law, if the Company gets federal funds or credits directly related to the Solar Loan II Program through the ARRA, the Company agrees to utilize that money to offset the Program's costs. If funding or credits from the ARRA or any subsequent state or federal action becomes available to the Company through the State of New Jersey, a County or Municipality for project reimbursement, the Company agrees that any such funds or credits directly applicable to work related to the Solar Loan II Program will be used to benefit customers by offsetting the costs for which recovery will be sought to the extent permitted by law.

46. The Signatory Parties agree that PSE&G will attempt to resolve any disputes that arise under the Program on an informal basis. Any disputes that cannot be resolved informally shall be resolved in the appropriate legal forum.

47. This Settlement represents a mutual balancing of interests, contains interdependent provisions and, therefore, is intended to be accepted and approved in its entirety. In the event any particular aspect of this Settlement Agreement is not accepted and approved in its entirety by the Board, any Party aggrieved thereby shall not be bound to proceed with this Settlement Agreement and shall have the right to litigate all issues addressed herein to a conclusion. More particularly, in the event this Settlement is not adopted in its entirety by the Board, in any applicable Order(s), then any Party hereto is free to pursue its then available legal remedies with respect to all issues addressed in this Settlement as though this Settlement had not been signed.

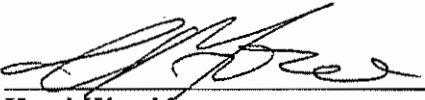
48. It is the intent of the Signatory Parties that the provisions hereof be approved by the Board as being in the public interest. The Signatory Parties further agree that they consider the Settlement to be binding on them for all purposes herein.

49. It is specifically understood and agreed that this Settlement represents a negotiated agreement and has been made exclusively for the purpose of these proceedings. Except as expressly provided herein, the Signatory Parties shall not be deemed to have approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein and, in total or by specific item. The Signatory Parties further agree that this Settlement is in no way binding upon them in any other proceeding, except to enforce the terms of this Settlement.

ANNE MILGRAM

PUBLIC SERVICE ELECTRIC AND

ATTORNEY GENERAL OF NEW JERSEY
Attorney for the Staff of the New Jersey
Board of Public Utilities

By: 
Kerri Kirschbaum
Deputy Attorney General
Alex Moreau
Deputy Attorney General

GAS COMPANY

By: _____
Gregory Eisenstark
Assistant General Corporate Rate
Counsel

DEPARTMENT OF THE PUBLIC ADVOCATE
RONALD K. CHEN, PUBLIC ADVOCATE
DIVISION OF RATE COUNSEL
STEFANIE A. BRAND, DIRECTOR

By: _____
Stefanie A. Brand, Esq.
Director

MID-ATLANTIC SOLAR ENERGY
INDUSTRIES ASSOCIATION

By: _____
Lyle K. Rawlings

THE SOLAR ALLIANCE

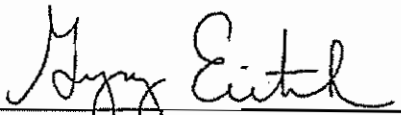
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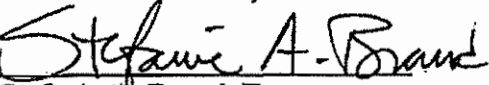
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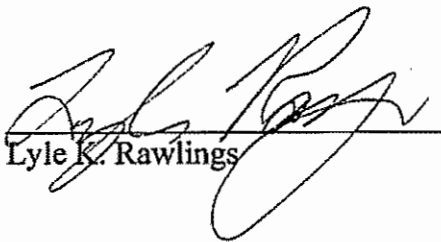
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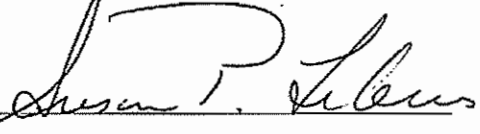
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By:  _____



**RIKER
DANZIG
SCHERER
HYLAND
PERRETTI, LLP**

James C. Meyer
Partner

Direct:
973.451.8464
jmeyer@riker.com
Reply to: Morristown

ATTORNEYS AT LAW

November 4, 2009

FEDERAL EXPRESS

Kristi Izzo, Secretary
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Re: In the Matter of the Petition of Public Service Electric and Gas
Company for Approval of a Solar II Program and an Associated
Cost Recovery Mechanism
Docket No. EO09030249

Dear Secretary Izzo:

This letter is being submitted on behalf of Rockland Electric Company ("RECO"). We are in receipt of a final Settlement document with respect to this matter to be signed by Public Service Electric and Gas Company and certain other parties.

Please be advised that RECO, which has not executed and will not be executing the Settlement document, does not take a position in support of or in opposition to the Settlement.

Respectfully submitted,

A handwritten signature in black ink, appearing to be "JCM", written over a horizontal line.

James C. Meyer

JCM/jlc

cc: Service List (via e-mail only)

3994248.1

LAW OFFICES OF BASEM RAMADAN, LLC

GATEWAY 1, SUITE 105
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Phone: 973-639-0600

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Email: Bramadan@aol.com

Basem A. Ramadan
Admitted to Practice in NJ & NY

19 Fulton Street, Suite 400
New York, NY 10038
(212) 986-6262
PLEASE REPLY TO NEWARK OFFICE

November 4, 2009

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

**Re: In The Matter Of The Petition Of Public Service Electric And Gas
Company For Approval Of A Solar Loan II Program And An
Associated Cost Recovery Mechanism
BPU Docket No. EO09030249**

Dear Secretary Izzo,

This letter is submitted on behalf of the New Jersey Solar Industry Manufacturers Association ("NJSIMA"). Please be advised that NJSIMA will not submit opposition to the settlement in the above-entitled matter.

Respectfully submitted;

/s Basem Ramadan

Basem Ramadan, Esq.

Encl.

Cc: Distribution List

PSE&G SOLAR LOAN II PROGRAM RULES

Eligibility Requirements

1. Definition of a Solar Project – A system that converts sunlight into measurable and verifiable alternating current (AC) electric power.
2. Projects must be installed within PSE&G’s service territory at a customer location that receives (or that will receive in the case of new construction) retail electricity service from PSE&G.
3. The solar photovoltaic panels must be covered by a 20-year warranty.
4. The combination of PSE&G loan and the BPU rebate (where eligible for both) cannot exceed the system cost. In addition, all applicants must submit a signed affidavit stating that the combination of the PSE&G loan amount, the BPU rebate (if any), and the federal tax credit or grant will not exceed the total system cost. PSE&G shall have no obligation to verify the customer’s certification that the combination of the PSE&G loan amount, the BPU rebate (if any), and the federal tax credit or grant will not exceed the total system cost.
5. All net-metered projects not larger than 500 kW (D.C.) that are eligible to receive SRECs are eligible to participate in the Program, with the exception of projects receiving NJ CEP CORE rebates.
6. Only one application can be submitted for each project.
7. For non-residential projects, loan applicants must be registered to do business in New Jersey.
8. Applicant must meet minimum insurance requirements as specified in the Solar Loan Agreement.
9. Applicant must make provision for solar system maintenance.

Segments and Capacity Allocations

10. Loan applications will be accepted into the following segments:

- | | |
|---|-------|
| a. Greater than 150 kW up to 500 kW (non-residential) | 25 MW |
| b. Up to 150 kW (non-residential) | 17 MW |

c. Residential

9 MW

11. Loan applications will be accepted on a quarterly basis, with eight application periods over a two-year period. The first application period will begin as soon as practicable after BPU approval. The following table shows the initial proposed schedule of quarterly application periods:

Application Period/Capacity Schedule			Available (MW)								
Class	% of Total	Total MW	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	
Residential	17.7%	9	0.4	0.6	0.8	1.20	1.50	1.50	1.50	1.50	
Non Residential											
Quarterly Amount	100%	51	20%	20%	15%	15%		8%	8%	8%	6%
Non-Resi ≤150kW	33.3%	17	1.0	1.5	2.0	2.8	2.5	2.5	2.5	2.2	
Non-Resi >150kW ≤500kW	49.0%	25	8.1	7.4	4.6	3.4	0.5	0.5	0.5	0	
Total		51	9.5	9.5	7.4	7.4	4.5	4.5	4.5	3.7	

During each quarterly application period, qualified applications/projects will be accepted on a first-come, first-served basis within each segment

The quarterly allocations of capacity for each segment set forth herein may be increased by up to 10% or 500kW, whichever is smaller, based on the results of the application process for each quarterly application period. PSE&G shall report the actual installed capacities in each segment per quarter as part of its quarterly status reports.

12.

- a. PSE&G may reallocate unused capacity in a segment within a quarterly period to other over-subscribed segments for that same quarterly period. PSE&G will provide notice to the Signatory Parties not less than twenty days before such capacity reallocation between segments. If, in a given quarterly period all three segments are under-subscribed, there will be no reallocation of capacity for that quarter.
- b. After the reallocation of capacity described in Paragraph 12(a) (if any), any unused capacity within a segment will be carried over and added to the same segment in the next quarterly period, and shall not expire.

13. If, after any capacity reallocation as described herein, during any quarterly period there is an excess of qualified applications for any segment, PSE&G will establish a waiting list (based on the order the applications were received), and those applications on the waiting list will be first in line for the next quarterly period. However, the size of the waiting list created in any one quarterly period will be limited to the amount of capacity that will be available in the next quarterly period within the same segment. Customers on the waiting list will be given the option to be assigned capacity in a subsequent quarterly period, at the Floor Price in effect at the time.
14. Quarter 1 shall be defined as the period January 1, 2010 – March 31, 2010, and shall include the remaining months in 2009 after PSE&G begins accepting applications in the Solar Loan II program.

SREC Floor Prices

15. The SREC Floor Prices for each of the eight quarterly application periods and segments will be as follows:

(\$/SREC)	Q1&2	Q3&4	Q5&6	Q7&8
Residential	450	435	420	400
Non-res. up to 150 kW	410	395	380	360
>150 KW to 500 kW	380	365	350	330

(Note: The above-listed Floor Prices include consideration of the administrative fee that PSE&G will retain at closing from each loan issued to cover a portion of the Program’s administrative costs).

16. Loan commitments and SREC Floor Prices will be based on the original project design and system capacity as stated in the application. If the final project design (as-built) is larger than the original design, the final project size (as built) will determine the appropriate Floor Price for purposes of the Loan Agreement and the final loan calculation.
17. 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 (NJ CEP) website or the applicable successor

website or posting location 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 or otherwise available from the NJ CEP or its successor for the relevant month, the Market Value will be the average of quotes received from three independent brokers. The higher of the applicable Floor Price or the Market Value will be applied toward loan repayment.

Entity Cap

18. No one entity (including any affiliated entities) shall receive loans in a given quarterly application period for more than 20% of the available capacity in that quarterly application period. However, an entity cap shall not apply in any quarterly application period when the total capacity for that quarter has not been filled. In such event, PSE&G may accept applications that would otherwise be barred by the entity cap, up to the total amount of undersubscription for that quarterly period. If more than one entity has submitted applications in excess of the quarterly entity cap, then the shortfall capacity for that quarterly period shall be awarded on a first-come, first-served basis. PSE&G will determine whether the exception to the entity cap applies for any particular applicant after the conclusion of each quarterly application period, and include any such determination as well as general information regarding the application of the entity cap in the quarterly status reports to be filed by PSE&G.

General Program Rules

19. The Floor Price established in each loan agreement will remain in effect for the duration of the loan term.
20. Project construction must begin within 3 months of loan commitment as evidenced by:
- Receipt of the necessary local municipal construction permit
 - Construction schedule provided to PSE&G
 - Notification to PSE&G that construction has commenced within 30 days of permit receipt.

PSE&G may provide an extension for this requirement based on sufficient demonstration of project viability, including but not limited to initiation of design and assemblage activity, and ordering equipment necessary for project construction. Requests for such an extension shall not be unreasonably withheld.

Exhibit A

21. Approved projects must be completed within 12 months after PSE&G issues a loan commitment. PSE&G may provide an extension for this requirement based on sufficient demonstration of project viability. If a residential borrower experiences project delays beyond the borrower's control, the borrower will be given 6 additional months before the loan commitment is withdrawn.
22. Projects under construction but not in commercial operation are eligible to apply for the Solar Loan II Program. "Commercial operation" means that the system is operating and has been inspected by the State of New Jersey in preparation for the issuance of SRECs.
23. Solar systems of 50kW or smaller will be eligible to receive BPU rebates under the current rebate program, subject to the requirements of Paragraph 4 of these Program Rules. However, customers receiving a rebate under the CORE program are not eligible for the Solar Loan II Program.
24. All projects will be required to install a communications system as specified by PSE&G to enable monitoring of system output.
25. PSE&G will close the loan within 30 days after all Program requirements have been met.
26. Non-residential loans will have a 15-year life and residential loans will be 10 years.
27. The interest rate for non-residential loans will be 11.3092% and the interest rate for residential loans will be 6.5%.
28. PSE&G will have a the same call option as currently in effect for the Solar Loan I Program for loans that are paid off early.

Basis For Rejection

29. PSE&G will have final authority on whether any particular application is eligible.
30. Failure to meet eligibility and/or threshold requirements.
31. Failure to submit required supporting documentation within the required time frame or the inability to verify or document any material representation within the application.
32. Willful or material misrepresentations in the project application.
33. Illegal conduct of the applicant or attempts by applicant to influence PSE&G's acceptance.

34. Changes in laws or regulations affecting this Program.
35. 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.
36. 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.

Loan Defaults

37. 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 Program's revenue requirements. 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 equipment removal.

Dispute Resolution

38. The Signatory Parties agree that PSE&G will attempt to resolve any disputes that arise under the Program on an informal basis. Any disputes that cannot be resolved informally shall be resolved in the appropriate legal forum.

Exhibit B

Illustrative loan amounts at various system sizes and floor prices

Residential: Add \$25 to floor price, withhold 6% to credit towards administrative costs				
Floor Price	<u>10 kw</u>	<u>7 kw</u>	<u>3 kw</u>	
Loan Amt @\$425 \$	31,485	\$ 22,040	\$ 9,446	
Loan Amt @\$450 \$	33,337	\$ 23,336	\$ 10,001	
Difference \$	1,852	\$ 1,296	\$ 556	
withhold 6% \$	2,000	\$ 1,400	\$ 600	
net loan \$	31,337	\$ 21,936	\$ 9,401	

Non Residential up to 150 kw: Add \$10 to floor price, withhold 2.5% to credit towards administrative costs				
Floor Price	<u>25 kw</u>	<u>50 kw</u>	<u>100 kw</u>	<u>150 kw</u>
Loan Amt @\$400 \$	72,499	\$ 144,999	\$ 289,998	\$ 434,997
Loan Amt @\$410 \$	74,312	\$ 148,624	\$ 297,248	\$ 445,872
Difference \$	1,812	\$ 3,625	\$ 7,250	\$ 10,875
withhold 2.5% \$	1,858	\$ 3,716	\$ 7,431	\$ 11,147
net loan \$	72,454	\$ 144,908	\$ 289,817	\$ 434,725

Non Residential over 150 kw and up to 500kw: Add \$5 to floor price, withhold 1.5% to credit towards administrative costs			
Floor Price	<u>151 kw</u>	<u>250 kw</u>	<u>500 kw</u>
Loan Amt @\$375 \$	410,528	\$ 679,683	\$ 1,359,365
Loan Amt @\$380 \$	416,002	\$ 688,745	\$ 1,377,490
Difference \$	5,474	\$ 9,062	\$ 18,125
withhold 1.5% \$	6,240	\$ 10,331	\$ 20,662
net loan \$	409,762	\$ 678,414	\$ 1,356,828

Exhibit C
Administrative Cost Cap by Year

Year	(a) Program Management Labor (internal and external) - Solar Loan I and II ¹	(b) Program Management Labor (internal and external) - Allocation to Solar Loan I (30/81)	(c) Program Management Labor (internal and external) - Allocation to Solar Loan II (51/81)	(d) Volume Related Labor (internal and external) ²	(e) Tracking System Maintenance	(f) Other Costs: office supplies, monthly desktop/SAP/phones, and website	(g) Other Costs: marketing, market research, Experian/credit data, and Loan II closing costs (recording fees, filings)	(h) Customer Payments (Application Fee and Administrative Costs Contribution)	Sum (c) to (h)	(d) + (g)
2009	\$ 130,688	\$ 48,403	\$ 82,285	\$ 119,850	\$ -	\$ 9,450	\$ 371	\$ -	\$ 211,956	\$ 120,221
2010	\$ 860,625	\$ 318,750	\$ 541,875	\$ 1,707,863	\$ 15,741	\$ 56,700	\$ 695,370	\$ (1,317,288)	\$ 1,700,261	\$ 2,403,233
2011	\$ 886,444	\$ 328,313	\$ 558,131	\$ 2,990,270	\$ 16,213	\$ 58,401	\$ 938,806	\$ (2,159,298)	\$ 2,402,524	\$ 3,929,076
2012	\$ 913,037	\$ 338,162	\$ 574,875	\$ 1,929,552	\$ 16,699	\$ 60,153	\$ 416,100	\$ (858,007)	\$ 2,139,372	\$ 2,345,652
2013	\$ 1,320,779	\$ 489,177	\$ 831,602	\$ -	\$ 17,200	\$ 61,958	\$ 10,000	\$ -	\$ 920,760	\$ -
2014	\$ 1,360,402	\$ 503,853	\$ 856,550	\$ -	\$ 17,716	\$ 63,816	\$ 10,000	\$ -	\$ 948,082	\$ -
2015	\$ 1,401,215	\$ 518,968	\$ 882,246	\$ -	\$ 18,248	\$ 65,731	\$ -	\$ -	\$ 966,225	\$ -
2016	\$ 1,443,251	\$ 534,537	\$ 908,714	\$ -	\$ 18,795	\$ 67,703	\$ -	\$ -	\$ 995,212	\$ -
2017	\$ 1,486,549	\$ 550,574	\$ 935,975	\$ -	\$ 19,359	\$ 69,734	\$ -	\$ -	\$ 1,025,068	\$ -
2018	\$ 1,531,145	\$ 567,091	\$ 964,054	\$ -	\$ 19,940	\$ 71,826	\$ -	\$ -	\$ 1,055,820	\$ -
2019	\$ 1,577,079	\$ 584,103	\$ 992,976	\$ -	\$ 20,538	\$ 73,981	\$ -	\$ -	\$ 1,087,495	\$ -
2020	\$ 1,624,392	\$ 601,627	\$ 1,022,765	\$ -	\$ 21,154	\$ 76,200	\$ -	\$ -	\$ 1,120,119	\$ -
2021	\$ 1,673,123	\$ 619,675	\$ 1,053,448	\$ -	\$ 21,789	\$ 78,486	\$ -	\$ -	\$ 1,153,723	\$ -
2022	\$ 1,723,317	\$ 638,266	\$ 1,085,052	\$ -	\$ 22,443	\$ 80,841	\$ -	\$ -	\$ 1,188,335	\$ -
2023	\$ 1,775,017	\$ 657,414	\$ 1,117,603	\$ -	\$ 23,116	\$ 83,266	\$ -	\$ -	\$ 1,223,985	\$ -
2024	\$ 1,828,267	\$ 677,136	\$ 1,151,131	\$ -	\$ 23,809	\$ 85,764	\$ -	\$ -	\$ 1,260,704	\$ -
2025	\$ 1,883,115	\$ 697,450	\$ 1,185,665	\$ -	\$ 24,524	\$ 88,337	\$ -	\$ -	\$ 1,298,525	\$ -
2026	\$ 1,939,609	\$ 718,374	\$ 1,221,235	\$ -	\$ 25,259	\$ 90,987	\$ -	\$ -	\$ 1,337,481	\$ -
2027	\$ 1,997,797	\$ 739,925	\$ 1,257,872	\$ -	\$ 26,017	\$ 93,716	\$ -	\$ -	\$ 1,377,606	\$ -
Total Program Cap: \$23,413,252										

¹ Includes resources for program management for both Solar Loan I and Solar Loan II (e.g. management, business analysis/reporting, SREC/Loan administration, legal/credit support, admin support); these resources will be allocated to Solar Loan I and Solar Loan II on a pro-rata basis based on the total program sizes of 30 MW and 51 MW respectively. If capacity for Solar Loan I is transferred to Solar Loan II, the allocation rates will be adjusted for the MWs transferred from Solar Loan I to Solar Loan II on a prospective basis.

² Includes resources to support volume driven activities (e.g. business development, marketing, application processing, credit, closing)

Credit Requirements

All Applicants are required to meet the following requirements:

1. Applicants must submit to and satisfy a formal credit review and provide the necessary documents for its completion.
2. Applicant or host (as applicable) must be in good standing with respect to payment of PSE&G energy bills
3. PSE&G will maintain a lien on the solar equipment and will obtain a first priority lien position where appropriate. However, PSE&G is not required to obtain a first priority lien.
4. The customer must disclose the existence of any liens on the solar equipment or the property where the solar equipment will be installed.
5. A search for liens will be conducted prior to closing.
6. No disputes in regard to ownership of the underlying property at the time of ownership. Property title must be free and clear at closing.

A. Residential Customers

The credit review will include, but not necessarily be limited to the following:

1. If the customer is a salaried employee, is on a fixed income, or has been self-employed for not less than two years, the customer must have an Experian FICO score of at least 680 at the time of application.
2. If the customer has been self-employed for less than two years, a credit score of 720 is required at the time of application.
3. No bankruptcy filing within the past seven years.
4. A financial review of the debt to income ratio will be conducted, along with other financial analysis as warranted by the circumstances.
5. At closing, customer must submit a signed affidavit stating that there has been no adverse material change to their financial status affecting their ability to repay the loan. If the closing occurs 6 months or more after PSE&G's loan commitment, customer may be required to provide updated financial documentation to demonstrate that there is no material adverse change to their financial status along with the signed affidavit.

B. Non-Residential Customers (Commercial and Industrial)

The credit review will include, but not necessarily be limited to the following:

1. A review of an appropriate credit report (currently the Experian Intelliscore Plus).
2. A review of the debt rating.

3. If credit enhancements are determined to be necessary, the applicant will be required to provide one of the following:
 - a. A Letter of Credit to secure the outstanding loan balance from a US financial institution rated Single A+/A1 or higher
 - b. A payment guarantee from a third party. The third party must have a credit profile acceptable to PSE&G.
 - c. Other security that is acceptable to PSE&G, which may include collateral reserves, debt service coverage requirements, and other covenants.
4. No bankruptcy filing within the past three years.
5. The customer's financial status will be reviewed prior to closing to confirm that there have been no material adverse changes.

C. Non-Residential Customers (Governmental Entities)

The credit review will include, but not necessarily be limited to the following:

1. Governmental applicants must have a minimum bond rating of BBB
2. In lieu of the bond rating, the applicant must provide:
 - a. A Letter of Credit to secure the outstanding loan balance from a US financial institution rated Single A+/A1 or higher
 - b. A payment guarantee from a third party. The third party must have a credit profile acceptable to PSE&G.
 - c. Other security that is acceptable to PSE&G, which may include collateral reserves, debt service coverage requirements, and other covenants.
3. No bankruptcy filing within the past three years.

The customer's financial status will be reviewed prior to closing to confirm that there have been no material adverse changes

**PSE&G Solar Loan II Program
Electric Revenue Requirements Calculation - Summary**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(17a)	(18)	(19)	(20)	
	TRN Loan Outstanding Balance	SREC Payment	Total Net Loan Investment	Return Requirement On Net Loan Investment	Ret Plant Investment	Return Requirement on Plant Investment	Loan Accrued Interest	Loan Interest Paid	Net Loan Accrued Interest	Principal Paid (Amortized)	Plant Depreciation	Depreciation/Amortization	DM Expenses	SREC Value Credited to Lessor	Gain/(Loss) on SREC Sales	SREC Depreciation Expenses	SREC Call Option Net Benefit	SREC Floor Price Cost	Net Proceeds from the Sale of SRECs	Cash Payments to Lessor	Revenue Requirements	
Monthly Calculations																						
Jan-10																						
Feb-10																						
Mar-10																						
Apr-10																						
May-10																						
Jun-10																						
Jul-10																						
Aug-10																						
Sep-10																						
Oct-10	53,343,085		53,343,085																			
Nov-10	53,314,405		53,314,405																			
Dec-10	54,325,265		54,325,265																			
Jan-11	54,303,911	515,775	54,819,686	515,775			489,321	515,775	489,321													
Feb-11	54,349,118	522,950	55,872,068	522,950			493,860	522,950	493,860													
Mar-11	54,276,292	544,450	55,820,742	544,450			498,441	544,450	498,441													
Apr-11	95,841,718	1,249,528	97,091,246	1,249,528			498,313	1,249,528	498,313													
May-11	95,692,425	1,274,425	96,966,850	1,274,425			498,441	1,274,425	498,441													
Jun-11	95,441,626	1,317,635	96,759,261	1,317,635			498,313	1,317,635	498,313													
Jul-11	95,029,088	1,372,816	96,401,904	1,372,816			498,313	1,372,816	498,313													
Aug-11	92,449,260	1,428,958	93,878,218	1,428,958			498,313	1,428,958	498,313													
Sep-11	90,969,484	1,485,132	92,454,616	1,485,132			498,313	1,485,132	498,313													
Oct-11	89,209,975	1,541,342	90,751,317	1,541,342			498,313	1,541,342	498,313													
Nov-11	87,114,602	1,597,594	88,712,196	1,597,594			498,313	1,597,594	498,313													
Dec-11	84,681,533	1,653,888	86,335,421	1,653,888			498,313	1,653,888	498,313													
Jan-12	81,953,765	1,710,222	83,663,987	1,710,222			498,313	1,710,222	498,313													
Feb-12	79,069,980	1,766,596	81,836,576	1,766,596			498,313	1,766,596	498,313													
Mar-12	75,974,120	1,823,010	77,797,130	1,823,010			498,313	1,823,010	498,313													
Apr-12	72,723,043	1,879,464	74,602,507	1,879,464			498,313	1,879,464	498,313													
May-12	69,369,751	1,935,958	71,305,709	1,935,958			498,313	1,935,958	498,313													
Jun-12	65,867,812	2,002,492	67,870,304	2,002,492			498,313	2,002,492	498,313													
Jul-12	62,270,318	2,069,066	64,339,384	2,069,066			498,313	2,069,066	498,313													
Aug-12	58,553,378	2,135,680	60,689,058	2,135,680			498,313	2,135,680	498,313													
Sep-12	54,681,356	2,202,334	56,883,690	2,202,334			498,313	2,202,334	498,313													
Annual Summary																						
2009	54,325,265		54,325,265				983,180		983,180													
2010	114,093,602	3,246,988	117,340,590	3,246,988			9,096,443	9,669,886	9,096,443	7,073,015	16,867	7,089,681		16,742,901	(50,943)	340,288		16,351,630			1,727,119	
2011	122,019,022	7,604,134	129,623,156	7,604,134			12,847,524	13,357,280	12,847,524	14,223,783	20,000	14,243,783		27,581,023	(114,546)	750,460		26,716,017			3,532,137	
2012	105,662,753	7,331,125	112,993,878	7,331,125			12,049,052	12,049,052	12,049,052	16,356,259	20,000	16,376,259		29,405,311	(28,000)	656,300		27,429,921			4,669,827	
2013	88,578,795	7,264,597	95,843,392	7,264,597			10,325,936	10,325,936	10,325,936	17,943,968	20,000	17,963,968		27,609,904	(27,360)	626,461		27,332,544			3,590,510	
2014	70,635,223	7,051,011	77,686,234	7,051,011			8,517,575	8,517,575	8,517,575	17,943,968	20,000	17,963,968		26,461,146	(18,800)	797,745		25,544,571			3,181,836	
2015	51,709,989	6,767,791	58,477,780	6,767,791			6,688,745	6,688,745	6,688,745	16,926,224	20,000	16,946,224		25,534,969	(18,165)	769,943		24,646,841			2,995,776	
2016	31,633,687	6,536,970	38,170,657	6,536,970			4,866,333	4,866,333	4,866,333	20,073,112	20,000	20,093,112		24,856,345	(109,760)	743,362		23,800,203			2,781,349	
2017	11,109,961	6,305,738	17,415,699	6,305,738			2,428,431	2,428,431	2,428,431	20,525,926	20,000	20,545,926		22,855,357	(108,624)	717,657		22,440,913			2,370,467	
2018	1,699,963	6,086,076	7,786,039	6,086,076			2,221	2,221	2,221	9,409,998	20,000	9,429,998		10,165,449	(105,045)	692,700		9,859,183			(697,768)	
2019										1,899,963	20,000	1,919,963		1,754,623	(101,396)	668,503		1,653,227				(2,757,702)
2020											3,333	3,333		(93,680)	(620,582)	5,027,356		4,312,794			(2,769,762)	
2021														(60,039)	(533,883)	4,311,822		3,697,900			(2,176,470)	
2022														(73,003)	(494,779)	4,102,661		3,332,824			(1,996,994)	
2023														(72,381)	(477,536)	3,959,674		3,069,173			(1,849,634)	
2024														(69,894)	(460,896)	3,393,848		3,028,958			(1,446,810)	
2025														(58,507)	(353,374)	1,127,464		891,168			50,660	
2026														(3,341)	(3,177)	81,409		78,232			1,392,517	
2027																						0
2028																						0
Total							68,351,234	68,351,234	68,351,234	143,315,799	200,000	143,515,799		211,867,033	(1,503,843)	9,866,291		230,855,191				16,525,295

Annual Pre-Tax WACC 11.3023%
 Monthly Pre-Tax WACC 0.94242%
 Income Tax Rate 41.084%

From Sched SS-3 Col 9
 From Sched SS-3 Col 10
 From Sched SS-3 Col 11
 From Sched SS-3 Col 12
 From Sched SS-3 Col 13
 From Sched SS-3 Col 14
 From Sched SS-3 Col 15
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 From Sched SS-3 Col 99
 From Sched SS-3 Col 100

**PSE&G Solar Loan II Program
Electric Revenue Requirements Calculation - Detail**

Exhibit E2
Schedule SS-3 Rev7
Page 2 of 2

Annual Pre-Tax WACC 11.3002%
Monthly Pre-Tax WACC 0.34283%
Income Tax Rate 41.004%

(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)
SREC Investor	SREC Dividend Expenditures	SREC Disposition Expenses	SREC Cash Disposed Net	SREC Floor Price Cost	Gross Plant	Plant Depreciation	Accumulated Depreciation	Net Plant Investment	Accumulated Deferred Income Tax	Declined Income Tax	Income Tax	Rebate Requested (Market)	CAM Expense	Revenue Requirements	Alternative Revenue Recognition Scenario
5,165,775															
972,900	4,861														
1,544,450	9,169														
7,114,275	14,555	46,334													
1,724,425	6,703														
2,837,635	16,522														
2,372,616	28,743	83,600													
4,698,918	22,350														
7,011,828	44,284														
2,116,484	66,082	210,355													
3,913,612	19,947														
5,348,988	38,885														
1,124,928	50,411	160,470													
2,123,748	10,602														
3,370,678	20,015														
1,551,240	31,768	101,126													
3,759,804	14,619														
6,185,107	35,434														
3,460,777	58,291	102,117													
6,652,306	32,616														
#####	64,578														
5,807,333	418,201	668,503	5,687,370	200,000	1/120 of Exch	20,000	186,667	3,333	1,269	(8,217)	1,584	685	1,120,119	(2,757,702)	(2,757,702)
5,135,885	345,518	620,582	5,027,056	200,000	Prior 120 Months of Col 2	20,000	200,000	3,333	(0)	(1,369)	(0)	19	1,153,723	(2,759,782)	(2,759,782)
4,597,027	331,095	533,883	4,311,822	200,000	10 year (10 year amortization)	20,000	200,000	0	(0)	(0)	(0)	0	1,188,235	(2,178,470)	(2,178,470)
4,350,125	310,245	494,775	4,102,681	200,000		20,000	200,000	0	(0)	(0)	(0)	0	1,223,965	(1,998,594)	(1,998,594)
4,198,522	299,419	477,536	3,959,674	200,000		20,000	176,667	23,333	17,803	(8,217)	9,586	2,221	1,260,704	(1,849,634)	(1,849,634)
3,074,084	283,517	460,896	3,559,648	200,000		20,000	186,667	3,333	(0)	(0)	(0)	0	1,298,525	(1,446,816)	(1,446,816)
707,368	110,347	203,354	1,127,079	200,000		20,000	200,000	0	(0)	(0)	(0)	0	1,337,481	550,660	550,660
	14,289	31,737	86,465	200,000		20,000	200,000	0	(0)	(0)	(0)	0	1,377,606	1,338,517	1,338,517
				200,000		200,000	200,000	0	(0)	(0)	(0)	0		0	0
6,307,472	9,866,291	30,578,292					200,000		(0)			87,541	23,413,252	16,525,295	16,525,295

Col 3 - Col 4 - Col 5 - 3a + 3b - 14 +
Col 6 + Col 7 + Col 8 - 16 + 17 - 16 +
Col 14 + Col 15 + Col 16 + Col 17 + Col 18 + Col 20 + 21 + Col 27 + Col 28

See WP SS-13k Amount Wght
WP SS-13k Amount Wght
WP SS-2.16s Loan weight Col 34
WP SS-2.16s Loan weight Col 36
WP SS-2.16s Loan weight Col 38
WP SS-2.16s Loan weight Col 40

Prior Col 15
Col 12
Col 13
Col 14

Prior Col 26 + Col 20172 Monthly Pre Tax WACC
Col 22 - Col 25
Col 24
Col 25

Program Assumption
Col 3 - Col 4 - Col 5 - 3a + 3b - 14 + Col 6 + Col 7 + Col 8 - 16 + 17 - 16 + Col 14 + Col 15 + Col 16 + Col 17 + Col 18 + Col 20 + 21 + Col 27 + Col 28

PS&G Solar Loan II Program Under/Over Calculation
 0.00039 SL II Rate w/o SUT \$/MWh (Total Row 2 / Total Row 9) (Row 6)
 41.084% Tax Rate
 0.71% Annual Interest Rate

	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Total
RGGI SL II Under/Over Calculation (\$1000)															
(1) Solar Loan II RGGI Revenue	122.0	128.6	140.9	126.2	132.5	116.1	130.7	147.0	180.5	174.9	144.7	120.6	121.6	128.5	1,921 SL II Rate - Row 6
(2) Revenue Requirements	102.1	109.8	173.1	176.9	173.1	172.1	132.6	128.4	135.2	139.5	110.2	117.9	136.6	131.3	1,939 From SS-2, Col 2D
(3) Monthly Under/Over Recovery	(19.9)	(18.6)	32.2	50.7	40.6	56.0	2.0	(18.7)	(45.3)	(35.4)	(34.5)	(8.7)	15.0	2.9	Row 2 - Row 1
(4) Deferred Balance	(19.9)	(38.7)	(6.5)	44.2	84.8	140.9	142.9	124.2	70.0	43.5	9.0	0.3	15.3	18.2	Prev Row 4 + Row 3
(5) Monthly Interest Rate	0.05917%	0.05917%	0.05917%	0.05917%	0.05917%	0.05917%	0.05917%	0.05917%	0.05917%	0.05917%	0.05917%	0.05917%	0.05917%	0.05917%	Annual Interest Rate / 12
(6) After Tax Monthly Interest Expense/Credit	(0.0)	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(Prev Row 4 + Row 4) / 12 - (1 - Tax Rate) * Row 5
(7) Cumulative Interest	(0.0)	(0.0)	(0.0)	(0.0)	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	Prev Row 7 + Row 6
(8) Balance Added to Subsequent Year's Revenue Requirements														18.4	Row 4 + Row 7
(9) Net Sales - MWh (000)	3,170,325	3,208,406	3,612,406	3,236,833	3,397,118	2,970,115	3,351,982	3,770,429	4,626,970	4,484,512	3,752,701	3,246,683	3,118,189	3,264,081	40,252,730

Minimum Filing Requirements

1. A monthly revenue requirement calculation based on program expenditures, showing the actual monthly revenue requirement for each of the past twelve months or clause-review period, as well as supporting calculations, including the information related to the tax rate and revenue multiplier used in the revenue requirement calculation.
2. For the review period, actual revenues, by month and by rate class recorded under the programs.
3. Monthly beginning and ending clause balances, as well as the average balance net of tax for the 12-month period.
4. The interest rate used each month for over/under recoveries, and all supporting documentation and calculations for the interest rate.
5. The interest expense to be charged or credited to ratepayers each month.
6. A schedule showing budgeted versus actual program costs and revenues.
7. The monthly journal entries relating to capital and regulatory assets and O&M expenses for the 12 month review period.
8. Supporting details for all administrative costs included in the revenue requirement.
9. Information supporting the carrying cost used for the unamortized costs.
10. Number of loans closed, including a breakdown by Segment.
11. Total capacity of solar systems for which loans have been closed, including a breakdown by Segment.
12. Estimated kWhs generated by the solar systems for which loans have been closed, including a breakdown by Segment.
13. Number of loans closed by quarter.
14. Emissions reductions from the Program, including a breakdown by Segment.
15. Number of SRECs received under the Program, including a breakdown by Segment
16. Net revenues received from sales of SRECs for the 12-month review period.
17. A narrative description of issues and problems that have arisen regarding the Program, if any, along with an action plan to address them.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

XXX Revised Sheet No. 64C

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

Superseding

XXX Revised Sheet No. 64C

RGGI RECOVERY CHARGE

**Charge
(cents per kilowatthour)**

Component:

Carbon Abatement Program.....	0.0020
Demand Response Working Group Modified Program	0.0000
Energy Efficiency Economic Stimulus Program.....	0.0350
Demand Response Program	0.0067
Solar Generation Investment Program	0.0177
Solar Loan II Program.....	0.0039
Sub-total per kilowatthour	<u>0.0653</u>

Charge including New Jersey Sales and Use Tax (SUT)..... 0.0699

RGGI RECOVERY CHARGE

This charge is designed to recover the revenue requirements associated with the PSE&G Regional Greenhouse Gas Initiative (RGGI) programs. The charge will be reset nominally on an annual basis. For the Demand Response Working Group Modified Program, interest at the two-year constant maturity treasury rate plus 60 basis points will be accrued monthly on any under- or over-recovered balances. For all other programs, interest at the weighted average of the interest rates on PSE&G's commercial paper and bank credit lines utilized in the prior month will be accrued monthly on any under- or over-recovered balances. The interest rates shall be reset each month.

Date of Issue:

Effective:

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

TYPICAL RESIDENTIAL ELECTRIC BILL IMPACTS

The initial effect of the proposed change in the electric RGGI Recovery Charge on typical residential electric bills, if approved by the Board, is illustrated below:

Residential Electric Service					
If Your Monthly Summer kWhr Use Is:	And Your Annual kWhr Use Is:	Then Your Present Annual Bill (1) Would Be:	And Your Proposed Annual Bill (2) Would Be:	Your Annual Bill Change Would Be:	And Your Percent Change Would Be:
170	1,800	\$351.68	\$351.80	\$0.12	0.03%
360	3,600	674.12	674.24	0.12	0.02
722	6,960	1,282.44	1,282.80	0.36	0.03
803	7,800	1,437.31	1,437.62	0.31	0.02
1,250	12,000	2,214.00	2,214.52	0.52	0.02

(1) Based upon current Delivery Rates and Basic Generation Service Fixed Pricing (BGS-FP) charges in effect October 12, 2009 and assumes that the customer receives BGS-FP service from Public Service.

(2) Same as (1) except includes the addition of the Solar Loan II Program component to the RGGI Recovery Charge.

Residential Electric Service					
If Your Annual kWhr Use Is:	And Your Monthly Summer kWhr Use Is:	Then Your Present Monthly Summer Bill (3) Would Be:	And Your Proposed Monthly Summer Bill (4) Would Be:	Your Monthly Summer Bill Change Would Be:	And Your Percent Change Would Be:
1,800	170	\$32.86	\$32.87	\$0.01	0.03%
3,600	360	66.87	66.88	0.01	0.01
6,960	722	133.31	133.34	0.03	0.02
7,800	803	148.92	148.95	0.03	0.02
12,000	1,250	235.04	235.09	0.05	0.02

(3) Based upon current Delivery Rates and Basic Generation Service Fixed Pricing (BGS-FP) charges in effect October 12, 2009 and assumes that the customer receives BGS-FP service from Public Service.

(4) Same as (3) except includes the addition of the Solar Loan II Program component to the RGGI Recovery Charge.