



March 31, 2009

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. _____

VIA ELECTRONIC MAIL & REGULAR MAIL

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

Dear Secretary Izzo:

Enclosed for filing are the original and ten (10) copies of the Petition, Testimony and Schedules, and supporting documents of Public Service Electric and Gas Company (Public Service; the Company; PSE&G) in the above-captioned matter.

Public Service respectfully requests that the Board retain jurisdiction of this matter and not transfer the filing to the Office of Administrative Law. PSE&G believes evidentiary hearings are not necessary for the Board to approve this Program. The Company will work diligently with all parties in the proceeding in as timely and equitable a manner as is possible.

Electronic copies of certain schedules and work papers are being provided on a CD, because the files are too large to send via e-mail, which is being supplied to your offices and those below as indicated.

Respectfully submitted,
Original Signed by
Gregory Eisenstark

C Attached Service List

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

| | | | |
|---|---|--|---|
| <p>BPU Alice Bator, Bureau Chief * Board of Public Utilities Two Gateway Center Newark, NJ 07102 PHONE: (973) 648-2448 FAX: (973) 648-7420 alice.bator@bpu.state.nj.us</p> <p>Mark Beyer, Chief Economist Board of Public Utilities Two Gateway Center Newark, NJ 07102 PHONE: (973) 693-3414 FAX: (973) 648-4410 mark.beyer@bpu.state.nj.us</p> <p>Victor Fortkiewicz, Executive Director Board of Public Utilities Two Gateway Center Newark, NJ 07102 PHONE: (973) 648-4852 FAX: (973) 648-2409 victor.fortkiewicz@bpu.state.nj.us</p> <p>Benjamin Hunter Board of Public Utilities Two Gateway Center Newark, NJ 07102 PHONE: (____) ____-____ FAX: (____) ____-____ Benjamin.Hunter@bpu.state.nj.us</p> <p>Kristi Izzo, Secretary * Board of Public Utilities Two Gateway Center Newark, NJ 07102 PHONE: (973) 648-3426 FAX: (973) 638-2409 kristi.izzo@bpu.state.nj.us</p> <p>Christine Lin Board of Public Utilities Office of the Economist Two Gateway Center Newark, NJ 07102 PHONE: (973) 648-3407 FAX: (973) 648-4410 christine.lin@bpu.state.nj.us</p> <p>Jerome May Board of Public Utilities Two Gateway Center Newark, NJ 07102 PHONE: (973) 648-4950 FAX: (973) 648-7420 Jerome.may@bpu.state.nj.us</p> <p>Lance Miller, Chief of Policy Board of Public Utilities Two Gateway Center Newark, NJ 07101 PHONE: (973) 648-3175 FAX: (973) 648-4195 lance.miller@bpu.state.nj.us</p> | <p>Jacqueline O'Grady Board of Public Utilities Office of The Economist Two Gateway Center Newark, NJ 07102 PHONE: (973) 648-3451 FAX: (973) 648-4410 jackie.ograde@bpu.state.nj.us</p> <p>Suzanne Patnaude Board of Public Utilities Two Gateway Center Newark, NJ 07102 PHONE: (973) 648-3858 FAX: (973) 648-2209 suzanne.patnaude@bpu.state.nj.us</p> <p>Stacy Peterson Board of Public Utilities Two Gateway Center Newark, NJ 07102 PHONE: (973) 648-2143 FAX: (973) 648-7420 stacy.peterson@bpu.state.nj.us</p> <p>Nnajindu Ugoji Board of Public Utilities Division of Energy Two Gateway Center Newark, NJ 07102 PHONE: (973) 648-2219 FAX: (973) 648-7420 naji.ugoji@bpu.state.nj.us</p> <p>Michael Winka, Manager * Board of Public Utilities Office of Clean Energy Two Gateway Center Newark, NJ 07102 PHONE: (973) 648-7270 FAX: (609) 777-3330 michael.winka@bpu.state.nj.us</p> <p>Samuel Wolfe, Chief Counsel Board of Public Utilities Two Gateway Center Newark, NJ 07102 PHONE: (973) 648-2016 FAX: (973) 648-2209 samuel.wolfe@bpu.state.nj.us</p> <p>DAG Elise Goldblat, DAG NJ Dept. of Law & Public Safety Division of Law 124 Halsey Street P.O. Box 45029 Newark, NJ 07101 PHONE: (973) 648-3709 FAX: (973) 648-3555 elise.goldblat@dol.lps.state.nj.us</p> | <p>Jenique Jones Division of Law & Public Safety 124 Halsey St. PO Box 45029 Newark, NJ 07101 PHONE: (973) 648-7159 FAX: (973) 648-3555 jenique.jones@dol.lps.state.nj.us</p> <p>Alex Moreau, DAG * NJ of Dept. Law & Public Safety Division of Law 124 Halsey Street, 5th Fl. P. O. Box 45029 Newark, NJ 07101 PHONE: (973) 648-3762 FAX: (973) 648-3555 Alex.Moreau@dol.lps.state.nj.us</p> <p>ADVOCATE Judith Appel, Esq. Department of the Public Advocate 31 Clinton St., 11th Floor P. O. Box 46005 Newark, NJ 07101 PHONE: (973) 648-2690 FAX: (973) 624-1047 jappel@rpa.state.nj.us</p> <p>Stefanie A. Brand, Director * Dept. of The Public Advocate Division of Rate Counsel 31 Clinton Street - 11th Floor P.O. Box 46005 Newark, NJ 07101 PHONE: (973) 648-2690 FAX: (973) 624-1047 sbrand@rpa.state.nj.us</p> <p>Paul Flanagan, Litigation Manager Dept. of The Public Advocate Division of Rate Counsel 31 Clinton Street - 11th Floor P.O. Box 46005 Newark, NJ 07101 PHONE: (973) 648-2690 FAX: (973) 624-1047 pflanagan@rpa.state.nj.us</p> <p>Lisa Gurkas Department of the Public Advocate 31 Clinton Street, 11th Floor P.O. Box 46005 Newark, NJ 07102 PHONE: (973) 648-2690 FAX: (973) 624-1047 lgurkas@rpa.state.nj.us</p> <p>Kurt Lewandowski, Esq. Assistant Deputy Public Advocate Department of the Public Advocate 31 Clinton Street, 11th Floor P.O. Box 46005 Newark, NJ 07101 PHONE: (973) 648-2690 FAX: (973) 624-1047 klewando@rpa.state.nj.us</p> | <p>Susan McClure, Esq. Division of the Ratepayer Advocacy 31 Clinton Street, 11th Floor P.O. Box 46005 Newark, NJ 07102 PHONE: (973) 648-2690 FAX: (973) 624-1047 smcclure@rpa.state.nj.us</p> <p>Ami Morita Dept. of The Public Advocate Division of Rate Counsel 31 Clinton Street - 11th Floor P.O. Box 46005 Newark, NJ 07101 PHONE: (973) 648-2690 FAX: (973) 624-1047 amorita@rpa.state.nj.us</p> <p>Diane Schulze Dept. of The Public Advocate Division of Rate Counsel 31 Clinton Street - 11th Floor P.O. Box 46005 Newark, NJ 07101 PHONE: (973) 648-2690 FAX: (973) 648-2193 dschulze@rpa.state.nj.us</p> <p>Felicia Thomas-Friel, Managing Attorney - Gas Department of the Public Advocate 31 Clinton Street, 11th Floor P.O. Box 46005 Newark, NJ 07101 PHONE: (973) 648-2690 FAX: (973) 624-1047 fthomas@rpa.state.nj.us</p> <p>JCP&L Marc B. Lasky, Esq. * Morgan, Lewis & Bockius LLP 89 Headquarters Plaza North Suite 1435 Morristown, NJ 07960 PHONE: (973) 993-3133 FAX: (973) 644-4157 mlasky@morganlewis.com</p> <p>Larry Sweeney JCP&L 300 Madison Avenue P. O. Box 1911 Morristown, NJ 07962-1911 PHONE: (973) 401-8697 FAX: (973) 644-4157 lsweeney@gpu.com</p> <p>MSEIA Lyle Rawlings, President * Advanced Solar Products 66 Snyderstown Road Hopewell, NJ 08525 PHONE: (609) 466-4495 FAX: (____) ____-____ lyle@advancedsolarproducts.com</p> |
|---|---|--|---|

NJLEUC

Paul F. Forshay, Esq. *
 Sutherland, Asbill & Brennan, LLP
 1275 Pennsylvania Avenue, NW
 Washington, DC 20004
 PHONE: (202) 383-0100
 FAX: (202) 637-3593
 pforshay@sablaw.com

Steven S. Goldenberg, NJLEUC, Esq.
 Fox Rothschild LLP
 Princeton Corporate Center
 997 Lenox Drive, BLDG. 3
 Lawrenceville, NJ 08648-2311
 PHONE: (609) 896-4586
 FAX: (609) 896-1469
 SGoldenberg@foxrothschild.com

NJ NATURAL GAS CO.

Anne-Marie Peracchio
 NJ Natural Gas Company
 1415 Wyckoff Road
 P.O. Box 1464
 Wall, NJ 07719
 PHONE: (732) 938-1129
 FAX: (732) 938-2620
 aperacchio@njng.com

Tracey Thayer, Esq., Director, Regulatory *
 Affairs Counsel
 New Jersey Natural Gas Company
 1415 Wyckoff Road
 P.O. Box 1464
 Wall, NJ 07719
 PHONE: (732) 919-8025
 FAX: (732) 938-2620
 TThayer@NJNG.com

ROCKLAND

James C. Meyer, Esq. *
 Riker, Danzig, Scherer, Hyland & Perretti
 Headquarters Plaza
 One Speedwell Avenue
 Morristown, NJ 07962
 PHONE: (973) 451-8464
 FAX: (973) 538-0800
 jmeyer@riker.com

SO. JERSEY GAS CO.

Douglas Frankenthaler
 Cozen O'Connor
 457 Haddonfield Road
 Suite 300
 Libertyview
 Cherry Hill, NJ 08002
 PHONE: (____) ____-____
 FAX: (____) ____-____
 dfrankenthaler@cozen.com

Ira G. Megdal, Esq. *
 Cozen O'Connor
 457 Haddonfield Road, Suite 300
 Libertyview
 Cherry Hill, NJ 08002
 PHONE: (856) 910-5019
 FAX: (877) 259-7984
 imegdal@cozen.com

John F. Stanziola (SJG), Director,
 Regulatory Affairs
 South Jersey Gas Co.
 1 South Jersey Plaza
 PO Box 6000
 Folsom, NJ 08037
 PHONE: (609) 561-9000, X416
 FAX: (609) 561-6955
 jstanziola@sjindustries.com

OTHER PARTIES

Roger M. Schwarz, c/o RESA *
 Issues Management, LLC
 100 Overlook Center
 2nd Floor
 Princeton, NJ 08540
 PHONE: (609) 252-1300
 FAX: (609) 252-0123
 rschwarz@issuesllc.com

SUNEDISON

Claire Broido *
 SunEdison
 12500 Baltimore Avenue
 Beltsville, MD 20705
 PHONE: (443) 909-7240
 FAX: (443) 909-7140
 cbroido@sunedison.com

PSE&G

Gregory Eisenstark, Esq.
 Assistant General Corporate Rate Counsel
 PSEG Services Corporation
 80 Park Plaza, T-05
 Newark, NJ 07101
 PHONE: (973) 430-6281
 FAX: (973) 430-5983
 gregory.eisenstark@pseg.com

Maria C. Lameira, Sr. Legal Secretary
 PSE&G
 Corporate Rate Counsel, T-8
 80 Park Plaza
 Newark, NJ 07101
 PHONE: (973) 430-6660
 FAX: (973) 648-0838
 maria.lameira@pseg.com

Frances I. Sundheim, Esq.
 VP & Corporate Rate Counsel
 Public Service Electric & Gas Co.
 80 Park Plaza, T-08C
 Newark, NJ 07101
 PHONE: (973) 430-6928
 FAX: (973) 648-0838
 frances.sundheim@pseg.com

**STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

**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**

**Frances I. Sundheim, Esq
Public Service Electric and Gas Company
80 Park Plaza - MC T8
Newark, New Jersey 07101
Phone: (973) 430-6928
Fax: (973) 648-0838**

**Gregory Eisenstark, Esq
PSEG Services Corporation
80 Park Plaza - MC T5
Newark, New Jersey 07101
Phone: (973) 430-6281
Fax: (973) 430-5983**

**DATE: March 31, 2009
Newark, New Jersey**

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF)
PUBLIC SERVICE ELECTRIC AND GAS)
COMPANY FOR APPROVAL OF A SOLAR) **P E T I T I O N**
LOAN II PROGRAM AND AN)
ASSOCIATED COST RECOVERY) BPU Docket No. _____
MECHANISM)

Public Service Electric and Gas Company (Public Service, PSE&G, the Company), a corporation of the State of New Jersey, having its principal offices at 80 Park Plaza, Newark, New Jersey, respectfully petitions the New Jersey Board of Public Utilities (Board or BPU) pursuant to pursuant to *N.J.S.A. 48:3-98.1, et seq.*, as follows:

EXECUTIVE SUMMARY OF PROPOSED PROGRAM

1. PSE&G is proposing a second phase of its solar loan program (“Solar Loan I” or the “current program”). This revised loan program (“Solar Loan II” or “Program”) will be modeled on the current program approved by the Board in April, 2008. As in the current program, PSE&G will provide loans to borrowers for solar photovoltaic systems (“Solar Systems”). However, in response to the Board’s August 7, 2008 Order in Docket No. EOO6100744¹, PSE&G is filing the instant Petition. In the Petition, PSE&G proposes several significant changes for the new Solar Loan II Program. These changes, which were developed after consultation with solar industry participants, BPU Staff, and the Division of

¹ *In the Matter of the Renewable Energy Portfolio Standards*, Docket No. EOO6100744, Order dated

Rate Counsel, will improve upon the current program. The program changes will also address the Board's goals as set forth in the Solar Securitization Order.

2. The basic Program structure is the same as in the current loan program – PSE&G will offer long-term loans for between 40 and 60 percent of the cost of qualifying solar photovoltaic projects. The loans will be repaid in Solar Renewable Energy Certificates (“SRECs”) (or cash, at the borrower's option). PSE&G will 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 will be applied against the Program's revenue requirements.

3. PSE&G proposes the following changes from the current solar loan program to the Solar Loan II Program:

- Rather than have a fixed floor price of \$475, the floor value of SRECs for purpose of loan repayment will be determined via periodic competitive loan solicitations. Thus, the SREC floor value will be set by the market participants.
- 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 current solar loan program.
- The Program will be open to all solar projects that are eligible for SRECs, whether net-metered or grid-connected.
- Except for a small set-aside for residential loans, the other Program segments will not follow the type of end-use customer, but rather will be based on the size (i.e., capacity) of the solar installation.

- There will be no entity caps.
4. In addition, Solar Loan II will have the following features:
- The Solar Loan II Program will have a total capacity of 40 MW of solar (dc), plus the remaining capacity from the current loan program, if any.
 - The Program will commence upon BPU approval and remain open for applications through the end of the RPS reporting year ending May 31, 2012 or until the capacity is filled, whichever comes first.
 - There will be no minimum or maximum Solar System size; all systems that are located in PSE&G's electric service territory and are eligible for SRECs will be eligible.
 - The Program will have the following segments: (1) residential and (2) non-residential. The non-residential segment will be further divided into three sub-segments based on system size.
5. PSE&G proposes to recover all Program costs through the Regional Greenhouse Gas Initiative ("RGGI") Recovery Charge, or "RRC." PSE&G proposes 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 weighted pre-tax cost is 11.9525%, as discussed in the pre-filed testimony and schedules of Mark G. Kahrer, which is included with this Petition as Attachment C. A complete discussion of the cost recovery mechanism is provided in the ensuing sections of this Petition and in the pre-filed testimony and schedules of Stephen Swetz, which is attached to the Petition as Attachment B.

BACKGROUND AND RGGI FILING REQUIREMENTS

6. Petitioner is a public utility engaged in the distribution of electricity and the provision of electric Basic Generation Service (BGS), and distribution of gas and the provision of Basic Gas Supply Service (BGSS), for residential, commercial and industrial purposes within the State of New Jersey. PSE&G provides service to approximately 2.1 million electric and 1.7 million gas customers in an area having a population in excess of 5.5 million persons and which extends from the Hudson River opposite New York City, southwest to the Delaware River at Trenton and south to Camden, New Jersey.

7. Petitioner is subject to regulation by the BPU for the purposes of setting its retail distribution rates and to assure safe, adequate and reliable electric distribution and natural gas distribution service pursuant to *N.J.S.A. 48:2-21 et seq.*

8. On January 13, 2008, legislation was signed into law² by Governor Corzine which set forth the New Jersey Legislature's findings that increased use of renewable energy resources must be an essential element of the State's energy future and that greater reliance on renewable energy resources will provide significant benefits to the citizens of New Jersey. The Legislature also found and declared that public utility involvement and competition in the renewable energy industry are essential to maximize efficiencies. The above-referenced legislation is herein referred to as the "Regional Greenhouse Gas Initiative" or "RGGI legislation."

² The legislation is codified principally at *N.J.S.A. 26:2C-45*.

9. Pursuant to Section 13 of the RGGI legislation, an electric or gas public utility may, among other things, provide and invest in energy efficiency and renewable energy programs in its service territory on a regulated basis.³ See *N.J.S.A.* 48:3-98.1(a)(1). The RGGI legislation also states that electric and gas public utility investment in energy efficiency and renewable energy programs may be eligible for rate treatment approved by the Board, including a return on equity, or other incentives or rate mechanisms that decouple utility revenue from sales of electricity and gas. See *N.J.S.A.* 48:3-98.1(b). Ratemaking treatment may include placing appropriate technology and program cost investments in the utility's rate base, or recovering the utility's technology and program costs through another ratemaking methodology approved by the Board. *Id.*

10. An electric or gas public utility seeking cost recovery for any renewable energy program pursuant to *N.J.S.A.* 48:3-98.1 must file a petition with the Board. See *N.J.S.A.* 48:3-98.1(b). In determining the recovery of such program costs, the Board "...may take into account the potential for job creation from such programs, the effect on competition for such programs, existing market barriers, environmental benefits, and the availability of such programs in the marketplace." *Id.* The RGGI legislation also provides that unless the Board issues a written order within 180 days after the filing of the petition approving, modifying or denying the requested recovery, the recovery

³ Section 13 of the RGGI legislation has been codified at *N.J.S.A.* 48:3-98.1 *et seq.*

requested by the utility shall be granted effective on the 181st day after the filing without further order by the Board. *Id.*

11. Within 120 days after enactment of the RGGI legislation, the Board was required to issue an order that allows electric and/or gas public utilities to offer energy efficiency and conservation, and renewable energy programs in their respective service territories on a regulated basis. On May 12, 2008, the Board issued such an Order pursuant to *N.J.S.A. 48:3-98.1(c)*. See BPU Order Pursuant to *N.J.S.A. 48:3-98.1 (c)* (120-Day RGGI Order), BPU Docket No. EO08030164.

12. As set forth in the 120-Day RGGI Order, the Board will allow electric public utilities and gas public utilities to offer energy efficiency and conservation and renewable energy programs on a regulated basis provided that the utility files a petition and obtains Board approval for such programs and the mechanism for program cost recovery. See 120-Day RGGI Order at p. 6. The Board also established that certain information be filed with the Petition. This requested information is set forth in the minimum filing requirements attached to the 120-Day RGGI Order as Appendix A (RGGI Minimum Filing Requirements).

13. The RGGI Minimum Filing Requirements set forth specific information that a utility must submit along with its petition. The RGGI Minimum Filing Requirements distinguish between a full or large scale program and a small scale program. For small scale programs and pilot programs, the RGGI Minimum Filing

Requirements are reduced, given the limited nature of such programs, to allow for a more accelerated review and approval process. See 120-Day RGGI Order at p. 4. A small scale program is defined as one that would result in either a rate increase of less than one half of one percent to the average residential customer or an additional annual total revenue requirement of less than \$5 million. *Id.* Small scale programs are exempted from Section V of the RGGI Minimum Filing Requirement that an up-front cost/benefit analysis be submitted. *Id.*

14. The 120-Day RGGI Order also requires a utility, contemplating filing a petition for energy efficiency and/or conservation or renewable energy programs and related cost recovery mechanism, to meet with BPU Staff and the New Jersey Division of Rate Counsel (Rate Counsel) at least 30-days prior to filing its petition to discuss the nature of the program and program cost recovery mechanism to be proposed in the petition, as well as, the RGGI Minimum Filing Requirements to be submitted along with the petition. (30 Day RGGI Pre-Filing Meeting). See 120-Day RGGI Order at p. 6. Should a utility seek to file for Board approval of a small scale program, the utility shall so notify BPU Staff and Rate Counsel at the pre-filing meeting. *Id.* at p. 4. If the utility believes that it is unable to comply with a particular RGGI Minimum Filing Requirement, a detailed explanation for such noncompliance should be discussed at the 30-Day Pre-Filing Meeting. *Id.* The RGGI Minimum Filing Requirements may be modified by Board Staff as determined on a case-by-case basis if public policy

considerations deem specific requirements unnecessary or onerous for a particular program or class of programs. *Id.*

15. Attached hereto, and incorporated herein by reference, is Appendix A, which identifies where in the instant filing all of the applicable RGGI Minimum Filing Requirements are set forth.

16. PSE&G convened a 30-Day Pre-Filing Meeting with Board Staff and Rate Counsel on February 25, 2009 at the Company's offices in Newark, New Jersey.

17. Once a petition has been filed with the Board, Board Staff shall have 30 days, commencing on the date the petition was filed, to determine whether the petition is administratively complete and advise the utility in writing that the petition is administratively complete or that the petition is not administratively complete and set forth the deficiencies and the items required to remedy the deficiencies. *Id.* at p. 6.

18. In conjunction with the RPS requirements for solar and revisions to the solar alternative compliance payment ("SACP"), the Board undertook a stakeholder process designed to transition the solar industry toward a more market-based, SREC approach to providing incentives. That process resulted in the Solar Securitization Order.

19. In the Solar Securitization Order, the Board specified that "Public Service Electric and Gas Company ("PSE&G") should be directed to work with BPU Staff and stakeholders to revise its current solar loan program to be consistent and comparable with the requirements set forth in this Order and submit its plan by no later than March 31,

2009.” *Order* at p.1. That Order also specified that “PSE&G's proposed SREC-based financing plan shall provide for implementation in the Reporting Years ending May 31, 2011 and May 31, 2012. The plan may be structured as a modification of the solar loan program approved by the Board in an Order dated April 16, 2008 in Docket No. EO07040278, provided that the modifications are sufficient to enable the loan program to support the transition to a market-based approach of delivering incentives for solar electric generation. PSE&G shall submit its plan no later than March 31, 2009 as a petition under N.J.S.A. 48:3-98.1 (b).” *Id.* at p. 17.

20. In the Solar Securitization Order, the Board also set forth additional filing requirements “with respect to filings by EDCs regarding the undertaking of solar renewable energy improvements through long-term contracts to purchase the SRECs generated by the solar electric generation facility that is the subject of each contract . . .” *Solar Securitization Order* at p. 16. The Board also directed PSE&G’s filing to comply with these requirements: “PSE&G shall include in the petition elements sufficient to satisfy the items specified in the list of minimum filing requirements attached to the 120-Day Order, and the items specified in the additional minimum filing requirements set forth in this Order.” *Id.* at p. 17. These additional filing requirements, as set forth in the Order, are:

1. A contract term of 15 years, unless the EDCs elects to consider a portfolio approach in which the EDC enters into contracts with terms between 10 and 15 years;

2. A commitment to enter into contracts to procure 60% of the EDC's new incremental SREC allocation through the end of the first full Reporting Year in which the EDCs are entering into long-term contracts pursuant to this Order. That percentage will decline to 50 percent for the second full Reporting Year, and 40 percent for the third full Reporting Year; that this percentage will include the full Reporting Year 2008 shortfall and 60% of the projected Reporting Year 2009 shortfall; and that this percentage will also encompass the stated percentage of the SREC needs for third party suppliers;
 3. Applying the percentage requirements under 3 above to two market segments, one for projects less than or equal to 50 kW and one for projects greater than 50 kW and less than or equal to 500 kW;
 5. No one entity, and no combination of affiliated entities under the same majority ownership, can obtain more than 20% of the EDC's long term contracts (calculated based on kW) in anyone year;
 6. The EDC long-term contracting effort will include the three full Reporting Years ending May 31, 2012, plus a partial reporting year if the Board's order approving the EDC's program sets an implementation date that is after the beginning of a reporting year;
 7. Solar electric generation projects that received or will receive a rebate from the CORE program in 2001 through 2008 are not eligible for long-term contracts with the EDCs;
 8. The EDC will resell SRECs procured under the long-term contracts through the same auction process being used for SRECs obtained through the PSE&G solar loan program;
- and
9. Existing administrative systems, either through the OCE or joint utility systems, will be used to the extent it is cost effective to do so.

[*Solar Securitization Order*, pp. 16-17 (note, Order does not contain an item 4)].

21. PSE&G has structured this Solar Loan II Program design to satisfy the majority of these additional filing requirements, even though they are drafted from the

perspective of a long-term SREC contract, rather than a loan. However, based on its experience with its current Solar Loan Program and input received from stakeholders, PSE&G is requesting waivers for part of item 3 (a slight variation of the market segments and a waiver of the 500 kW size limit), item 5 (a waiver of the entity cap), and part of item 7 (allowing projects 50 kW and smaller to also be eligible for a rebate from the Board, subject to certain conditions). The justification for these waivers is provided in subsequent sections of the Petition and in the Testimony of Alfredo Z. Matos (Attachment A).

22. PSE&G has committed significant effort and resources to comply with the Board's minimum filing requirements and requests that the Board Staff find this filing to be administratively complete as expeditiously as possible.

SUPPORTING TESTIMONY

23. The Testimony of Mr. Alfredo Z. Matos (Attachment A) provides an overview of the Program and its goals, and explains how this Program comports with the Solar Securitization Order and therefore supports the State's renewable energy and environmental goals. Mr. Matos also testifies about the details of the Program segments, the solicitation process, and also provides details about resolution of customer complaints or disputes that may arise regarding the Program. Mr. Stephen Swetz is filing testimony addressing revenue requirements and cost recovery issues (Attachment B). Mr. Daniel

M. Furlong testifies in support of the accounting treatment for the Program costs and revenues (Attachment D). Mr. Mark G. Kahrer testifies in support of PSE&G's proposed return on its investment in the Program (Attachment C).

PSE&G SOLAR LOAN II PROGRAM

24. PSE&G will provide loans to borrowers to develop 40 MW of solar photovoltaic systems. In addition, PSE&G will roll the unused capacity from the Solar Loan I program (estimated at 15 MW) into Solar Loan II issue loans for a total capacity of 55 MW. The total amount of loans for this 55 MW will be approximately \$206 million.

25. The Program will be divided into residential and non-residential segments. The non-residential segment will 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. All capacities are expressed in dc. PSE&G reserves the right to adjust the segment and subsegment capacities if necessary, while remaining within the total Program size.

SUMMARY SEGMENT DESCRIPTIONS

1. Residential Segment (2.75 MW)

- Loans will be made available to consumer borrowers up to a segment capacity of 2.75 MW over the life of the Program. The 2.75 MW will be a hard cap for the residential segment.
- Loans will have a 10-year term and the interest rate will be 6.5%, as in the current loan program
- Projects must compete in the solicitation process to determine if they will be funded.
- Residential projects will be eligible to receive BPU rebates, so long as the total of the PSE&G loan, BPU rebate, and value of the federal investment tax credit (ITC) does not exceed the total cost of the project.
- PSE&G agrees that solar energy should be universally available to all customers. Toward that end, PSE&G would be open to discuss modifications to the terms and conditions applicable to loans for the residential customer segment that would encourage greater residential customer participation in the loan program.

2. Non-residential Segment (37.25 MW, plus remaining capacity from Solar Loan I)

- The three subsegments are based on project size, rather than the end-use customer classifications.
- The subsegments are: (1) less than or equal to 50kW (40%); (2) greater than 50 kW, but less than or equal to 500 kW (40%); and (3) greater than 500kW (20%). The subsegment percentage allocations will be “soft caps” – i.e., PSE&G reserves the right to reallocate capacity among the subsegments.
- Loans will be for fifteen years, and the interest rate will be set at the Company’ weighted pre-tax cost of capital, as in the current loan program. For Solar Loan II, the interest rate will be 11.9525%.
- Solar Systems of 50 kW or smaller will be eligible to receive BPU rebates, so long as the total of the PSE&G loan, BPU rebate, and the value of the federal investment tax credit (ITC) does not exceed the total cost of the project.

OTHER PROGRAM PROVISIONS

26. Except for the changes to the Solar Loan I program discussed in this Petition and the Company's testimony, Solar Loan II will use the same processes, model loan documents and related forms, rules, and procedures as the current program. This will assist in a smooth transition from the current program to the new one. The loan documents, sample copies of which are provided as Schedules to Mr. Matos' testimony, will require minor revisions to comport with the new features of Solar Loan II.

27. As discussed above in the Summary Segment Descriptions, the four segments in Solar Loan I will be replaced by two segments. In addition, there will be several significant changes to the loan program, to facilitate the Board's goal to transition to a market-based, long-term financing philosophy:

- Rather than have a fixed floor price of \$475, the floor value of SRECs for the purpose of loan repayment will be determined via PSE&G's periodic competitive loan solicitations. Thus, the SREC floor value will be set by the market participants.
- PSE&G will not be required to obtain a first-priority lien on the solar project equipment apply for Solar Loan II. This change was recently approved for the current program. *See* Order dated March 17, 2009 in Docket No. EO07040278.
- The Program will be open to all qualifying solar projects that are eligible for SRECs, whether net-metered or grid-connected.
- Except for a small set-aside for residential loans, the Program segments will not be based on an end-use customer classification, but rather will be based on

the size (i.e., capacity) of the solar installation, consistent with the Solar Securitization Order.

- There will be no entity caps. As discussed above, PSE&G is seeking approval for a minor waiver from the Solar Securitization Order on this issue. Given the market-based solicitations, borrowers will compete for loans based on their bid SREC floor price. Therefore, there is no reason to establish an artificial market barrier such as an entity cap. In addition, based on experience in the Solar Loan I program, such entity caps can deter, rather than enhance, the development of solar projects.
- The Solar Loan II Program will have a total capacity of 40 MW of solar (dc), plus the remaining capacity from the current loan program, if any. PSE&G estimates that there will be approximately 15 MW of capacity transferred, for a total Solar Loan II size of 55 MW. For the purposes of modeling revenue requirements and rate impacts, PSE&G has assumed a total Program size of 55 MW.
- The Program will commence upon BPU approval and remain open for applications for applications through the end of the RPS reporting year ending May 31, 2012 or until the capacity is filled, whichever comes first.
- There will be no minimum or maximum Solar System size; all systems that are located in PSE&G's electric service territory and are eligible for SRECs will be eligible. As discussed above, PSE&G is seeking approval for a minor waiver from the Solar Securitization Order on this issue, to allow Solar Systems larger than 500 kW to participate. Based on the Company's experience in Solar Loan I, many developers are interested in projects larger than 500 kW.

Mr. Matos discusses these Program elements in more detail in his testimony.

28. PSE&G also proposes to make certain technology investments as part of the Solar Loan II Program. Specifically, the Company proposes installation of a communications system for systems 500 kW and larger that will allow it to monitor Solar System output on a real-time basis and identify any non-performing assets in its

portfolio. PSE&G has included the cost of this technology (\$200,000) in the Program costs.

TRANSITION FROM SOLAR LOAN I TO SOLAR LOAN II

29. PSE&G will continue to accept applications under the current program until the Solar Loan II Program is approved by the BPU.

30. Any pending, qualified applications under the current program will be processed under that program's rules. All loans closed under the current program will remain in that program.

31. Upon commencement of the Solar Loan II Program, any remaining capacity from the current program will be rolled into the new program. As discussed above, PSE&G has modeled Solar Loan II under the assumption that 15 MW of capacity will be transferred from Solar Loan I.

32. Cost recovery for the current program will continue through the Solar Pilot Recovery Charge ("SPRC"). Cost recovery for Solar Loan II will be via the RGGI Recovery Charge ("RRC").

COMPARISION WITH OTHER PROGRAMS AND STATE POLICIES

33. The Program is a modification to the current PSE&G solar loan program, and hence, shares many of the same features. The Program is also similar to the long-

term SREC contracting programs that JCP&L, Atlantic, and Rockland have proposed. The Program, like the other EDCs' proposed SREC contract programs, provides for long-term securitization of SRECs, based on a competitively-set SREC value.

34. The Program directly supports the State's renewable energy initiatives, as outlined in the Energy Master Plan (EMP). The Program, when fully deployed, will provide financing for 40 MW of additional solar generating capacity in New Jersey. The Program also supports the carbon-reduction goals of the Global Warming Response Act ("GWRA"), N.J.S.A. 26:2C-37 et seq. and the Department of Environmental Protection's draft GWRA recommendation report. PSE&G estimates that the 55 MW of solar capacity will eliminate 639,307 metric tons of CO₂ emissions.⁴

35. This Program will support the State's current model for fostering a solar energy industry in New Jersey. The State's model has been built around developing a market for SRECs, which are intended to make above-market solar energy projects competitive in New Jersey's energy market. Solar Loan II furthers the Board's stated objectives in the Solar Securitization Order by providing additional long-term funding for solar projects using the SREC model. Under the proposed Program, PSE&G will use its "patient capital" to spur continued growth in New Jersey's solar energy industry. Mr.

⁴ PSE&G has not identified any specific air emissions credits or offsets; however, the Company's intent is to apply the proceeds from any such credits or offsets to the revenue requirements of the Program, in a manner similar to the proposed treatment of SRECs.

Matos' testimony discusses, in greater detail, the ways in which the Program will support the State's renewable energy policies. *See* Attachment A.

SOLICITATION PROCESS

36. The major change from the current solar loan program is the market-based solicitation process. Rather than relying on a set SREC floor price of \$475 per SREC, PSE&G will conduct quarterly solicitations for loans. Applicants will submit loan applications with a proposed floor price for SRECs. There will be a ceiling price for SREC bids. PSE&G reserves the right to modify this ceiling price for successive solicitations.

37. The qualifying applications will be ranked by the SREC price submitted, from low to high. A cut-off price for accepted applications will be established, based on the capacity available in the relevant subsegment or segment and the prices proposed. All qualifying applications at or below the cut-off price will receive the cut-off price as the SREC floor price for their respective loan. Mr. Matos discusses the solicitation process in more detail in his testimony.

DISPUTE RESOLUTION PROCESS

38. Public Service proposes that any disputes related to the Program be resolved through the Board's established customer complaint process. PSE&G addresses the dispute resolution process in the testimony of Mr. Matos.

COST RECOVERY PROPOSAL

39. PSE&G is requesting that the Board grant approval of recovery of all Program costs. PSE&G proposes to recover all Program costs via a separate component of the electric RGGI Recovery Charge (RRC) mechanism approved by the Board for the Company's Carbon Abatement Program. The RRC would be reviewed and modified in an annual filing that PSE&G would make with the Board. PSE&G's proposed cost recovery mechanism for the Program, including the estimated rate impacts on customers and proposed initial rates, is fully-described in the pre-filed testimony and schedules of Mr. Swetz. (Attachment B)

40. Pursuant to N.J.S.A. 48:3-98.1(b), PSE&G requests that it earn a return on its net investment in the Program based on a Weighted Average Cost of Capital ("WACC") of 8.2423% annually. Mark G. Kahrer testifies to the proper return on the Company's investment in his pre-filed testimony (Attachment C). The derivation of the WACC is shown in Schedule MGK-3 to Mr. Kahrer's testimony. For calculating

Revenue Requirements, the corresponding Pre-Tax WACC of 11.9525% per year or 0.9960% per month is used (see Schedule MGK-3).

41. The Company also requests that the carrying charge on its deferred balances for this Program be set at the monthly WACC. Any over/under recovery of the actual revenue requirements compared to revenues would be deferred. The monthly WACC would be applicable as the carrying charge rate on any over/under recovered balance on a monthly basis. Mr. Swetz addresses the application of carrying charges in his testimony.

42. If any Federal Economic Stimulus Funds that are applicable to this Program become available and are received by the Company, such amounts will, at that time, be credited against amounts expended. Revenue requirements will be recalculated at that date and deferred accounting will continue to be followed. If the Program investments have been rolled into base rates, any Federal Economic Stimulus Funds received will be utilized for future qualifying investments.

43. Satisfying a cost/benefit analysis is not required under the Minimum Filing Requirements because the Program is a renewable energy program. Accordingly, PSE&G requests a waiver of the Minimum Filing Requirements in regard to providing a cost/benefit analysis. *See Appendix A.*

44. Mr. Daniel M. Furlong testifies to the accounting treatment the Company will use for the Program. He also supports certain financial statements that are required under

the Board's Minimum Filing Requirements. Mr. Furlong's prefiled testimony is attached hereto as Attachment D.

45. Within ten business days, PSE&G will file the following Attachments E through H. Attachment E is a draft Form of Notice of Filing and of Public Hearings. This Form of Notice sets forth the requested changes to the electric rates and will be placed in newspapers having a circulation within the Company's electric service territory upon receipt, scheduling and publication of public hearing dates. One public hearing will be held in each geographic area within the Company's service territory, i.e. Northern, Central, and Southern. Concurrent with this filing with the BPU, a Notice of this filing will be served on the County Executives and Clerks of all Municipalities within the Company's electric service territory. A subsequent Notice will be served on the County Executives and Clerks of all Municipalities within the Company's electric service territory upon receipt, scheduling and publication of public hearing dates. (Attachment F). In addition, PSE&G will provide a residential rate impact summary as Attachment G. Proposed tariff sheets (clean and redlined) will be provided as Attachment H. Two copies of the Petition and supporting attachments will be served upon the Department of Law and Public Safety, 124 Halsey Street, P.O. Box 45029, Newark, New Jersey 07102 and upon the Director, Division of Rate Counsel, 31 Clinton Street, Newark, New Jersey 07101. A copy will also be sent to the persons identified on the service list provided with this filing.

46. Public Service requests that the proposed rates to recover all of the Program costs be approved by the Board, along with the Program and cost recovery mechanism proposed in this filing, within the timeframe established under N.J.S.A. 48:3-98.1 *et seq.* Public Service also requests that the Board authorize the Company to implement the proposed rates contemporaneously with the Board's approval of this Petition. Once the proposed RRC rates are in effect for Solar Loan II, this component of the RRC will operate like the other components of the RRC, subject to deferred accounting and periodic true-up through filings with the Board.

REQUEST FOR REVIEW AND APPROVAL

47. Public Service requests review and approval of this Petition pursuant to the time frame set forth in N.J.S.A. 48:3-98.1 *et seq.*

48. Public Service respectfully requests that the BPU retain jurisdiction of this matter and not transfer the filing to the Office of Administrative Law. PSE&G believes evidentiary hearings are not required for the Board to approve this Program and the proposed cost recovery mechanism. Public Service is confident that these and any issues other parties raise can be resolved through settlement or through written comments filed with the Board prior to its decision.

COMMUNICATIONS

Communications and correspondence related to the Petition should be sent as

follows:

Frances I. Sundheim
Public Service Electric and Gas Company
80 Park Plaza, T9
P. O. Box 570
Newark, New Jersey 07101
Phone: (973) 430-6928
Fax: (973) 648-0838

Gregory Eisenstark
PSEG Services Corporation
80 Park Plaza, T5
P. O. Box 570
Newark, New Jersey 07101
Phone: (973) 430-6281
Fax: (973) 430-5983

CONCLUSION

For all the foregoing reasons, PSE&G respectfully requests that the Board retain jurisdiction of this matter and issue an Order approving this Petition, specifically finding that:

1. The Program is in the public interest and that PSE&G is authorized to implement and administer the Program as a regulated utility service under the terms set forth in this Petition and accompanying Attachments;

2. The cost recovery mechanism proposed herein is just and reasonable, and PSE&G is authorized to recover all costs requested herein associated with the Program, which will be recovered through a separate component of the electric RGGI Recovery Charge, which will be filed annually;

3. The proposed rates and charges, as set forth herein, are just and reasonable and PSE&G is authorized to implement the rates proposed herein.

Respectfully submitted,

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

*Original Signed by
Gregory Eisenstark, Esq.*

By: _____
Gregory Eisenstark
Assistant General Corporate Rate Counsel

DATED: March 31, 2009
Newark, New Jersey

1 **PUBLIC SERVICE ELECTRIC AND GAS COMPANY**
2 **DIRECT TESTIMONY**
3 **OF**
4 **ALFREDO Z. MATOS**
5 **VICE PRESIDENT – RENEWABLES AND ENERGY SOLUTIONS**

6
7 My name is Alfredo Z. Matos and I am the Vice President of
8 Renewables and Energy Solutions at Public Service Electric and Gas Company
9 (PSE&G, the Company). My credentials are set forth in the attached Schedule AZM-
10 1.

11
12 **SCOPE OF TESTIMONY**

13 I am testifying in support of PSE&G’s Proposed Solar Loan II Program
14 (“Program” or “Solar Loan II”), comprised of two segments. The Program is
15 designed to let the marketplace determine the Solar Renewable Energy Certificate
16 (“SREC”) Floor Price to be used for loan repayment purpose. The main purpose of
17 my testimony is to provide a description of the Program and each of its segments. I
18 also describe the solicitation process PSE&G proposes to use to determine the Floor
19 Price for SRECs. I explain how the Program is consistent with the Board of Public
20 Utilities’ (“Board,” “BPU”) orders and renewable energy policy. I describe how the
21 Company proposes to transition from its current pilot program (“Solar Loan I”), to
22 Solar Loan II. I also testify in support of PSE&G’s proposal regarding resolution of

1 customer complaints or disputes that may arise regarding the Program. Mr. Stephen
2 Swetz testifies on the Program's revenue requirements and cost recovery issues. Mr.
3 Daniel M. Furlong testifies in support of the accounting treatment for the Program's
4 costs and revenues. Mr. Mark G. Kahrer testifies in support of PSE&G's proposed
5 rate of return on its investment in the Program.

6 The electronic version of this filing contains the Program assumptions,
7 including investments, costs, participation, and market sizing and impacts, in the
8 electronic work paper labeled WP_AZM 1.xls.

9

10 **OVERVIEW OF THE SOLAR LOAN II PROGRAM**

11 Through this Program, PSE&G will invest approximately \$206 million
12 by providing loans to parties to develop 55 MW dc¹ of solar photovoltaic (PV)
13 systems ("Solar Systems") and thus expand New Jersey's solar infrastructure
14 resources over a two year period.

15 This Solar Loan II Program is being proposed by PSE&G pursuant to a
16 directive by the New Jersey Board of Utilities ("Board") contained in an Order dated
17 August 7, 2008 in Docket No. EO06100744 ("Solar Securitization Order" or
18 "Order"). Based on the schedule of solar requirements needed, the Board noted in its
19 Solar Securitization Order (at 4) that "absent the proposed modifications set forth in

¹ All references to MW capacity of Solar Systems in this testimony are in direct current or "dc." The electricity generated by a solar system passes through an inverter and is converted to alternating current of "ac."

1 this Order there may be an expectation of shortfalls in the number of SRECs available
2 in the Reporting Year of 2009 and 2010...” The Order went on to say “[Office of
3 Clean Energy, (“OCE”)] further projects that a shortfall of 41,000 MWh of SRECs
4 will occur in Reporting Year 2009, resulting in payments by [load service entities,
5 (“LSEs”)] of about \$28,000,000 in [solar alternative compliance payments
6 (“SACPs”)]”.

7 Based upon a recent analysis of the activity in the Board’s CORE rebate
8 program and the SREC Registration Process², PSE&G has reason to believe that the
9 market is even shorter on SRECs required to meet the 2009 Reporting Year
10 requirement than when the Board’s Solar Securitization Order was issued in August,
11 2008. PSE&G realizes that the transition to a full market model is underway, but it
12 also recognizes that this will take time. Further, the Company realizes that the cost of
13 solar energy will remain above market for some time and that it will be years before
14 grid-parity is reached. As noted in the Board’s findings in the Solar Securitization
15 Order, despite historic support for solar project development, New Jersey’s solar
16 market has not developed solar projects capable of meeting New Jersey’s near-term
17 Renewable Portfolio Standard (“RPS”) requirements. Given the current economic
18 conditions in both the nation and the State, the need for capital for renewable projects
19 is even greater than it was when the Board issued its Solar Securitization Order last

² BPU Core Program Reported dated February 9, 2009 and SREC Process Report dated March 15, 2009, obtained from the website www.njcleanenergy.com.

1 August. This proposal for Solar Loan II, together with the Company's proposal for
2 the Solar 4 All program once approved, will assist the State in meeting these
3 aggressive the RPS targets.

4 The Solar Securitization Order (at 17) directed PSE&G to conduct
5 discussions with Board Staff and Rate Counsel regarding the development of an
6 SREC financing plan. PSE&G has conducted such discussions. Further, the Order
7 said that the plan may be a modification of the Solar Loan Program approved by the
8 Board on April 18, 2008. The Order also said that the Company may engage in
9 discussions with the solar development community, which it has done by virtue of its
10 implementation of the Solar Loan I Program. The Company has gained valuable
11 feedback about the acceptance of the program in the marketplace and in this filing is
12 proposing a number of improvements in the pilot program that were suggested by
13 solar developers. Therefore, PSE&G has crafted its Solar Loan II Program to comply
14 with the Board's policy objectives.

15 Consistent with the Solar Securitization Order, the Solar Loan II
16 Program has been designed to operate to support SREC development for the
17 Reporting Years 2011 and 2012. The total capacity proposed is 40MW, based on the
18 criteria set forth in the Solar Securitization Order. In addition, the Company proposes
19 folding the remaining capacity from the Solar Loan I program into Solar Loan II, once
20 it is approved by the Board. The Company anticipates that approximately 15 MW

1 from Solar Loan I will be added to the Solar Loan II program capacity for a total of 55
2 MW. For calculating revenue requirements and rate impacts, PSE&G has assumed
3 this 15 MW roll-over. Instead of administratively determining a floor price to be used
4 in connection with the Solar Loan II Program, PSE&G will use the competitive
5 solicitation process that is described in Schedule AZM-2 to this testimony. In
6 general, PSE&G will solicit MW blocks of eligible projects for which it will lend
7 money for the development of those projects.

8 Loans will be made available for two discrete segments: residential and
9 non-residential. In addition, the non-residential segment will be divided into three
10 sub-segments as follows: Less than or equal to 50kW; greater than 50 kW, but less
11 than or equal to 500 kW, and greater than 500kW. All capacities are expressed in dc.

12

13 **THE PROGRAM WILL SUPPORT THE STATE’S RENEWABLE ENERGY**
14 **AND ENVIRONMENTAL GOALS**

15
16 This Program will support the State’s current model for fostering a solar
17 energy industry in New Jersey. The State’s model has been built around developing a
18 market for SRECs, which are intended to make above-market solar energy projects
19 competitive in New Jersey’s energy market. Under the proposed Program, PSE&G
20 will be a large lender in solar energy projects that are developed relying on the SREC
21 model. PSE&G will put its “patient capital” to work to spur continued growth in New

1 Jersey's solar energy industry. It will also build on the Solar Loan pilot program that
2 PSE&G has offered over the last year.

3 The Program will have a significant positive impact on the solar
4 industry in New Jersey. The Program will be an enabling initiative that encourages
5 growth for the solar industry, by providing capital to build solar capacity in difficult
6 economic times while creating new "green" jobs.

7 The Program will also create environmental benefits to New Jersey by
8 facilitating the development of carbon-free solar generation.

9 The Program is similar to the long-term SREC contracting programs
10 that JCP&L, Atlantic, and Rockland have proposed. The Program, like the other
11 EDCs' proposed SREC contract programs, provides for long-term securitization of
12 SRECs, based on a competitively-set SREC value. The proposed Program will
13 complement other utility-based solar initiatives, such as the Solar 4 All Program that
14 PSE&G has recently proposed.

15 PSE&G will closely coordinate the development of Solar Loan II with
16 the Office of Clean Energy.

17 Because PSE&G will sell the SRECs it receives under the Program in
18 the market, it will also complement the Board's efforts in establishing a viable and
19 liquid SREC market to help reduce the cost of renewable energy to ratepayers.

1 The Program directly supports the State’s renewable energy initiatives,
2 as outlined in the Energy Master Plan (EMP). The Program, when fully deployed,
3 will result in 40 MW of additional solar generating capacity in New Jersey. The
4 Program also supports the carbon-reduction goals of the Global Warming Response
5 Act (“GRWA”), N.J.S.A. 26:2C-37 et seq., and the New Jersey Department of
6 Environmental Protection’s draft GWRA recommendations report. PSE&G estimates
7 that the Program will result in approximately 927,257 MWh of renewable generation.
8 PSE&G estimates that the 55 MW of solar capacity will eliminate 639,307 metric tons
9 of CO₂ emissions or the equivalent of removing 6,458 cars from the roads.

10
11 **DESCRIPTION OF NEW SOLICITATION PROCESS**

12 As part of a periodic, competitive solicitation process, a reverse auction
13 mechanism will be employed to solicit projects for loans. The Company will solicit
14 MW blocks of pricing proposals for SREC-generating projects. A potential borrower
15 will submit a loan application with a proposed SREC floor price specific to their
16 project to be used to for valuing SRECs for purposes of loan repayment.

17 PSE&G will either manage the solicitation process itself or retain a
18 third-party to manage the process.

19 All proposals will be ranked within a segment or sub-segment based on
20 the bid SREC floor price, from low to high. Based on the amount of applications

1 received and the ranking of submission, a “clearing price” will be established for each
2 segment or sub-segment. All applications within that segment or sub-segment with a
3 proposed SREC floor value at or below the clearing price will receive the clearing
4 price as the floor SREC value for the purpose of loan repayment. As in the Solar
5 Loan I program, the borrower will receive the higher of the SREC market price or the
6 floor price for the purpose of loan repayment. Once the floor price is set it will not
7 vary over the life of the individual loan. Solicitations will be conducted at a
8 minimum four times a year and PSE&G reserves the right to conduct more frequent
9 solicitations. The process is more fully described in Schedule AZM-2.

10 The Company will not consider projects that are already in commercial
11 operation, or projects that received or will receive rebates under the CORE rebate
12 program during the period 2001 through 2008. However, projects may receive
13 rebates under the Board’s 2009 Renewable Energy Incentive Program, so long as the
14 rebate, the amount of the loan under Solar Loan II and the federal investment tax
15 credit does not exceed the total cost of the Solar System.

1 **TRANSITION FROM SOLAR LOAN I PROGRAM TO SOLAR LOAN II**

2 PSE&G proposes that the Program commence upon BPU approval and
3 remain open for applications through the end of the RPS reporting year ending May
4 31, 2012 or until the capacity is filled, whichever comes first. Until the Board issues
5 an Order approving Solar Loan II, PSE&G will continue to accept applications under
6 the current program. Any pending, qualified applications under the current program
7 will be processed under that program's rules. After the Board approves Solar Loan II,
8 customers with pending, qualified applications will be offered the opportunity to
9 participate under the rules of the Solar Loan II Program through the solicitation
10 process. If they are not selected under the solicitation process, the customer may still
11 proceed with their project under the Solar Loan I program. All loans closed under the
12 current program will remain in that program. Upon commencement of the Solar Loan
13 II Program, any remaining capacity from Solar Loan I will be rolled into the new
14 program. PSE&G projects that remaining capacity will be approximately 15 MW of
15 the 30 MW in Solar Loan I.

16
17 **CHANGES TO THE PILOT PROGRAM BEING SOUGHT IN THE SOLAR**
18 **LOAN II PROGRAM**

19
20 The Company is proposing a number of changes from the Solar Loan I
21 pilot program to be incorporated into the Solar Loan II Program. First, the Company

1 is proposing to remove the requirement that Solar Systems be net metered as a
2 requirement for participation. Under the new program, all Solar Systems that are
3 eligible to receive SRECs will be eligible to participate in the loan program. Second,
4 the Company proposes that the Program have no entity caps on solar developers or
5 customers. The Company had earlier sought these changes for the Solar Loan I
6 program in a letter dated January 15, 2009. Since projects will be competing for loan
7 based on SREC price, there is no need to restrict participation through the use of
8 entity caps. Third, the Company proposes installation of a communications system
9 for systems 500 kW and larger that will allow it to monitor Solar System output on a
10 real-time basis and identify any non-performing assets in its portfolio.

11 PSE&G is also proposing that it have the ability to issue loans without
12 obtaining a first-priority lien on the project equipment. The Board recently approved
13 a change for the Solar Loan I program, removing the first-lien requirement, in an
14 Order dated March 17, 2009.

15

16 **PROGRAM RULES**

17 Rules to be used by PSE&G Solar Loan II Program are shown in
18 Schedule AZM-2.

1 **PROGRAM SEGMENTS**

2 PSE&G proposes two program segments, residential and non-
3 residential.

4 **Residential Segment**
5 **Target Market and Eligibility**

6 Of the 40 MW available under the Solar Loan II program and the 15
7 MW anticipated remaining capacity of the Solar Loan I program, 2.75 MW will be
8 made available to the residential segment over the two-year life of the new program.
9 The market is characterized as residential fee-simple, single family homes. Loans
10 will be granted that have a 10-year term and the interest rate will be 6.5% (as in the
11 current program). Projects must compete in the solicitation process to determine if
12 they will be funded. PSE&G agrees that solar energy should be universally available
13 to all customers. Toward that end, PSE&G would be open to discuss modifications to
14 the terms and conditions applicable to loans for the residential customer segment that
15 would encourage greater residential customer participation in the loan program.

16

17 **Non-Residential Segment**
18 **Target Market and Eligibility**

- 19 • Unlike the current pilot program where a particular end-use defines a segment,
20 the non-residential sub-segments in Solar Loan II will be determined by project
21 size. There will be three sub-segments. They are: less than or equal to 50 kW;

1 more than 50 kW but less than or equal 500 kW; and over 500 kW. Soft caps
2 will exist between the sub-segments. Soft caps will apply for each non-
3 residential sub-segment according to the following percentages:

- 4 ○ Non-residential $\leq 50\text{kW}$ – 40%
- 5 ○ Non-residential $>50\text{kW} \leq 500\text{kW}$ – 40%
- 6 ○ Non-residential $>500\text{kW}$ - 20%

7 The use of these sub-segments for determining the floor price is more
8 fully described in the solicitation process, outlined in Schedule AZM-2.

9 Non-residential loans will have a life of 15 years and will have an
10 interest rate of 11.9525%.

11

12 **PROGRAM ADMINISTRATION**

13 PSE&G will perform all loan administration functions for the Program,
14 including loan qualification and loan servicing over the life of the loan. PSE&G will
15 either manage the solicitation process itself or retain a third-party to manage the
16 process.

17

18 **PROGRAM DELIVERY METHODS**

19 The Company is essentially providing financial services to qualified
20 borrowers. The Company will perform marketing, the competitive solicitation,

1 lending due diligence, closing and loan servicing over the life of the loan. The
2 Company also intends to install a communications system that will enable it to closely
3 monitor systems of 500 kW and larger, and easily spot under-performing assets so
4 that notification can be provided to the borrower and corrective action taken. The
5 Company intends to use the same general form of loan applications and loan
6 documents that are currently in use, modified as necessary for the changes in Solar
7 Loan II. Samples of the loan documents are included as Schedule AZM-3. Any
8 changes necessary for Solar Loan II will be made upon Board approval of the
9 Program and a compliance filing made to the Board.

10 The Company will continue to use the auction process approved by the
11 Board in an Order dated November 8, 2008 in Solar Loan I to sell SRECs it receives
12 in repayment of the loans issued in Solar Loan II.

13

14 **IMPACT ON MARKETPLACE, COMPETITION, EMPLOYMENT,**
15 **ECONOMIC DEVELOPMENT, NEW BUSINESS AND MARKET BARRIERS**

16

17 This Program will have an overall positive impact on the renewable
18 energy marketplace in New Jersey. It builds on experience that the Solar Loan Pilot
19 Program has achieved. By providing a loan to finance 40 to 60% of a project's cost
20 and accepting SRECs in repayment of the loan, Solar Loan II is consistent with the
21 loan-term SREC financing approach set forth in the Solar Securitization Order, and

1 will continue to be a successful approach in the marketplace. Access to capital for
2 renewable energy projects continues to be a significant market barrier. The Program
3 is particularly important given the current precarious situation of the country's
4 financial institutions. By providing funding for solar projects, the Program will have
5 a positive impact on employment and economic development in the State.

6 At this early stage in the development of New Jersey's solar industry, it
7 is important to try different approaches to supplement the State's SREC-only model.
8 A portfolio of approaches is necessary to determine what is the most effective way to
9 achieve the State's multiple policy goals, which include growing a sustainable solar
10 industry, creating jobs ensuring universal access and driving down costs for
11 ratepayers. PSE&G believes that its Loan Program and its recently-filed "Solar 4 All"
12 Program accomplish that and complement other initiatives at work in the state, such
13 as the JCP&L long-term SREC contracting program and the Board's own solar rebate
14 program.

15

16 **BUDGET**

17 The proposed budget data is set forth in the electronic workpapers to my
18 testimony, file WP_AZM 1.xls. In addition, based on the proposed budget data I have
19 provided, Mr. Swetz provides a summary of Program revenue requirements in his
20 Schedule SS-2.

1 **QUALITY ASSURANCE PROVISIONS**

2 Currently, PSE&G's loan program relies on the BPU's renewable
3 program market manager to make program inspections to certify that the Solar System
4 is eligible for the generation of SRECs. The Company proposes to continue to use
5 these inspections for Solar Loan II. To the extent that the BPU moves away from this
6 100% inspection routine, PSE&G will have to incur additional administrative costs to
7 perform this work. The budget submitted with this filing does not include those costs.

8
9 **DISPUTE RESOLUTION PROCEDURES**

10 Customer complaints relating to the design, delivery, or administration
11 of the Program segments potentially could be received through two means: directly to
12 various PSE&G customer contact personnel and departments or directly to the BPU.
13 In both instances the immediate issue would be referred to the appropriate PSE&G
14 management personnel to investigate and resolve. PSE&G will utilize the same
15 complaint resolution procedure that was approved for the PSE&G Solar Loan I
16 Program.

17 PSE&G will attempt to resolve disputes with its customers informally in
18 the first instance. See Schedule AZM-4 for a flow chart on how customer complaints
19 will be processed. Disputes that involve PSE&G's administration of the Program that
20 cannot be resolved informally will be resolved through the BPU's existing process for

1 customer complaints within the appropriate Division. Disputes between PSE&G and
2 its sub-contractors will be resolved in accordance with contract provisions. Disputes
3 under the program that involved monetary claims or civil damages that cannot be
4 decided by the BPU will be resolved in an appropriate court of law.

5 This concludes my testimony at this time.

1 My responsibilities in the past 12 years have included Business
2 Development and Asset Management of international investments in Latin America
3 and as part of my responsibilities, I was engaged as V.P. of Operations in managing
4 several utility companies and had the following corporate governance responsibilities:

- 5 • Chairman of the Board of Directors – LUZ DEL SUR S.A.A., LIMA, PERU
- 6 • Chairman of the Board of Directors – TECSUR S.A., LIMA, PERU
- 7 • Vice-Chairman of the Board of Directors – CHILQUINTA ENERGIA S.A.,
8 SANTIAGO/VALPARAISO, CHILE
- 9 • Chairman of the Board of Directors – SOCIEDAD AUSTRAL DE
10 ELECTRICIDAD S.A., OSORNO, CHILE
- 11 • Member of the Board of Directors – DHOFAR POWER COMPANY
12 S.A.O.C., MUSCAT, OMAN

13

14 Testimony

15 I have recently submitted prefiled testimony in the filing of Public
16 Service Electric and Gas Company for Approval of a Solar Generation Investment
17 Program and an Associated Cost Recovery Mechanism, dated February 10, 2009,
18 Docket No. EO09020125.

1 Educational Background

2 I hold a Master of Business Administration degree from Fairleigh Dickinson
3 University in New Jersey, where I also earned a Masters and a Bachelor of Science degree in
4 electrical engineering. I have also successfully completed Finance for Senior Executives at
5 Harvard University and I am bilingual English-Spanish.

SOLAR LOAN II PROGRAM RULES

Eligibility Requirements

- Definition of a Solar Project – A system that converts sunlight into measurable and verifiable alternating current (AC) electric power.
- 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.
- The solar photovoltaic panels must be covered by a 20-year warranty.
- Projects larger than 50kW accepted under this program will be ineligible for any benefits from other PSE&G or BPU renewable energy programs, except for net metering. Projects 50kW and less may take advantage of rebates that may be available from the BPU's Clean Energy Program.
- In no instance can the combination of PSE&G loan, Federal Investment Tax Credit and BPU rebate exceed the system cost.
- All projects eligible to receive SRECs are eligible to participate in the Program.
- Only one application can be submitted for each project.
- For non-residential projects, loan applicants must be registered to do business in New Jersey.
- Applicant must meet minimum insurance requirements as specified in the Solar Loan Agreement.
- Applicant must make provision for solar system maintenance.
- No entity caps will apply to this program.

Competitive Solicitation Process to Determine SREC Floor Price

- PSE&G will conduct a periodic, competitive solicitation process through which a potential borrower will submit a loan application with a proposed SREC floor price specific to their project.
- PSE&G will either manage the solicitation process itself or retain a third-party to manage the process.
- Participation in the solicitation will require the submission of a complete loan package including the appropriate loan application fee.
- Loan applications will be grouped into market segments and sub-segments as defined below for review:
 - Residential
 - Non-residential
 - Non-residential $\leq 50\text{kW}$
 - Non-residential $>50\text{kW} \leq 500\text{kW}$
 - Non-residential $>500\text{kW}$

- Solicitations will be conducted a minimum four times a year. PSE&G reserves the right to conduct more frequent solicitations.
- Capacities will be made available at each solicitation as follows:

| Solicitation Schedule | | | Applications Received (MW) | | | | | | | |
|-----------------------|------------|----------|----------------------------|--------|--------|--------|--------|--------|---------|--------|
| Class | % of Total | Total MW | Jan-10 | Apr-10 | Jul-10 | Oct-10 | Jan-11 | Apr-11 | Jul -11 | Oct-11 |
| Residential | 5% | 2.75 | 0.34 | 0.34 | 0.34 | 0.34 | 0.34 | 0.34 | 0.34 | 0.34 |
| Non-Resi | 95% | 52.25 | 6.53 | 6.53 | 6.53 | 6.53 | 6.53 | 6.53 | 6.53 | 6.53 |
| Total | | 55.0 | 6.87 | 6.87 | 6.87 | 6.87 | 6.87 | 6.87 | 6.87 | 6.87 |

- Within each segment or sub-segment, each project will be rank-ordered from the lowest to the highest SREC price bid.
- A ceiling price will be determined for each solicitation cycle. PSE&G reserves the right to modify this ceiling price for successive solicitations.
- Hard capacity caps will be used for the Residential and Non-residential segments.
- Soft caps will apply for each non-residential sub-segment according to the following percentages:
 - Non-residential $\leq 50\text{kW}$ – 40%
 - Non-residential $>50\text{kW}\leq 500\text{kW}$ – 40%
 - Non-residential $>500\text{kW}$ - 20%
- Bids received for the non-residential segment will be evaluated by sub-segment. The non-residential $\leq 50\text{kW}$ subclass will be reviewed for capacity up to 40% of the total class size, and projects will be rank-ordered. The non-residential $>50\text{kW}\leq 500\text{kW}$ sub-segment will be reviewed next up to 40% of total segment size and projects rank ordered. The $>500\text{kW}$ sub-segment will then be reviewed and rank ordered. To the extent that each sub-segment is undersubscribed, the remaining sub-segment capacity will be redistributed to the next sub-segment, moving from the lowest to the highest project size sub-segment.
- During each solicitation each segment and sub-segment will be reviewed separately. If the amount of capacity bids received is equal to or less than the sub-segment capacity, all projects will be conditionally accepted, and will be considered for further screening, such as credit and interconnection review.
- If a sub-segment is fully subscribed, and there is capacity in the next highest sub-segment, the bidder will be given the opportunity to be moved to the next highest sub-segment. However, the SREC bid submitted will not be used to determine the clearing price of the higher sub-segment. Customers so situated will be given the opportunity to accept the floor price that was already established, or resubmit in the next solicitation cycle. As an example, if the solicitation conducted in January, 2010 results in only 2.0 MW for the non-residential $\leq 50\text{kW}$ subclass out of the total available of 2.2 MW (5.5 MW class size x 40%), 0.2 MW would go into the $>50\text{kW}\leq 500\text{kW}$ subclass. The same would happen with the other subclasses.

- PSE&G will accept projects in each sub-segment to fill the capacity. If an individual project by virtue of its size would cause the capacity in a particular sub-segment to be over-subscribed, PSE&G will accept the project and lower the capacity of the entire segment during a subsequent solicitation. For example, if by accepting a 1 MW project, the non-residential segment capacity of 6.53MW is exceeded by 0.53 MW, the non-residential segment will be reduced by 0.53MW in the succeeding solicitation. However the soft caps of 40%, 40% and 20% would still remain in place in the next solicitation.
- Winners will be notified within two weeks of the close of the solicitation that their projects have been conditionally accepted subject to further review and acceptance on other loan criteria such as credit, interconnection, etc.
- Applications that were not selected and thus may be above the established clearing price will be offered the opportunity to be placed on a waitlist. If conditionally accepted projects screen out, or opt out, during the current solicitation cycle, applications on the waitlist will be substituted according to their original rank order. However, they must agree to accept the established clearing price.
- Applications that bid the same SREC amount within a sub-segment, will be further rank-ordered according to the date-stamp with the earliest date and time listed first.
- Projects remaining on the waitlist will be returned to the applicant approximately 10-days before the next solicitation cycle. The application fee will also be returned.
- Should conditionally selected projects not pass other lending criteria or if the project is withdrawn prior to the next solicitation, the capacity freed up will be made available to the next project on the rank ordered list.

General Program Rules

- The floor price will remain in effect for the duration of the loan term.
- Approved projects must be completed within 12 months after PSE&G issues a loan commitment. If a residential borrower experiences project delays beyond their control, the borrower will be given 6 additional months before the loan program is withdrawn.
- If a project is not installed within one-year after PSE&G has issued a commitment, it will be cancelled and the associated capacity will be become available for a subsequent competitive solicitation.
- PSE&G will close the loan within 30 days after all Program requirements have been met.
- Projects that are in excess for 500 kW must install a communications system to be provided by PSE&G that will allow real time system monitoring.
- Non-residential loans will have a 15 –year life and residential loans will be 10 years.
- PSE&G will have a call option for loans the amortize and pay off early.

Basis For Rejection

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

- Removal of the solar system is the last option for a loan that goes into default. If it is necessary to remove the solar system, PSE&G will sell the collateral and credit the net proceeds against the regulatory asset (i.e., the regulatory asset that PSE&G is recovering through the RGGI clause). 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 are of the roof reflects the general condition of the portions of the roof not affected by equipment removal.

Dispute Resolutions

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

Schedule AZM-3

SOLAR PROGRAM LOAN AGREEMENT
TABLE OF CONTENTS

| | |
|---|-----------|
| RECITALS..... | 3 |
| 1. DEFINITIONS..... | 4 |
| 2. LOAN; GENERAL TERMS | 8 |
| 2.1 LOAN AGREEMENT | 8 |
| 2.2 PROMISSORY NOTE..... | 8 |
| 2.3 INTEREST RATE..... | 8 |
| 2.4 TERM | 8 |
| 2.5 REPAYMENT OF LOAN; PAYMENT IN SRECS | 9 |
| 2.6 PREPAYMENT OF LOAN | 10 |
| 2.7 LENDER’S CALL OPTION | 11 |
| 2.8 INSPECTIONS | 12 |
| 2.9 REGULATORY CHANGES; ACCELERATION OF LOAN | 13 |
| 3. NO ASSUMPTION OF LIABILITIES..... | 13 |
| 4. CONDITIONS PRECEDENT TO ADVANCING THE LOAN..... | 13 |
| 5. SECURITY AGREEMENT | 15 |
| 6. SRECS AND ENVIRONMENTAL ATTRIBUTES..... | 15 |
| 7. REPRESENTATIONS AND WARRANTIES | 15 |
| 7.1 LITIGATION CLAIMS AND PROCEEDINGS | 15 |
| 7.2 LAWS AND REGULATIONS | 16 |
| 7.3 DISCLOSURES..... | 16 |
| 7.4 LIENS OR ENCUMBRANCES ON PROJECT EQUIPMENT | 16 |
| 7.5 NO CONTRAVENING AGREEMENTS | 16 |
| 8. REPRESENTATIONS AND WARRANTIES OF LENDER..... | 16 |
| 9. COVENANTS OF BORROWER | 16 |
| 9.1 PERFORMANCE OF CUSTOMER AGREEMENT AND THE PROJECT | 16 |
| 9.2 ADDITIONAL COVENANTS..... | 17 |
| 9.3 INFORMATION: ACCESS TO PROPERTIES; BOOKS AND RECORDS..... | 17 |
| 9.4 INSURANCE | 18 |
| 9.5 MAINTENANCE OF EQUIPMENT | 19 |
| 9.6 MAINTENANCE OF COLLATERAL..... | 19 |
| 9.7 NO OTHER INTERESTS GRANTED | 20 |
| 9.8 CHANGE IN NAME..... | 20 |
| 9.9 FURTHER ASSURANCES..... | 20 |
| 10. COVENANTS OF BORROWER AND LENDER | 20 |
| 11. EVENTS OF DEFAULT: REMEDIES: CURE RIGHTS | 20 |
| 11.1 EVENTS OF DEFAULT | 20 |
| 11.2 CURE RIGHTS; REMEDIES | 21 |
| 11.3 LENDER’S RIGHT TO DISPOSE OF COLLATERAL..... | 23 |
| 11.4 APPLICATION OF PROCEEDS | 23 |
| 12. AMENDMENT AND WAIVERS | 24 |
| 12.1 AMENDMENTS, MODIFICATIONS AND SUPPLEMENTS | 24 |

| | | |
|------|---|-----------|
| 12.2 | WAIVERS | 24 |
| 13. | SURVIVAL OF REPRESENTATIONS, WARRANTIES AND COVENANTS..... | 24 |
| 14. | INDEMNIFICATION..... | 24 |
| 15. | NOTICES..... | 24 |
| 16. | ASSIGNMENT | 25 |
| 17. | ENTIRE AGREEMENT..... | 26 |
| 18. | NO THIRD PARTY BENEFICIARY..... | 26 |
| 19. | RECITALS..... | 26 |
| 20. | COUNTERPARTS..... | 26 |
| 21. | SECTION HEADINGS..... | 26 |
| 22. | INTERPRETATION..... | 26 |
| 23. | SEVERABILITY..... | 26 |
| 24. | APPLICABLE LAW..... | 26 |
| 25. | MISCELLANEOUS..... | 27 |
| 26. | RELATIONSHIP OF THE PARTIES | 27 |
| 27. | JOINT AND SEVERAL OBLIGATIONS | 27 |

EXHIBIT A – PROMISSORY NOTE

EXHIBIT B – TRANSACTION CONFIRMATION LETTER

EXHIBIT C – MEMORANDUM OF OPTION

EXHIBIT D – SECURITY AGREEMENT

EXHIBIT E – BORROWER’S PROGRAM APPLICATION

EXHIBIT F – LOAN AMORTIZATION SCHEDULE

EXHIBIT G – SCHEDULE OF PERMITTED ENCUMBRANCES

THIS SOLAR PROGRAM LOAN AGREEMENT is entered into as of _____, 20__ by Public Service Electric and Gas Company, a New Jersey corporation ("Lender"), having its general offices at 80 Park Plaza, Newark, New Jersey 07102, and _____, [an] individual[s] residing at _____, New Jersey _____ ([collectively] "Borrower"). Borrower and Lender are sometimes referred to, individually, as "Party" and together as "Parties."

RECITALS

- A. The State of New Jersey's Renewable Portfolio Standard ("RPS") mandate that all electricity suppliers have to provide a percentage of their electricity sales from solar generation. To meet this mandatory requirement, the New Jersey Board of Public Utilities (the "BPU"), through its Office of Clean Energy, established a program for the use and trading of Solar Renewable Electricity Certificates ("SRECs") by means of the New Jersey Clean Energy Program's Website: **www.njcep.com/srec** (such website is referred to as the "SREC Program Administrator"). These SRECs, once it is created, represents solar energy actually generated and used, and are bundled in minimum denominations of one megawatt hour of electricity production. The New Jersey Clean Energy Program ("NJCEP") allows for SRECs to be created, verified, tracked, sold to, and eventually retired by, electricity suppliers to meet their RPS solar requirement. All electricity suppliers are required to use the SRECs under the NJCEP to show their compliance with this part of the State's RPS.
- B. In order to reduce electricity supply costs to its ratepayers and assist the State in achieving its environmental objectives under the New Jersey RPS and New Jersey's Energy Master Plan, Lender has developed a solar loan program ("Program") through which Lender will provide financing to developers of solar projects and electric distribution customers who develop solar-powered generation projects that are located within Lender's electric distribution service territory and satisfy the eligibility and the Program requirements set forth in the Program Application. Lender's Solar Program was approved by the BPU by its Order in Docket No. E0-07040278 (the "2008 Order").
- C. Borrower has applied to Lender for assistance in financing a solar generation project. A copy of Borrower's completed Program Application is attached to this Agreement as Exhibit E. This Program Application is a part of this Agreement.
- D. Borrower has identified a solar photovoltaic system developer (the "Equipment Provider") and has entered, or is about to enter, into an agreement with the Equipment Provider, for purposes of developing, designing, purchasing, and installing a solar-powered generation system ("Project") at Borrower's facility or residence (the "Facility"). The Facility is located at _____, New Jersey, which is the location designated in Borrower's Program Application, as approved by Lender.

- E. Upon completion of the Project, and satisfaction of the terms and conditions of this Agreement, Borrower has asked Lender to provide financing to Borrower to repay a portion of the costs incurred by Borrower for the completed Project.
- F. Lender is willing to provide Borrower with, and Borrower accepts such financing, in accordance with the terms of this Agreement.

The Parties agree as follows:

1. Definitions. As used in this Agreement, unless the context is clear requiring other definitions, the following terms shall have the following meanings:

“2008 Order” has the meaning set forth above in the Recitals.

“Actual Loan Balance” means the then-current unpaid principal and unpaid accrued interest under the Loan.

“Agreement” means this agreement.

“Annual True-Up” has the meaning set forth below in Section 2.5(b)(vii).

“Biennial True-Up” has the meaning set forth below in Section 2.5(b)(viii).

“Borrower” has the meaning set forth above in the Recitals.

“BPU” has the meaning set forth above in the Recitals.

“Business Day” means any day other than a Saturday, a Sunday or any day on which commercial banks in the City of Newark, State of New Jersey are required or permitted by law to close.

“Collateral” means: (a) the SRECs arising throughout the term of this Agreement by means of Borrower’s continued and ongoing operation of the Project, and all related rights to those SRECs, including, without limitation, any other Environmental Attributes arising from and/or out of the Project; (b) the Project Equipment; (c) the Project Documents; (d) any other assets or property in which Lender is granted a security interest, lien or pledge as security for the Obligations; and (e) all additions, substitutions to, and products and Proceeds of (a), (b), (c) and (d).

“Contract Price” has the meaning set forth below in Section 2.7.

“Contract Year” means the following: (a) if this Agreement is signed on the first day of the month, then the Contract Year is the twelve-month period beginning on the day the Agreement is signed, and ending on the last day of the twelfth month thereafter. For example, if this Agreement was signed on November 1st, the Contract

Year would be begin on November 1st and end on October 31st of the following year; (b) if this Agreement is signed on the day other than first day of the month, the first Contract Year will be a twelve-month period beginning on the first day of the next month plus the portion of the month in which the agreement was signed; each subsequent Contract Year will be measured from the first day of the first month thereafter. For example, if this Agreement was signed on April 7, 2008, the first Contract Year would start April 7, 2008 and end on April 30, 2009, and the second Contract Year would start on May 1, 2009 and end on April 30, 2010, and so on.

“Customer Agreement” means the agreement between Equipment Provider and Borrower to develop, design, procure and install the Project, including any sale of electric energy generated by the Project.

“Delivery Period” has the meaning set forth below in Section 2.7.

“Equipment” or “Project Equipment” means all of Borrower's solar panels and Project related equipment, machinery, components, wiring, meters, replacement parts and consumables comprising the Project, whether owned now or acquired after the date of this Agreement.

“Equipment Provider” has the meaning set forth above in the Recitals.

“Events of Default” has the meanings set forth below in Section 11.1.

“Environmental Attribute” has the meaning set forth below in Section 6.

“Facility” has the meaning set forth above in the Recitals.

“Floor Price” means the minimum price of an SREC used to satisfy Borrower's payment obligations under the Loan, and is the lowest price which will be credited to Borrower when repaying the Loan and accrued interest. The Floor Price for an SREC for purposes of this Agreement is \$475.00

“kW” means kilowatts.

“Lender” has the meaning set forth above in the Recitals.

“Lender's Call Option” has the meaning set forth below in Section 2.7.

“Liens” means any and all mortgages, liens, charges, security interests and/or encumbrances of any kind, and/or pledges or deposits of any kind.

“Loan” has the meaning set forth below in Section 2.1.

“Loan Amortization Schedule” means the schedule attached to this Agreement as Exhibit F.

“Loan Documents” means this Agreement, the Note, the Security Agreement and such other documents, instruments and certificates delivered in connection with one or more of those documents.

“Market Value” for purposes of determining (i) the value of SRECs at the time of their use to repay the outstanding balance of the Loan and accrued interest, and (ii) the Contract Price for SRECs under the Lender’s Call Option, means the average cumulative weighted price of SRECs as published on the NJCEP website (or any successor website performing a similar function) during the calendar month preceding the month of repayment of the outstanding balance of the Loan and accrued interest. If no price is published on the website for the relevant month, the Market Value will be the average of three quotes received from independent brokers.

“MW” means megawatts.

“MW-hour” means megawatt-hours.

“NJCEP” means the BPU’s New Jersey Clean Energy Program, or any successor program.

“Note” has the meaning set forth below in Section 2.2.

“Obligations” means any and all obligations, liabilities and agreements of Borrower under the Loan Documents, and will include any and all costs and expenses of, or incurred by, Lender in collecting payment of the Loan and in enforcing the provisions of this Agreement, including, but not limited to, all court costs and/or reasonable attorneys' fees and expenses in any action between Lender and Borrower and/or Lender and any third party based on the Loan Documents.

“Operation” means that point achieved when the Project begins generating electricity for usage at the Facility, and the Project meets all technical and performance requirements associated with its intended use as set forth in the Program Application and the Project Documents.

“Permitted Encumbrances” means (a) Liens expressly disclosed by Borrower to Lender in Exhibit G and approved by Lender in writing, which may include, among other things, a home mortgage, home equity loan or line of credit, so long as the foregoing do not impair the Lender’s first priority security interest in the Collateral; (b) Liens securing taxes, assessments and/or governmental charges and/or levies or the claims of materialmen, mechanics, carriers, warehousemen, landlords and other similar Persons, the payment of which is not currently due and payable; and (c) Liens in favor of Lender.

“Person” means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, institution, entity, party, corporation, limited liability company, or government agency (whether national, federal, state, county, city, municipal, or otherwise).

“Proceeds” means any and all consideration received from the sale, exchange, collection or other disposition of any asset or property that constitutes Collateral, any value received as a consequence of the possession of any Collateral, any payment received from any insurer or other person or entity as a result of the destruction, loss, theft or damage of any asset or property which constitutes Collateral, and shall include all cash and negotiable instruments received or held on behalf of Lender relating to the payment of accounts.

“Project” has the meaning set forth above in the Recitals.

“Project Documents” means: (a) a fully executed Customer Agreement; (b) waivers signed by the Equipment Provider and each of its subcontractors on the Project waiving any Liens on the Collateral; (c) waivers and subordination agreements signed by any other lienholders or mortgagees of Borrower, or Borrower’s landlord, if any, waiving or subordinating any Liens on the Collateral; (d) Project specifications, maintenance agreements and other technical information regarding the Project; (e) any and all applicable permits, licenses, easements, variances and other authorizations; (f) Program Application documents, project plans and pro formas, and other Program-related documents; and (g) any and all other appropriate documents as may be requested by Lender.

“Quarter” or “Quarterly” means a quarterly period measured based on Contract Years.

“Quarterly Amortization Statement” has the meaning set forth below in Section 2.5(a).

“RPS” has the meaning set forth above in the Recitals.

“Scheduled Loan Balance” means the Scheduled Loan Balance set forth in the Loan Amortization Schedule attached as Exhibit F.

“Security Agreement” means that certain Security Agreement, dated the same date as this Agreement, setting forth the terms, conditions, obligations and rights of the Parties as to the Collateral.

“SRECs” has the meaning set forth above in the Recitals.

“SREC Account” has the meaning set forth below in Section 2.5(b).

“SREC Program Administrator” has the meaning set forth above in the Recitals, and can also mean any successor to the SREC Program Administrator who is recognized by the State of New Jersey.

“Term” has the meaning ascribed to such term in Section 2.4.

“Transaction Confirmation Letter” has the meaning set forth below in Subsection 2.7(b).

2. Loan; General Terms

2.1 Loan Agreement. Lender agrees to lend to Borrower for the purpose of reimbursing a portion of the costs incurred in designing, purchasing and installing the Project the amount of _____ AND 00/100 DOLLARS (\$ _____), which amount is referred to as the "Loan."

2.2 Promissory Note. The Loan shall be evidenced by a secured promissory note, to be made by Borrower and delivered to Lender ("Note"), which Note will be substantially in the form of the document attached to this Agreement as Exhibit A.

2.3 Interest Rate. The Loan shall bear interest at the rate of **six and one-half percent (6.5%)** per year, which is the same as the monthly rate of 0.541667% (calculated as $6.5\% \div 12 = 0.541667\%$). Interest shall be calculated monthly, at the end of each month, on the Actual Loan Balance as of the beginning of such month. Notwithstanding the preceding sentences if this Agreement is executed on a day other than the last day of the month or Loan is prepaid in full on a date other than the last day of the month, then the calculation of interest for such partial month only shall be based upon a daily rate of 0.0178082% (calculated as $6.5\% \div 365 = 0.0178082\%$). By way of example, if this Agreement were to be executed on the 15th day of a 31 day month, interest would accrue at such daily rate for 17 days (representing the period beginning on the date this Agreement is signed and ending on the last day of that month). Regardless of whether paid in cash or SRECs as provided here, without limiting any of Lender's rights under this Agreement, if the interest component of any periodic payment is not paid on the payment due date indicated on the Loan Amortization Schedule, the unpaid portion of such interest component shall bear interest at the stated rate. If this occurs, the effective rate of interest with respect to the Loan will be higher than 6.5% per year.

2.4 Term. The term of this Agreement is ten (10) years from the date Lender advances the Loan to Borrower ("Term"). Borrower may prepay the Loan prior to the end of the ten (10) year Term as provided in Section 2.6. Lender's Call Option as provided for in Section 2.7 shall survive the payment or prepayment of the Loan and continue in effect for the full Term.

2.5 Repayment of Loan; Payment in SRECs.

(a) The full amount of the Loan and all interest due is payable in periodic installments as set forth in the Note. All amounts due under this Agreement and the Note can be paid in (i) cash or (ii) the value of the SRECs created by operation of the Project as described in section 2.5(b) below. Following each Quarter, Lender will provide an amortization statement to Borrower showing the amount paid(s) by Borrower in cash and SRECs, the Actual Loan Balance and the cumulative difference ("Quarterly Amortization Statement").

(b) Borrower shall elect to use cash or the SRECs created by the Project to repay the Loan and accrued interest prior to the execution of this Agreement. By written notice to Lender sixty (60) calendar days prior to the end of any Contract Year, the Borrower may change its election for the succeeding Contract Year. Notwithstanding the foregoing, Borrower may use the SRECs only if the following conditions are met:

- (i) Borrower has established and maintains an electronic account with the NJCEP to use the SREC Program Administrator for the sale and trade of SRECs (the "SREC Account"), and Borrower provides Lender with access to such SREC Account;
- (ii) Borrower shall be responsible for ensuring that all SRECs generated by the Project each month during the Term are credited to the SREC Account in a timely manner;
- (iii) Borrower must apply all SRECs in its SREC Account at the time of its use of SRECs for repayment purposes towards the repayment of the Loan;
- (iv) Borrower must use the SREC Program Administrator and its SREC Account to automatically transfer SRECs to Lender's account and Borrower shall have executed any documents that Lender requires to affect the automatic transfer;
- (v) The value of the quantity of SRECs created by operation of the Project for purposes of repaying the Loan and accrued interest shall be determined at the time of such repayment and shall be the greater of the Floor Price or the Market Value;
- (vi) If the value of the quantity of SRECs created by the operation of the Project (or the cash payments) being applied to repay the Loan exceeds the amount due from Borrower to satisfy his/her periodic obligations under this Agreement and the Note for such period, Lender will apply the excess amount to the Actual Loan Balance. The application of such excess shall not affect the periodic payments shown on the Loan Amortization Schedule except that once all payments due under the Loan are paid in full, no further periodic payment shall be required.

- (vii) Annual True-Up. Lender will perform a true-up at the end of every Contract Year (“Annual True-Up”). Lender will calculate (a) the aggregate value of the SRECs and cash (excluding any Annual True-Up or Biennial True-Up payments made that Contract Year) received from Borrower to pay the Loan for the Contract Year (“Actual Payments”), and (b) ninety percent (90%) of the total payments due with respect to the Loan for the Contract Year as indicated in the Loan Amortization Schedule (“90% Amount”). Within sixty (60) calendar days from receipt of written notice from Lender, Borrower will pay Lender in cash an amount equal to the positive difference, if any, between (x) the 90% Amount *minus* (y) the Actual Payments, and such amount will be applied to the Actual Loan Balance; and
- (viii) Biennial True-Up. In addition to performing the Annual True-Up for each Contract Year, Lender will also perform a biennial true-up, the first to take place at the end of the second Contract Year and then every two Contract Years thereafter (“Biennial True-Up”). Lender will (a) calculate the Actual Loan Balance at the end of the second Contract Year (after giving effect to any payment required under the Annual True-Up for the current Contract Year) and (b) determine the Scheduled Loan Balance for the corresponding period. Within sixty (60) calendar days from receipt of written notice from Lender, Borrower will pay in cash to Lender an amount equal to the positive difference, if any, between (x) the Actual Loan Balance *minus* (y) the Scheduled Loan Balance, and such amount will be applied to the Actual Loan Balance.

(c) All payments made on the Loan (whether in cash and/or the value of SRECs generated by the operation of the Project) will be applied (i) on the last day of the month (for example, if an SREC was transferred to Lender’s account on the 20th of the month, Lender would apply the value of such SREC on the last day of the month), and (ii) first to the payment of accrued interest, then to the repayment of the principal amount of the Loan.

(d) Within thirty (30) calendar days prior to the conclusion of the Term, Lender shall provide written notice to the Borrower of the Actual Loan Balance (if any). Within thirty (30) calendar days after such notice, Borrower will pay to Lender the Actual Loan Balance (if any). If Borrower pays any Actual Loan Balance after the expiration of the Term, interest will accrue, calculated in accordance with Section 2.3.

2.6 Prepayment of Loan. Subject to Lender’s Call Option described below in Subsection 2.7(a), Borrower may pay all or a portion of the outstanding amount of the Loan and accrued interest at any time prior to the end of the Term by paying to Lender cash and/or SRECs, which SRECs are to be valued at the higher of the Floor Price or Market Value. Any such prepayment will be applied to the Actual Loan

Balance. There shall be no prepayment penalty assessed to Borrower for paying off the Loan and accrued interest prior to the end of the Term.

2.7 Lender's Call Option. Borrower grants to Lender an option, exercisable at Lender's discretion, to purchase all SRECs created by the continued operation of the Project during the Term ("Lender's Call Option"). Lender shall have the right and discretion to exercise the Lender's Call Option, as described below, if Borrower repays to Lender the full amount of the Loan and accrued interest prior to the end of the Term, regardless of whether such repayment is from Borrower's voluntary prepayment in cash or SRECs, from acceleration of the Loan by Lender upon an Event of Default, or otherwise.

(a) Lender's Call Option: If the Loan is repaid prior to the expiration of the Term for any reason, Lender shall have the option ("Option") to purchase, pursuant to the terms of this Section 2.7, up to 100% of SRECs produced by the Project during the balance of the Term ("Maximum Contract Quantity"). Lender's Call Option shall remain in effect until the Term expires. Option shall mean that Lender has the right, but not the obligation (unless exercised) to purchase all or a portion (at Lender's election) of the SRECs produced by the Project during the balance of the Term. The Option may be exercised by Lender directly or through an assignee.

(b) Exercise Date: Notification by Lender of its intent to exercise Lender's Call Option must be provided by Lender by notifying Borrower via telephone ((____) ____-____) prior to 10:00 AM (Eastern Prevailing Time) on 25th of the month prior to the commencement of a Delivery Period, or on the next succeeding Business Day if the 25th of such month does not fall on a Business Day. If the Parties are unable to communicate with each other by telephone, a facsimile transmission by Lender to Borrower to Borrower's facsimile machine (if any) ((____) ____-____) prior to 11:00 AM (Eastern Prevailing Time) on 25th of the month prior to the commencement of a Delivery Period, or on the next succeeding Business Day if the 25th of such month does not fall on a Business Day or written notice delivered by overnight mail shall constitute sufficient notice. In this oral notice, Lender will specify: (a) the Contract Quantity of SRECs that Lender has elected to purchase up to the Maximum Contract Quantity; (b) the Contract Price, which will be determined as described in Section 2.7(d) below; and (c) the Delivery Period. Each exercise shall be put in writing in a written Transaction Confirmation Letter, substantially in the form of the document attached to this Agreement as Exhibit B, and shall be governed by its terms. The terms of Exhibit B are deemed accepted by Lender and Borrower by their signatures to this Agreement, and such terms apply to the Lender's Call Option at all times during the Term, and any exercise of the Lender's Call Option. Each Transaction Confirmation Letter shall be effective upon delivery by Buyer (Lender) to Seller (Borrower) unless the Seller (Borrower) gives the Buyer (Lender) written notice that the Transaction Confirmation Letter is not consistent with the verbal notification of Lender's intent to exercise Lender's Call Option. To be effective, such contesting notice must be delivered to the Buyer (Lender) within three (3) Business Days of the Seller (Borrower)'s receipt of the Transaction Confirmation Letter.

(c) Delivery Period: Each Delivery Period shall commence on the first calendar day of the Contract Year Quarter following Lender's verbal notice of its intent to exercise Lender's Call Option and end on the last calendar day of the third month of the Quarter following commencement of the Delivery Period. There can be more than one Delivery Period, but only one Delivery Period can be exercised at a time.

(d) Contract Price: The contract price ("Contract Price") to be paid by Lender for SRECs delivered by Borrower during a Delivery Period shall be the amount equal to the product of 0.75 multiplied by the Market Value, based on the Market Value at the time Lender's Call Option was exercised with respect to such Delivery Period.

(e) Survival of Lender's Call Option: It is the Parties' intention Parties that the Lender's Call Option remain in effect for the entire Term, even if Borrower sells the Project Equipment (alone or in connection with a sale of the Facility) or if there is a change in the location of the Project Equipment. This is irrespective of any right that Borrower may have to dispose of the Project Equipment after the Loan has been repaid and such Equipment is no longer part of the Collateral and subject to the terms of the Security Agreement. Borrower agrees that any change in the location of the Project Equipment during the Term must be approved in writing by Lender. Giving that Lender cannot exercise the Lender's Call Option unless the Project Equipment is operating in New Jersey, Borrower shall ensure that the Project Equipment will not be moved out of New Jersey during the entire Term. Borrower also agrees to keep the Project Equipment insured and maintained in good condition during the entire Term.

(f) Publication of Lender's Call Option: Borrower consents to Lender taking any actions that Lender feels are appropriate to notify third parties of the existence and continuation of the Lender's Call Option including, filing of documents in the real property records in the county where the Facility is located. To this end, the Parties agree to sign a Memorandum of Option, in the form attached here as Exhibit C, in order to record the Lender's Call Option in the public land records. Further, Borrower agrees to execute any subsequent memoranda or other documents as Lender may require in the event that the Project Equipment is moved (with approval of Lender) from the real property stated in the Memorandum of Option.

2.8 Inspections. Prior to advancing the Loan and also during the Term, Lender (or its designee), at its sole election and cost and upon written notice to Borrower, may make inspections of the Project to confirm that Operation (as defined in Section 4(d) below) has been achieved and that the Project is being operated and maintained in accordance with this Agreement. Borrower shall not rely on the Lender's inspection for any purpose. Borrower shall be solely responsible for ensuring that the Project is installed and constructed in accordance with the Customer Agreement. Lender's inspection and the disbursement of a Loan shall not be deemed to constitute Lender's approval or warranty of the Project, the Equipment or the Equipment Provider and/or its continued operation.

2.9 Regulatory Changes; Acceleration of Loan. If the existing New Jersey regulations governing the Solar Program are amended, suspended and/or otherwise no longer in force, Lender will not accelerate the repayment of the unpaid portion of the Loan and accrued interest, PROVIDED, HOWEVER, that:

(a) Borrower continues to operate the Project in accordance with this Agreement;

(b) The terms in this Agreement governing the amortization of the Loan and payment of all accrued interest remain in full force and effect; and

(c) Despite the change in regulation, the BPU continues to allow Lender to enjoy the comparable treatment, as described more fully in Section 2.9(a) above, with regard to those Projects in operation and creating SRECs as Lender enjoyed prior to such change in regulations.

3. No Assumption of Liabilities. Lender shall not assume, and Borrower shall retain and be responsible for, any and all liabilities and obligations of Borrower of any kind or nature whatsoever, including any and all liabilities and obligations of Borrower under the Project Documents, including the Customer Agreement.

4. Conditions Precedent to Advancing the Loan. Lender shall not be obligated to advance the Loan unless the following conditions are satisfied, in form and substance satisfactory to Lender and its counsel, on or before the date when Borrower requests disbursement of the Loan:

(a) All of the Loan Documents shall have been completed, duly executed and delivered by Borrower to Lender.

(b) Lender shall have received: (1) the financing statements in form and substance reasonably acceptable to Lender for filing with the appropriate governmental agency or agencies in all jurisdictions (state and county levels) necessary or, in the opinion of Lender, desirable to perfect the Liens created by this Agreement; (2) record searches identifying all financing statements, judgments, tax liens and other Liens on file with respect to Borrower in all jurisdictions referred to under (1) above and such other jurisdictions as Lender may deem appropriate, indicating that no Person, other than Lender and any other holders of Permitted Encumbrances, has any Lien or Liens on any of the Collateral; (3) record owner and mortgage lien searches of the real estate records applicable to the Facility; (4) Lien waivers or subordinations from other lienholders, mortgagees and Borrower's landlord, if applicable, each duly executed by each person that is a party thereto, each of which shall be in full force and effect, and in form and substance satisfactory to Lender; (5) satisfactory evidence of all insurance coverage required in this Agreement; (6) any and all other documents related to the Collateral or Borrower that Lender reasonably requests.

(c) Lender shall have received all Project Documents for the Project, each duly executed by each person that is a party to it, each of which Project Documents shall be in full force and effect, and in form and substance acceptable to Lender.

(d) Borrower shall have notified Lender in writing that the Project is substantially complete and producing SRECs (“Operation”) and Lender shall have verified that the Project has achieved Operation pursuant to Lender’s inspection rights in Section 2.8. In the event the date of Operation has not occurred within one year after Lender’s notification to Borrower of Project approval, Lender shall have the right, to be exercised by giving upon written notice to Borrower, to terminate this Agreement and shall be under no further obligation to advance the Loan, provided however that Lender shall provide an additional six (6) months grace period before terminating this Agreement if, but only if, (i) Borrower has not achieved Operation due to circumstances beyond Borrower’s control, (ii) Borrower has exercised reasonable diligence in connection with the Project and (iii) Borrower has expended capital in connection with the Project.

(e) Borrower shall have provided to Lender a complete copy of the BPU’s inspection report with respect to the Equipment installed at the Facility.

(f) Metering equipment capable of measuring the electricity generated from the continued operation of the Project throughout the Term shall have been installed in accordance with the Program requirements.

(g) Borrower shall have opened a SREC Account and provided Lender with a corresponding, valid SREC Account tracking number and password.

(h) There shall be at such time no: (1) injunction, writ, preliminary restraining order, or any order of any nature issued by an arbitrator, court or other governmental authority directing that the transactions provided for in this Agreement and/or in the Project Documents not be consummated as provided; or (2) suit, litigation, investigation hearing or proceedings of or before any arbitrator, court or other governmental authority pending or threatened against Borrower, or any of Borrower’s properties, revenues or assets, with respect to the Loan Documents, the Project Documents, and/or any of the transactions contemplated in those documents that could result in a material and adverse change to them;

(i) No Event of Default under this Agreement or any other agreement applicable to Borrower or the Equipment Provider has occurred and is continuing or will result from the making of such Loan;

(j) The representations and warranties of Borrower contained in this Agreement shall be true and correct as of the date Lender advances the Loan with the same effect as though made on such date, except, however: (i) for such changes as are specifically permitted hereunder; and (ii) to the extent made solely as of a previous date, such warranties shall have been true and correct as of that previous date;

(j) The Solar Loan Program, or any program which is a direct successor to it, remains in effect; and

(k) No event shall have occurred since the date of the execution and delivery of this Agreement which, in the good faith opinion of Lender, is likely to materially and adversely affect the financial and/or credit prospects of Borrower, the operability of the Project as contemplated or otherwise impair the ability of Borrower to perform his/her obligations under the Loan Documents and/or the Project Documents.

5. Security Agreement. As security for the payment and performance of the obligations of Borrower under the Loan Documents, at the same time that Borrower executes and delivers to Lender this Agreement, Borrower will execute and deliver to Lender a fully executed Security Agreement, in the form of the document attached to this Agreement as Exhibit D.

6. SRECs and Environmental Attributes.

(a) If a third party offers Borrower a higher price for SRECs than the then-current Market Price, Lender permits Borrower to sell SRECs to that third party: PROVIDED, HOWEVER, that Borrower notifies Lender in writing of his/her intent to sell SRECs to that third party, and shall include in that written notification the quantity of SRECs to be sold and the price for such quantity of SRECs, and Borrower utilizes the entire sale price paid by that third party towards (1) the payment of all accrued interest on the Loan, then (2) the amortization of the principal amount of the Loan in the month Borrower receives the proceeds of the sale to a third party. After the Loan is repaid, but before the end of the Term – that is, during any period in which the Lender's Call Option could be exercised by Lender – Borrower shall not have the right to sell SRECs to anyone but Lender or Lender's assigns.

(b) For purposes of this Agreement, an "Environmental Attribute" is an instrument used to represent the environmental costs and/or benefits associated with a fixed amount of electricity generated by the Project. For the Project, Environmental Attributes represent the general environmental benefits of renewable generation such as, for example, air pollution avoidance. The exact quantity of the environmental benefit (e.g., pounds of emission reductions of a given pollutant) is not indicated by an environmental attribute, though it can be quantified separately in pollution trading markets and through engineering estimates. The Environmental Attribute represents all environmental benefits, whether or not trading markets for such pollutants or benefits exist. Lender will quantify any and all Environmental Attributes, and have the right to trade said Environmental Attributes for its own account.

7. Representations and Warranties.

7.1 Litigation Claims and Proceedings. No litigation, suits, claims, and/or judicial or administrative proceedings of any nature is pending or, to the best knowledge of Borrower, threatened against Borrower or Borrower's property or the

Project, the effects of which, in Lender's judgment, would have a material adverse effect on Borrower, his/her financial condition and/or the Project.

7.2 Laws and Regulations. Borrower is not in any violation of federal, state or local laws, ordinances or regulations pertaining to any of the Loan Documents, any of the Project Documents and/or any of the transactions contemplated in any of the foregoing or the Project.

7.3 Disclosures. No representation or warranty by Borrower contained in this Agreement, and no statement contained in any certificate, schedule, exhibit, list or other writing furnished to Lender in connection with this transaction and/or in connection with the Project contains any material untrue statement of fact or omits to state any material fact necessary in order to make the statements contained in those writings not materially misleading. All copies of all writings furnished to Lender in connection with this Agreement or the transactions contemplated in the Loan Documents, are true and complete in all material respects. All schedules and exhibits to this Agreement are true and complete in all material respects.

7.4 Liens or Encumbrances on Project Equipment. Borrower represents that there are no liens on the Project Equipment other than the Permitted Encumbrances.

7.5 No Contravening Agreements. Borrower represents that the Loan Documents do not violate any agreements to which Borrower is a party.

8. Representations and Warranties of Lender. As of the date hereof, Lender represents and warrants that Lender is a corporation duly organized, validly existing and in good standing under the laws of the State of New Jersey and has all requisite corporate power and authority to enter into this Agreement and to carry out the transactions contemplated hereby.

9. Covenants of Borrower.

9.1 Performance of Customer Agreement and the Project. From and after the date of this Agreement Borrower shall:

(a) forward to Lender copies of all notices, requests, correspondence and other communications relating to the Project Documents and/or the Project promptly upon their receipt;

(b) name Lender as lender loss payee and an additional insured on each policy of insurance obtained in compliance with the Project Documents. Each such policy of insurance shall provide that Lender shall be entitled to thirty (30) calendar days' prior written notice from the insurer prior to any termination or modification thereof;

(c) develop, manage, operate and maintain the Project as currently contemplated, in compliance with all provisions of the Customer Agreement, Project Documents, manufacturer's specifications and with all applicable federal, state and local laws, ordinances and regulations;

(d) maintain and/or cause to be maintained all tangible assets relating to the Project in good operating condition, excluding reasonable wear and tear;

(e) file when and as due all federal, state, local and foreign income and other tax returns and tax reports required to be filed with respect to the assets of Borrower with the appropriate governmental agencies, and pay, when and as due, all such taxes to all such appropriate governmental agencies;

(f) advise Lender in writing of any breach or default, or any circumstances that constitute, or may come to constitute, a breach or default under the Loan Documents or Project Documents, or in any way impair the validity or enforcement of any obligation or tend to reduce the amount payable from the amount under any of the Loan Documents or Project Documents;

(g) advise Lender in writing of any material and adverse change or any event, occurrence or circumstance that is likely to cause a material and adverse change in the Project and/or the financial condition of Borrower; and

(h) Borrower hereby authorizes Lender to access and review, from time to time, Borrower's SREC Account, and Borrower will provide Lender with all SREC Account information to enable Lender to access and review Borrower's SREC Account.

9.2 Additional Covenants. Except as otherwise permitted in this Agreement or with the prior written consent of Lender, which consent Lender shall not unreasonably withhold, from and after the date of this Agreement, Borrower shall not:

(a) mortgage, pledge, or otherwise encumber or subject to lien or allow to be encumbered or subjected to lien, or dispose of, or agree to dispose of or lease or license to others or agree to so lease or license, any of the assets used or useful in the Project, including, without limitation, any real or tangible personal property and, or commit to do any of the foregoing, except, however, as specified in the Security Agreement; or

(b) cancel or change any material existing policy of insurance relating to the Project, unless, however, replaced by an insurance policy providing substantially the same coverage.

9.3 Information: Access to Properties; Books and Records.

(a) Borrower shall make available for inspection, upon reasonable request of and written notice from Lender and at Lender's expense, any and all information related to the Project, including, without limitation, all books and records reasonably requested by Lender in connection with the Project. Borrower shall permit Lender to make copies of books and records relating to the Project. Should Lender, in the course of inspecting any such books and records, discover any material defect in them which amounts to, or reasonably will amount to, an Event of Default under Section 11.1 below, the costs and expenses incurred by Lender in performing such inspection shall be solely borne by Borrower.

(b) Borrower shall allow Lender and Lender's authorized representatives reasonable access to the real and tangible personal property relating to the Project for the purpose of conducting investigations and examinations of the Project. No investigation by Lender or any of Lender's representatives under this section shall affect any representation, warranty and/or covenant of any Party to this Agreement.

9.4 Insurance.

(a) Borrower, at a minimum, shall maintain the following insurance coverages on the Project and the Collateral:

(i) Liability coverage under a homeowner's insurance policy, with limits not less than: THREE HUNDRED THOUSAND DOLLARS (\$300,000) per occurrence and ONE MILLION DOLLARS (\$1,000,000) annual aggregate, and naming Lender as an additional insured under such policy;

(ii) Property insurance coverage under a homeowner's insurance policy covering, at a minimum, the full replacement costs of the Project, with a \$500.00 per occurrence deductible and naming solely Lender as an additional insured and loss payee; and

(iii) such other insurance as Lender may reasonably require.

(b) Throughout the Term of this Agreement, Borrower shall carry the foregoing insurance coverages, issued by one or more nationally-known insurance underwriters, each underwriter having an A.M. Best's rating of "A-/VII" or better, or, for underwriters not rated by A.M. Best, a quality equivalent to that of an A.M. Best rating of "A-/VII" or better, as decided by Lender in its sole discretion.

(c) Borrower shall instruct each and every insurance company providing the foregoing coverages to notify Lender promptly of any cancellation or material change of said coverages, in whole or in part. Borrower is to submit annually during the Term evidence that all insurance required under this Agreement is in full force and effect.

(d) All such policies of insurance shall provide for at least thirty (30) calendar days advance notice in writing to Lender of any cancellation or modification thereof. If Borrower fail to pay the premiums on any such insurance, Lender shall have the right (but shall be under no duty) to pay such premiums for Borrower's account. Borrower shall immediately repay to Lender any sums which Lender shall have so paid, together with interest thereon at the applicable rate with respect to the Loan.

(e) In the event of a payout under the insurance coverage, Borrower hereby authorizes and directs Lender, and Lender shall have the sole discretion, to apply or pay all such proceeds to (1) the payment of the Obligations, (2) the restoration or replacement of the property destroyed or damaged, or (3) Borrower.

(f) Each such insurance policy set forth above shall include (i) provisions or endorsements naming Lender, its affiliates, directors, officers and employees as additional insureds; (ii) provisions that such insurance is primary insurance with respect to the interest of Lender and such additional insureds and that any insurance maintained by Lender is excess and not contributory insurance with the insurance required hereunder; (iii) a cross-liability or severability of insurance interest clause; and (iv) provisions by which the insurer waives all rights of subrogation against Lender and the additional insureds.

(g) Borrower shall provide Lender with Certificates of Insurance acceptable to Lender evidencing the policies, provisions and endorsements listed above within ten (10) calendar days after they have been obtained, and, upon request of Lender, on an annual basis thereafter.

9.5 Maintenance of Equipment. During the Term, Borrower shall maintain the Project and all related Equipment in good operating condition and repair, ordinary wear and tear excepted. Borrower shall ensure that any and all necessary repairs and replacements are made so that the value and operating efficiency of the Project and all related Equipment shall at all times be maintained and preserved, normal depreciation excepted. If Borrower, in Lender's reasonable judgment, fails to maintain the Equipment to ensure its continued operation in accordance with the Project Documents, Lender shall have the right to require Borrower to retain the services of an experienced third-party maintenance provider to maintain the Equipment. To the extent Borrower fails to comply, Lender shall have the right to perform these maintenance obligations on behalf of Borrower. Borrower shall immediately reimburse Lender for any money spent by Lender in fulfilling Borrower's maintenance obligations. Borrower shall not permit any Equipment to become affixed to real estate as a fixture as defined under the Uniform Commercial Code.

9.6 Maintenance of Collateral. Borrower will properly protect and maintain the Collateral, and defend the Collateral against any claims and/or demands against it.

9.7 No Other Interests Granted. Except as otherwise disclosed by Borrower to Lender on Exhibit G to this Agreement, Borrower has not executed, will not execute, and has not had or will have executed on his or her behalf, any assignment, pledge, security or other similar agreement or financing statement covering the Collateral, or any portion of it, except to Lender. Borrower will keep the Collateral free from any and all liens, claims, security interests and encumbrances of any kind or nature, except for the assignment, pledge and security interest granted to Lender in the Loan Documents.

9.8 Change in Name. Borrower will notify Lender immediately in writing of any proposed or actual change of Borrower's name or identity.

9.9 Further Assurances. Borrower agrees that upon Lender's request, at any time, Borrower shall take all actions reasonably required to assure to Lender a perfectable, first priority security interest in the Collateral.

10. Covenants of Borrower and Lender. Borrower and Lender shall cooperate and use all reasonable efforts, in good faith, to make all registrations, filings and applications and to give all notices and obtain all governmental and regulatory consents, authorizations, approvals, licenses, permits, orders, qualifications and waivers necessary or desirable for the consummation of the transactions contemplated in this Agreement.

11. Events of Default: Remedies: Cure Rights.

11.1 Events of Default. The occurrence of any one or more of the following events shall constitute an "Event of Default":

(a) any failure of Borrower to make any payment of principal and interest as provided in the Note and/or in this Agreement;

(b) any material representation or warranty made by Borrower, or any material statement, information or certification made or provided by Borrower to Lender in connection with this Agreement, the Note and/or the Project, shall prove to have been false or incorrect in any material respect at the time made or given;

(c) an assignment by Borrower of this Agreement or any of the rights created by this Agreement in violation of its provisions;

(d) the failure by Borrower to perform or observe any of the material covenants, agreements, terms, conditions or provisions of this Agreement not otherwise specified in this section;

(e) Borrower: (i) makes an application for the appointment of a receiver, trustee or custodian for the Collateral and/or any other of Borrower's assets; (ii) files a petition under any chapter of the Bankruptcy Code or any similar federal and/or state law or regulation providing for the relief of debtors; (iii) makes an assignment for

the benefit of his/her creditors; (iv) has a petition in bankruptcy, or other similar relief, filed against his/her, and such petition is not withdrawn or discharged within ninety (90) calendar days after the date of its filing;

(f) Borrower commits an Event of Default under the Security Agreement;

(g) Borrower commits an Event of Default under any of the Project Documents;

(h) Borrower breaches and/or defaults under any agreement between Borrower and Lender; and/or

(i) Borrower defaults under any obligations to a subordinate lienholder with respect to the Collateral.

11.2 Cure Rights; Remedies.

(a) Upon the occurrence of an Event of Default, Lender shall provide written notice of such Event of Default to Borrower. Following receipt of such notice, Borrower shall have: (i) a five (5) Business-Day period within which to fully cure any Event of Default involving the payment of money; and (ii) a thirty (30) calendar day period within which either to cure any other Event of Default not involving the payment of money or, if the Event of Default does not involve the payment of money and cannot be fully cured within the thirty-calendar day period, to institute corrective action satisfactory to Lender and to pursue such corrective action diligently, provided that the thirty- calendar day cure period shall not be made available to Borrower if Lender determines, in its sole discretion, that Lender's rights with respect to Borrower and/or Collateral could be materially adversely affected. These provisions regarding notice and cure periods shall not apply in the case of Section 11.1(e) above.

(b) Upon the occurrence of an Event of Default that is not cured as per subsection 11.2(a), Lender, in its sole discretion, may declare the entire outstanding amount of the Loan and all accrued and unpaid interest to be immediately due and payable.

(c) Upon Borrower committing an Event of Default, Lender shall have the right to exercise, at its option, any and all rights and remedies available at law and/or in equity and/or other proceeding. If the Event of Default involves the payment of any amount due under this Agreement, such amount shall bear interest from the date due to the date paid at a rate equal to the interest rate stated in Subsection 11.2(g), calculated in conformance with Section 2.3.

(d) Upon the occurrence and during the continuance of any condition that, after notice or lapse of time or both, would constitute an Event of Default,

Lender shall have the right, as the true and lawful agent of Borrower, with power of substitution for Borrower and in either Borrower's name, Lender's name or otherwise, for the use and benefit of Lender: (i) to offset any amounts owed by Borrower to Lender, which are not paid when due, against any amounts due and owing by Lender to Borrower from any source whatsoever; (ii) to receive, endorse, assign and/or deliver any and all notes, acceptances, checks, drafts, money orders or other evidences of payment relating to the Collateral or any part of it; (iii) to demand, collect, receive payment of, give receipt for and give discharges and releases of all or any part of the Collateral; (vi) to commence and prosecute any and all suits, actions or proceedings at law or in equity or otherwise in any court of competent jurisdiction to collect on any of the Collateral or to enforce any rights in respect of any Collateral; (vii) to settle, compromise, compound, adjust or defend any actions, suits or proceedings relating or pertaining to all or any portion of the Collateral; and (viii) to use, sell, assign, transfer, pledge, make any agreement with respect to or otherwise deal with all or any of the Collateral and to do all other acts and things necessary to carry out the purposes of this Agreement, as fully and completely as though Lender were the absolute owner of the Collateral for all purposes.

(e) If, in the good faith business judgment of Lender, Borrower is not performing his/her obligations under this Agreement or, after Borrower's receipt of a written request by Lender to provide adequate assurances of performance, Borrower is likely to breach any of his/her obligations under any of the Loan Documents, Lender may, at the cost and expense of Borrower, take such steps as are necessary to remedy such failure to avoid such breach. Lender is not obligated to take any such steps.

(f) Borrower shall reimburse Lender promptly for all reasonable costs and expenses Lender incurs in exercising any and all of its remedies, including, without limitation, the costs and expenses incurred by Lender in inspecting Borrower's books and records, as per Subsection 9.3(a), plus interest on the amount of such costs and expenses from the date incurred by Lender to the date reimbursed by Borrower, calculated in accordance with Section 2.3, and Lender shall be entitled to offset such amounts against payment of any amounts owed to Borrower from any source whatsoever.

(g) Upon the occurrence of an Event of Default, Lender may institute a suit directly against Borrower without first foreclosing on or liquidating the Collateral.

(h) Upon the occurrence of an Event of Default, Lender, in its sole discretion, may increase the rate of interest accruing and payable on the Loan to the rate of ONE AND ONE-HALF PERCENT (1 1/2%) per month, calculated in accordance with the appropriate provision of Section 2.3, for each month after the Event of Default that the Loan remains outstanding.

(i) In the event of a failure of the foregoing remedies, Lender may, after reasonable notice to the Borrower, enter onto the Facility where the Collateral

may be located, take possession of the Collateral and contemporaneously stabilize the affected area of the roof to prevent leakage. Within seven (7) calendar days thereafter, the Lender will restore the roof in a workman like fashion to reflect the general condition of the roof unaffected by the removal of the Collateral. The costs incurred by Lender under this subparagraph (i) shall be recouped by Lender as set forth in Section 11.4, paragraph "paragraph "First".

11.3 Lender's Right to Dispose of Collateral. Borrower agrees that Lender shall have the right, subject to the mandatory requirements of then current law, to sell or otherwise dispose of all or any part of the Collateral, at public or private sale or at any broker's board or on any securities exchange, for cash, upon credit or for future delivery as Lender shall deem appropriate. Lender shall be authorized at any such sale, if it deems it advisable to do so, to restrict the prospective bidders or purchasers to persons who will represent and agree that they are purchasing the Collateral for their own account for investment and not with a view to the distribution or sale of it, and upon consummation of any such sale Lender shall have the right to assign, transfer and deliver to the purchaser or purchasers the Collateral so sold. Each such purchaser at any such sale shall hold the property sold absolutely free from any claim or right on the part of Borrower, and Borrower hereby waives to the fullest extent permitted by law, all rights of redemption, stay and appraisal which Borrower now has, or may have at any time in the future, under any rule of law or statute now existing or hereafter enacted. Lender shall recognize any right of Borrower to quiet enjoyment of the Collateral.

11.4 Application of Proceeds. Lender shall apply any Collateral consisting of cash and the proceeds of any collection or sale of any other Collateral as follows:

FIRST, to the payment of all costs and expenses incurred by Lender in connection with such collection or sale or otherwise in connection with this Agreement, any other agreement in connection with the Loan and accrued interest, including, but not limited to, all court costs and the reasonable fees, disbursements and other charges of its agents and legal counsel -- whether incurred in any action or proceeding either between the Parties or between Lender and any third party;

SECOND, to the payment in full of the accrued interest on the Loan;

THIRD, to the payment of the principal of the Loan; and

FOURTH, to Borrower and his/her successors or assigns, or as a court or agency of competent jurisdiction may otherwise direct.

Lender shall have absolute discretion as to the time of application of any such proceeds, moneys or balances in accordance with this Agreement. Upon any sale of the Collateral by Lender, including, without limitation, pursuant to a power of sale granted by statute or under a judicial proceeding, the receipt of Lender or of the officer making the sale shall be a sufficient discharge to the purchaser or purchasers of the Collateral so sold and such

purchaser or purchasers shall not be obligated to see to the application of any part of the purchase money paid over to Lender or such officer or be answerable in any way for the misapplication thereof.

12. Amendment and Waivers.

12.1 Amendments, Modifications and Supplements. This Agreement may be amended, modified or supplemented only by an instrument in writing executed by, and delivered on behalf of, each of the Parties.

12.2 Waivers. The representations, warranties, covenants and conditions set forth in this Agreement may be waived only by a written instrument executed by the party so waiving. The failure of any party at any time or times to require performance of any provision of this Agreement shall in no manner affect the right of such party at a later time to enforce the same. No waiver by any party of any condition, or breach of any term, covenant, agreement, representation or warranty contained in this Agreement shall be deemed to be or construed as a waiver of any other condition or of the breach of any other term, covenant, agreement, representation or warranty contained in this Agreement.

13. Survival of Representations, Warranties and Covenants. All representations, warranties and covenants of the Parties contained in or made pursuant to this Agreement and/or the Note shall survive until this Agreement expires or is sooner terminated or, in the case of any covenants, until such covenants have been performed fully.

14. Indemnification. Borrower indemnifies and holds harmless Lender and Lender's shareholders, subsidiaries, affiliates, officers, directors, successors and assigns, and the agents, representatives and employees of any and all of the foregoing, from and against any and all liability (including, without limitation liability in tort, whether absolute or otherwise), obligations, losses, penalties, claims, suits, costs and disbursements, including without limitation, legal fees and disbursements in any way relating to, or arising out of, the Loan Documents, the Project Documents and/or the Collateral; provided, however, that there shall be no indemnity for liability caused by Lender's gross negligence or willful misconduct. This provision shall survive the expiration or sooner termination of this Agreement.

15. Notices. Any and all notices or other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given if delivered personally by courier, or by overnight delivery by a nationally recognized overnight delivery service, or five (5) calendar days after mailing if sent by registered or certified mail, postage prepaid, addressed as follows:

If to Lender: Public Service Electric and Gas Company
80 Park Plaza, T-8
Newark, New Jersey 07102
Attention: Solar Loan Program Administrator

With a copy to Lender's legal counsel at the same address.

If to Borrower:

Attention:

Any party may change the address to which notices or other communications are to be sent to it by giving written notice of such change in the manner provided above for all notices.

16. Assignment.

16.1. This Agreement may not be assigned by any Party without the prior written consent of the other Party. The non-assigning Party shall be entitled to recover its reasonable costs and expenses, including but not limited to administration and attorney fees in connection with any such assignment. Notwithstanding the foregoing, however, Lender, without Borrower's consent, may: (a) assign its rights and delegate its obligations hereunder to one or more subsidiaries or affiliates of Lender; or (b) assign its rights to receive moneys and/or SRECs hereunder and under the Note to any unaffiliated third party for financing purposes only. In all regards, however, no such assignment or delegation by Lender shall relieve Lender of its obligations under this Agreement. Subject to the foregoing, this Agreement shall bind and inure to the benefit only of the Parties and their respective successors and permitted assigns.

16.2 If Borrower desires to sell or transfer its ownership or leasehold interest in the Facility to a third party (the "Proposed Transferee"), the Actual Loan Balance shall be paid in full at the closing of such transaction and the Lender's Call Option shall survive for the remainder of the Term. Notwithstanding the foregoing, if the Proposed Transferee desires to assume the Loan, Borrower shall so notify Lender in writing at least ninety (90) calendar days prior to such transfer. Lender shall review the creditworthiness of the Proposed Transferee, the status of the Loan, the operating history of the Project and such other factors as Lender may deem reasonable and appropriate in determining whether to consent to the assignment of the Loan. Lender shall thereafter advise Borrower in writing (i) whether the Loan may be assigned to the Proposed Transferee and (ii) the terms and conditions of the assignment. If Lender does not affirmatively approve the assignment of the Loan to the Proposed Transferee or if the

Proposed Transferee fails to satisfy the terms and conditions of any approved assignment by the closing of the transaction between Borrower and the Proposed Transferee, the Borrower shall pay in full the Actual Loan Balance at such closing, the Lender's Call Option shall survive for the remainder of the Term notwithstanding such closing, and the Lender's Call Option shall be binding upon the Proposed Transferee. Lender shall be entitled to recover its reasonable costs and expenses including but not limited to administration and attorney fees in connection with such assignment.

17. Entire Agreement. This Agreement, together with the schedules and exhibits attached, and the Notes and the other documents and instruments referred to here, sets forth the entire agreement and understanding of the Parties in respect of the transactions contemplated by this Agreement, and supersedes all prior agreement, arrangements and understandings relating to the subject matter of the Agreement.

18. No Third Party Beneficiary. Nothing in this Agreement is intended or shall be construed to give any Person any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein, other than the Parties.

19. Recitals. The clauses above set forth in the Recitals are herein incorporated by reference.

20. Counterparts. This Agreement may be executed in any number of counterparts, all of which together shall be considered to constitute one instrument.

21. Section Headings. All section headings are inserted for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement and have no independent significance.

22. Interpretation. In this Agreement the singular includes the plural and the plural the singular; words importing any gender include the other genders; the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications, without prejudice to any provisions of this Agreement prohibiting such amendments and other modifications; and references to persons include their respective permitted successors and assigns.

23. Severability. The invalidity or unenforceability of any provision in this Agreement will not affect any other provision.

24. Applicable Law. **THIS AGREEMENT IS GOVERNED EXCLUSIVELY BY AND CONSTRUED IN STRICT ACCORDANCE WITH THE LAWS OF THE STATE OF NEW JERSEY APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN THE STATE OF NEW JERSEY WITHOUT REGARD TO NEW JERSEY'S CONFLICT OF LAWS PROVISIONS THAT MAY DEFEAT THE**

APPLICATION OF NEW JERSEY'S SUBSTANTIVE LAW TO THIS AGREEMENT, THE NOTE AND THE UNDERLYING TRANSACTIONS.

25. Miscellaneous. Nothing in this Agreement shall be construed to create any duty to, any standard of care with reference to, or any liability to any Person not a party to this Agreement. No undertaking by one Party to the other under any provision of this Agreement shall constitute the dedication of Lender's system or any portion thereof to Borrower or to the public, nor affect the status of Lender as an independent public utility corporation, or Borrower as an independent individual. Lender's review or acceptance of the Project and its operation shall not be construed as confirming or endorsing the design or as any warranty of safety, durability, reliability and/or performance. Lender shall not by reason of such review or failure to review be responsible for the strength, safety, details of design, adequacy, capacity, reliability and/or operation of the Project, nor shall Lender's extension of the Loan to Borrower be deemed to be an endorsement of the Project, in whole or in part.

26. Relationship of the Parties. For purposes of this Agreement, Lender and Borrower expressly agree that the relationship of Lender to Borrower is that of a lender only. The intent of this provision is to clarify and stipulate that Lender is not a partner, fiduciary and/or coventurer of Borrower and that Lender's sole interest in the Collateral is for the purpose of security for repayment of the obligations of Borrower to Lender, and of Grantor to Secured Party (under the Security Agreement).

27. Joint and Several Obligations. If this Agreement is signed by two or more individuals as Borrower, the obligations of such individuals under this Agreement are joint and several as if each individual executed a separate Agreement in favor of Lender. This Agreement shall be enforceable by Lender against each of or all of such individuals as Lender may elect. Each individual is fully responsible for the entire amount of the Loan and any related amounts due.

IN WITNESS WHEREOF, each Party signed or has caused its duly authorized representative to sign and deliver this Agreement as of the date first above written.

Public Service Electric and Gas Company *[Insert Name Of Borrower]*

By: _____
(Signature)

By: _____
(Signature)

Name: _____
(Print Name)

Name: _____
(Print Name)

[By: _____]
(Signature)

[Name: _____]
(Print Name)

EXHIBIT A
PROMISSORY NOTE

[To Be Provided]

EXHIBIT B

TRANSACTION CONFIRMATION LETTER

[To Be Provided]

EXHIBIT C

MEMORANDUM OF OPTION

[To Be Provided]

EXHIBIT D
SECURITY AGREEMENT

[To Be Provided]

EXHIBIT E

BORROWER'S PROGRAM APPLICATION

[Copy of Borrower's Loan Application to be Attached]

EXHIBIT F

LOAN AMORTIZATION SCHEDULE

[below form to be completed]

| (1) | (2) | (3) | (4) | (5) | (6) |
|----------------|---------------|-----------------------------|--------------------------|-----------------------------|------------------------------|
| <u>Payment</u> | <u>Date</u> | <u>SRECs Generated*</u> | <u>Total Payment</u> | <u>Interest Payment</u> | <u>Principal Payment</u> |
| | Issuance Date | | | | |
| 1 | mm/dd/yy | # | \$ | \$ | \$ |
| 2 | mm/dd/yy | | | | |
| 3 | mm/dd/yy | | | | |
| 4 | mm/dd/yy | | | | |
| 5 | mm/dd/yy | | | | |
| 6 | mm/dd/yy | | | | |
| : | : | | | | |
| : | : | | | | |
| 115 | mm/dd/yy | | | | |
| 116 | mm/dd/yy | | | | |
| 117 | mm/dd/yy | | | | |
| 118 | mm/dd/yy | | | | |
| 119 | mm/dd/yy | | | | |
| 120 | mm/dd/yy | | | | |

* "SRECs Generated" column represents the SRECs anticipated to be generated by the Project during the month. Actual SREC generation may differ.

EXHIBIT G

SCHEDULE OF PERMITTED ENCUMBRANCES

[To Be Provided]

SOLAR PROGRAM LOAN AGREEMENT

THIS SOLAR PROGRAM LOAN AGREEMENT (“Agreement”), dated as of _____, 200_, is made and entered into by and between Public Service Electric and Gas Company, a New Jersey corporation (“Lender”), having its general offices at 80 Park Plaza, Newark, New Jersey 07102, and _____, a _____ (“Borrower”), having its principal place of business at _____, New Jersey _____. From time to time throughout this Agreement, each of Borrower and Lender is referred to as, individually, a “Party” and together, collectively, as the “Parties.”

RECITALS

- A. The State of New Jersey’s Renewable Portfolio Standard (“RPS”) mandates that electricity suppliers provide a percentage of their electricity sales from solar generation. To facilitate said mandate, the New Jersey Board of Public Utilities (the “BPU”), through its Office of Clean Energy, established the use and trading of Solar Renewable Electricity Certificates (“SRECs”) by means of the New Jersey Clean Energy Program’s Website: www.njcep.com/srec (such website being referred to as the “SREC Program Administrator”). These SRECs, once created, represent solar energy actually generated and used, and are bundled in minimum denominations of one megawatt hour of electricity production. The New Jersey Clean Energy Program (“NJCEP”) allows for SRECs to be created, verified, tracked, sold to, and eventually retired by, electricity suppliers to meet their RPS solar requirement. All electricity suppliers are required to use SRECs under the NJCEP to demonstrate compliance with this part of the State’s RPS.
- B. In order to reduce electricity supply costs to its ratepayers and assist the State in achieving its environmental objectives under the New Jersey RPS and New Jersey’s Energy Master Plan, Lender has developed a solar loan program (the “Program”) pursuant to which Lender will provide financing to developers of solar projects and to electric distribution customers who develop solar-powered generation projects at facilities that are located within Lender’s electric distribution service territory and satisfy the eligibility and the Program requirements set forth in the Program Application. Lender’s Solar Program was approved by the BPU by its Order in Docket No. E0-07040278 (the “2008 Order”).
- C. Borrower has applied to Lender for assistance in financing a solar generation project. A copy of Borrower’s completed Program Application is attached hereto as Exhibit E, and made a part hereof.
- D. Borrower either (i) has identified a solar photovoltaic system developer (the “Equipment Provider”) and has entered, or is about to enter, into an agreement with the Equipment Provider, for purposes of developing, designing, procuring, and installing a solar-powered generation system (the “Project”) at the facility owned or operated by Borrower, or (ii) is an Equipment Provider and has entered, or is about to enter, into an agreement with a person or entity owning or operating a facility giving to the Equipment Provider the right to install and operate the Project at a facility (in either case, the “Facility”). The Facility is located at _____, New Jersey, which is the location designated in Borrower’s Program application as approved by Lender.

- E. Upon completion of the Project, and satisfaction of the terms and conditions of this Agreement, Borrower, in order to facilitate the payment of a portion of the costs of the completed Project, has asked Lender to provide financing to repay a portion of the Project costs incurred by Borrower.
- F. Lender is willing to provide Borrower with, and Borrower accepts such financing, in accordance with the terms of this Agreement.

NOW THEREFORE, in consideration of the promises and the mutual covenants and agreements hereinafter set forth, the Parties hereto agree as follows:

1. Definitions. As used herein, unless the context clearly requires otherwise, the following terms shall have the following corresponding meanings:

“2008 Order” has the meaning ascribed to such term in the Recitals.

“Actual Loan Balance” means the then-current unpaid principal and unpaid accrued interest under the Loan.

“Agreement” has the meaning ascribed to such term in the Recitals.

“Annual True-Up” has the meaning set forth in Section 2.5(b)(vii).

“Biennial True-Up” has the meaning set forth in Section 2.5(b)(viii).

“Borrower” has the meaning ascribed to such term in the Recitals.

“BPU” has the meaning ascribed to such term in the Recitals.

“Business Day” means any day other than a Saturday, a Sunday or any other day on which commercial banks in the City of Newark, State of New Jersey are required or permitted by law to close.

“Collateral” means: (a) the SRECs arising throughout the term of this Agreement by means of Borrower’s continued and ongoing operation of the Project, and all related rights to said SRECs, including, without limitation, any other Environmental Attributes arising from and/or out of the Project; (b) the Project Equipment; (c) the Project Documents; (d) any other assets or property in which Lender is granted a security interest, lien or pledge as security for the Obligations; and (e) all accessions, additions, substitutions, products and Proceeds to and of the foregoing.

“Commercial Operation” means that point achieved when the Project begins generating electricity for usage at the Facility, and the Project meets all technical, financial and performance requirements associated with its intended use and pursuant to the performance specified in the Program Application and the Project Documents.

“Contract Price” has the meaning ascribed to such term in Section 2.7.

“Contract Year” means: (a) in the event execution of this Agreement occurs on the first day of a calendar month, the twelve-month period commencing on the date of execution of this Agreement and ending on the last day of the twelfth month thereafter; or (b) in the event execution of this Agreement occurs on a day other than the first day of a calendar month, the twelve-month period commencing on the first day of the month following execution of this Agreement and ending on the last day of the twelfth month thereafter, provided that in such event the first Contract Year of this Agreement shall be a period in excess of twelve months as such first Contract Year shall commence on the date of execution of this Agreement rather than the first day of the next succeeding month. By way of example, if this Agreement were to be executed on April 7, 2008, the first Contract Year would commence on April 7, 2008 and conclude on April 30, 2009, and the second Contract Year would commence on May 1, 2009 and conclude on April 30, 2010, continuing thereafter accordingly.

“Customer” means: (a) Borrower; or (b) the Person other than Borrower receiving the benefit of the electricity generated by the Project at the final completion thereof.

“Customer Agreement” means the agreement between Borrower and Customer for the procurement, engineering, installation and operation of the Project, including any sale of electric energy therefrom.

“Delivery Period” has the meaning ascribed to such term in Section 2.7(c).

“Equipment” or “Project Equipment” means all of Borrower’s now owned and hereafter acquired rights, title, and interests in and to any and all solar panels and Project-related equipment, machinery, components, wiring, meters, replacement parts and consumables comprising the Project.

“Equipment Provider” has the meaning ascribed to such term in the Recitals.

“Events of Default” has the meanings ascribed to such term in Section 11.1.

“Environmental Attribute” has the meaning ascribed to such term in Section 6.

“Facility” has the meaning ascribed to such term in the Recitals.

“Floor Price” means the minimum price of an SREC used to discharge the payment obligations of Borrower as to the Loan, and is the lowest price credited to Borrower for purposes of repaying the Loan and accrued interest. The Floor Price for an SREC for purposes of this Agreement is \$475.00.

“kW” means kilowatts.

“Lender” has the meaning ascribed to such term in the Recitals.

“Lender’s Call Option” has the meaning ascribed to such term in Section 2.7.

“Liens” means any and all mortgages, liens, charges, security interests and/or encumbrances of any kind, or pledges or deposits of any nature.

“Loan” has the meaning ascribed to such term in Section 2.1.

“Loan Documents” means this Agreement, the Note, the Security Agreement and such other documents, instruments and certificates delivered in connection with one or more of the foregoing.

“Loan Amortization Schedule” means the schedule set forth as Exhibit F attached hereto.

“Market Value” for purposes of determining (i) the value of SRECs at the time of their use to repay the outstanding balance of the Loan and accrued interest, and (ii) the Contract Price for SRECs under Lender’s Call Option, means the average cumulative weighted price of SRECs as published on the NJCEP website (or any successor website performing a similar function) during the calendar month preceding the month of repayment of the outstanding balance of the Loan and accrued interest. In the absence of the above, the Market Value will be defined as the average of three (3) independent broker quotes.

“MW” means megawatts.

“MW-hour” means megawatt-hours.

“NJCEP” means the BPU’s New Jersey Clean Energy Program, or any successor program thereto.

“Note” has the meaning ascribed to such term in Section 2.2.

“Obligations” means any and all obligations, liabilities, covenants and agreements of Borrower under the Loan Documents, and any and all costs and expenses of, or incurred by, Lender in collecting any of the foregoing and in enforcing the provisions of this Agreement, including, without limitation, all court costs and/or reasonable attorneys’ fees and expenses in any action between Lender and Borrower and/or Lender and any third party based on the Loan Documents.

“Permitted Encumbrances” means: (a) Liens expressly disclosed by Borrower to Lender as set forth on Exhibit G attached hereto and approved by Lender in writing; (b) Liens securing taxes, assessments and/or governmental charges and/or levies or the claims of materialmen, mechanics, carriers, warehousemen, landlords and other similar Persons, the payment of which is not currently due and payable; and (c) Liens in favor of Lender.

“Person” means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, institution, entity, party or government (whether national, federal, state, county, city, municipal,

or otherwise), including, without limitation, any instrumentality, division, agency, body or department thereof.

“Proceeds” means any and all consideration received from the sale, exchange, collection or other disposition of any asset or property that constitutes Collateral, any value received as a consequence of the possession of any Collateral, any payment received from any insurer or other person or entity as a result of the destruction, loss, theft, damage or other involuntary conversion of whatever nature of any asset or property which constitutes Collateral, and shall include all cash and negotiable instruments received or held on behalf of Lender relating to the payment of accounts and any and all property of whatever nature received and/or held by Borrower or on behalf of Lender.

“Project” has the meaning ascribed to such term in the Recitals.

“Project Documents” means: (a) a fully executed Customer Agreement; (b) lien waivers executed by the Equipment Provider and each of its subcontractors on the Project; (c) lien waivers and subordination agreements executed by Borrower’s other lienholders, mortgagees and landlord, if applicable; (d) Project specifications, maintenance agreements and other technical information regarding the Project; (e) any and all applicable permits, licenses, easements, variances and other authorizations; (f) Program Application documents, project plans and pro formas, and other Program-related documents; and (g) any and all other appropriate documents as may be requested by Lender.

“Quarter” or “Quarterly” means a quarterly period measured based on Contract Years.

“Quarterly Amortization Statement” has the meaning set forth in Section 2.5(a).

“RPS” has the meaning ascribed to such term in the Recitals.

“Scheduled Loan Balance” has the meaning set forth in Section 2.5(b)(viii).

“Security Agreement” means that certain Security Agreement, dated concurrently herewith, setting forth the terms, conditions, obligations and rights of the Parties as to the Collateral.

“SRECs” has the meaning ascribed to such term in the Recitals.

“SREC Account” has the meaning ascribed to such term in Section 2.5(b).

“SREC Program Administrator” has the meaning set forth for that term in the Recitals, or any successor to the SREC Program Administrator recognized by the State of New Jersey.

“Term” has the meaning ascribed to such term in Section 2.4.

“Transaction Confirmation Letter” has the meaning ascribed to such term in Section 2.7(b).

2. Loan; General Terms:

2.1. Loan Agreement. Subject to the terms and conditions of this Agreement, and the satisfaction of all requirements set forth in this Agreement, Lender agrees to make available to Borrower for the sole purpose of reimbursing a portion of the costs incurred in engineering, procuring, installing and constructing the Project, and Borrower accepts for such sole purpose under the terms of this Agreement, the amount of _____ AND 00/100 DOLLARS (\$ _____), which amount is hereafter referred to as the “Loan.”

2.2. Promissory Note. The Loan shall be evidenced by a secured promissory note, to be made by Borrower and delivered to Lender (the “Note”), which Note will be substantially in the form as that attached hereto as Exhibit A.

2.3. Interest Rate. The Loan shall bear interest at the rate of **eleven and eleven-one-hundredths percent (11.11%)** per year, the amount of such interest shall be calculated on the basis of the actual number of days elapsed over a 360-day year. Regardless of whether paid in cash or SRECs as provided hereunder, without limiting any of Lender’s rights hereunder, to the extent that the interest component of any periodic payment is not paid on the payment due date indicated on the Loan Amortization Schedule, the unpaid portion of such interest component shall bear interest at the rate specified in the preceding sentence. To the extent this occurs, the effective rate of interest will be higher than the stated rate of 11.11%.

2.4. Term. This Agreement shall have a term of fifteen (15) years from the date on which Lender advances the Loan to Borrower (the “Term”). Subject to Lender’s Call Option as provided for in Section 2.7, Borrower may prepay the Loan prior to the end of said fifteen (15) year Term in accordance with the provisions of Section 2.6; provided, however, that Lender’s Call Option set forth in Section 2.7 shall survive the payment or prepayment of the Loan and shall continue in effect for the entirety of the Term.

2.5. Repayment of Loan; Payment in SRECs.

(a) The full amount of the Loan, and all interest due thereon, is payable in periodic installments as set forth in the Note. All amounts due under this Agreement and the Note are due and payable in cash and/or the comparable value of the quantity of SRECs created by operation of the Project and held by Borrower in its SREC Account at the time said SRECs are used by Borrower to pay down the outstanding amount of the Loan and accrued interest thereon. Following each Quarter, Lender will provide an amortization statement to Borrower showing the amount paid by Borrower in cash and SRECs, the amount due on the Loan and the cumulative difference (“Quarterly Amortization Statement”).

(b) The Borrower may use the SRECs created by the Project to pay the Loan and accrued interest to Lender if the following conditions are met:

- (i) Borrower has established and maintains an electronic account with the NJCEP to use the SREC Program Administrator for the sale and trade of SRECs (the "SREC Account"), and Borrower provides Lender with access to such SREC Account;
- (ii) Borrower shall be responsible for ensuring that all SRECs generated by the Project each month during the Term are credited to the SREC Account in a timely manner;
- (iii) Borrower must apply all SRECs in its SREC Account at the time of its use of SRECs for repayment purposes towards the repayment of the Loan;
- (iv) Borrower must use the SREC Program Administrator and its SREC Account to transfer SRECs to Lender's account and Borrower shall have executed such documents as Lender may require in connection therewith;
- (v) The value of the quantity of SRECs created by operation of the Project for purposes of repaying the Loan and accrued interest (except in the event of prepayment pursuant to Section 2.6 hereof) shall be determined at the time of such repayment and shall be the Floor Price or the Market Value, whichever is greater;
- (vi) In the event that the value of the quantity of SRECs created by the operation of the Project (or cash payments) being applied to repay the Loan exceeds the amount due from Borrower to satisfy its periodic obligations under this Agreement and the Note for such period, Lender will apply such excess amount to the Actual Loan Balance. The application of such excess shall not effect the periodic payments as indicated in the Loan Amortization Schedule except that upon all amounts due with respect to the Loan being paid in full, no further periodic payments thereunder shall be required;
- (vii) Annual True-Up. The Lender will perform a true-up at the end of every Contract Year (the "Annual True-Up"). The Lender will calculate (a) the aggregate value of the SRECs and cash (excluding any Annual True-Up or Biennial True-Up payments made that Contract Year) received from Borrower to pay the Loan for the Contract Year ("Actual Payments"), and (b) ninety percent (90%) of the total payments due with respect to the Loan for the Contract Year as indicated in the Loan Amortization Schedule (the "90% Amount"). Within sixty (60) days from receipt of notice from the Lender, Borrower will pay Lender in cash an amount equal to the positive difference, if any, between (x) the 90% Amount *minus* (y) the Actual Payments, and such amount will be applied to the Actual Loan Balance; and
- (viii) Biennial True-Up. In addition to performing the Annual True-Up for each Contract Year, the Lender will also perform a biennial true-up, the first to take place at the end of the second Contract Year and then every two Contract Years

thereafter (the “Biennial True-Up”). The Lender will (a) calculate the Actual Loan Balance at the end of the second Contract Year (after giving effect to any payment required under the Annual True-Up for the current Contract Year) and (b) using the Loan Amortization Schedule, determine the scheduled Loan balance (“Scheduled Loan Balance”) for the corresponding period. Within sixty (60) days from receipt of notice from the Lender, the Borrower will pay in cash to Lender an amount equal to the positive difference, if any, between (x) the Actual Loan Balance *minus* (y) the Scheduled Loan Balance, and such amount will be applied to the Actual Loan Balance.

(c) All payments with respect to the Loan (whether in cash and/or the value of SRECs generated by the operation of the Project) will be first applied to the payment of accrued interest, then to the repayment of the principal amount of the Loan.

(d) By no later than thirty (30) days following the expiration of the Term, Borrower will pay to Lender all outstanding amounts of accrued interest and principal of the Loan, including, without limitation, all amounts representing the difference between the full amount of all installments of the Loan and accrued interest due and the amounts actually paid and received by Lender.

2.6 Prepayment of Loan. Subject to Lender’s Call Option set forth in Subsection 2.7(a), Borrower may pay all or a portion of the outstanding amount of the Loan and accrued interest thereon at any time prior to the end of the Term by paying to Lender cash and/or SRECs, which SRECs are to be valued at Market Value, which prepayment will be applied to the Actual Loan Balance.

2.7. Lender’s Call Option. Borrower hereby grants to Lender an option, exercisable at Lender’s discretion, to purchase all SRECs created by the continued operation of the Project during the Term (“Lender’s Call Option”). Lender shall have the right to exercise the Lender’s Call Option, as described herein, in the event Borrower repays to Lender the full amount of the Loan and accrued interest prior to the end of the Term, irrespective of whether such repayment results from Borrower’s voluntary prepayment in cash or SRECs, from acceleration of the Loan by Lender upon an Event of Default, or otherwise.

(a) Lender’s Call Option. In the event that the Loan is repaid prior to the expiration of the Term for any reason, Lender shall have an option to purchase, pursuant to the terms of this Section 2.7, up to 100% of SRECs produced by the Project during the balance of the Term (“Maximum Contract Quantity”). Lender’s Call Option shall remain in effect until such time as the Term expires, and may be exercised by Lender or its assigns. As an option, Lender has the right, but not the obligation (unless exercised), to purchase all or a portion (at Lender’s election) of the SRECs produced by the Project during the balance of the Term.

(b) Exercise Date. Notification by Lender of its intent to exercise Lender’s Call Option must be provided by Lender by notifying Borrower via telephone ((____) ____-____) prior to 10:00 AM (Eastern Prevailing Time) on 25th of the month prior to the commencement of a Delivery Period, or on the next succeeding Business Day if the 25th of such month does not fall

on a Business Day. In the event that the Parties are unable to communicate with each other by telephone, a facsimile transmission by Lender to Borrower to Borrower's facsimile machine ((____) ____-____) prior to 11:00 AM (Eastern Prevailing Time) on 25th of the month prior to the commencement of a Delivery Period, or on the next succeeding Business Day if the 25th of such month does not fall on a Business Day shall constitute sufficient notice for purposes hereof. In such oral notice, Lender will specify: (a) the Contract Quantity of SRECs that Lender has elected to purchase up to the Maximum Contract Quantity; (b) the Contract Price as determined in accordance with Subsection 2.7(d) below; and (c) the Delivery Period. Each such exercise shall be memorialized in a written Transaction Confirmation Letter, substantially in the form contained in Exhibit B, and shall be governed by the terms as set forth on Exhibit B, which terms are deemed accepted by Lender and Borrower upon execution of this Agreement and which terms apply to Lender's Call Option at all times during the Term, and any exercise of Lender's Call Option. Each Transaction Confirmation Letter shall be effective upon delivery by Buyer to Seller unless Seller provides Buyer with written notice that the Transaction Confirmation Letter is inconsistent with any verbal notification of Lender's intent to exercise Lender's Call Option. To be effective, such contesting notice must be delivered to Buyer within three (3) Business Days of Seller's receipt of the Transaction Confirmation Letter.

(c) Delivery Period. Each Delivery Period shall commence on the first day of the Quarter following Lender's verbal notice of its intent to exercise Lender's Call Option and end on the last day of the third month of the Quarter following commencement of the Delivery Period. Multiple Delivery Periods are permissible; provided that only one Delivery Period may be exercised at a time.

(d) Contract Price. The contract price ("Contract Price") to be paid by Lender for SRECs delivered by Borrower during a Delivery Period shall be the amount equal to the product of 0.75 multiplied by Market Value, based on Market Value at the time Lender's Call Option was exercised with respect to such Delivery Period.

(e) Survival of Lender's Call Option. It is the intention of the Parties that Lender's Call Option remain in effect for the entirety of the Term notwithstanding any sale by Borrower of either the Project Equipment (alone or in connection with a sale of the Facility) or a change in the location of the Project Equipment. This is irrespective of any right that Borrower may have to dispose of the Project Equipment after the Loan has been repaid and such Equipment is no longer part of the Collateral and subject to the terms of the Security Agreement. Borrower agrees that any change in the location of the Project Equipment during the Term must be approved in writing by Lender. Given that Lender cannot exercise Lender's Call Option unless the Project Equipment is operating in New Jersey, Borrower shall ensure that the Project Equipment shall not be moved out of New Jersey during the entire Term. Borrower further agrees to keep the Project Equipment insured and maintained in good condition during the entire Term.

(f) Publication of Lender's Call Option. Borrower consents to Lender taking any actions that Lender feels are appropriate to notify third parties of the existence and continuation of Lender's Call Option including, filing of documents in the real property records in the county where the Facility is located. To this end, the Parties agree to sign a Memorandum

of Option, in the form attached here as Exhibit C, in order to record Lender's Call Option in the public land records. Further, Borrower agrees to execute any subsequent memoranda or other document in the event that the Project Equipment is moved (subject to Lender's written approval in accordance with Subsection 2.7(e) above) from the real property stated in the Memorandum of Option.

2.8. Inspections. Prior to advancing the Loan and thereafter during the Term, Lender, at its sole election and cost, may make inspections, and/or retain a third party to make any such inspections on its behalf, of the Project to ensure the timely and complete progression of the construction and installation of the Project in accordance with Lender-approved plans and specifications for the Project, and that the Project is being operated and maintained in accordance with prevailing industry standards. All inspections by Lender are for Lender's determination of Project Completion in accordance with Subsection 4(d) below and otherwise for its internal purposes only, and are not to be deemed to constitute Lender's approval of the Project and/or its continued operation.

2.9. Regulatory Changes; Acceleration of Loan.

(a) Change in Rate Treatment. Each Party, having entered into this Agreement in good faith, hereby waives all rights on its part now or hereafter to undertake any proceeding for the express purpose of having this Agreement set aside or the regulatory treatment accorded Lender's recovery of Net Monthly Revenue Requirements associated with Lender's Solar Program as approved by the BPU in the 2008 Order set aside pursuant to a change in rate treatment. In addition, while neither Lender nor Borrower are waiving its right to claim that an agency does not have the authority to do so, in the event any legislative, judicial or governmental entity of competent jurisdiction impairs or disallows the full and timely recovery through Lender's Solar Pilot Recovery Charge or a like successor clause or rate mechanism including recovery of New Monthly Revenue Requirements associated with Lender's Solar Program as provided for in the 2008 Order, for ratemaking purposes, then, at the option of Lender and upon written notice to Borrower, the outstanding balance of the Loan and any other amounts due Lender under this Agreement shall be determined after taking into account all payments previously made by Borrower, either in cash or in the form of SRECs valued in accordance with this Agreement and such outstanding amount shall become due and payable in cash by Borrower within thirty (30) days of the date of Lender's written notice to Borrower.

(b) Change in Regulation. If the existing New Jersey regulations governing the Solar Program are amended, superseded and/or otherwise no longer in force, Lender will not accelerate the repayment of the unpaid portion of the Loan and accrued interest, if:

(i) Borrower continues to operate the Project in accordance with this Agreement;

(ii) The value of the quantity of SRECs created by operation of the Project is, and will continue to be, the amount of the Floor Price for each SREC, and that the terms in this Agreement governing the amortization of the Loan and payment of all accrued interest remain in full force and effect; and

(iii) Despite the change in regulation, the BPU continues to allow Lender to enjoy the comparable treatment, as described more fully in Section 2.9(a) above, with regard to those Projects in operation and creating SRECs as Lender enjoyed prior to such change in regulations.

3. No Assumption of Liabilities. Lender shall not assume, and Borrower shall retain and be responsible for, any and all liabilities and obligations of Borrower of any kind or nature whatsoever, including, without limitation, any and all liabilities and obligations of Borrower under the Project Documents, including, without limitation, the Customer Agreement.

4. Conditions Precedent to Advancing the Loan. Lender shall not be obligated to advance the Loan unless the following conditions are satisfied, in form and substance satisfactory to Lender and its counsel, on or prior to the date when Borrower requests disbursement of the Loan:

(a) The Loan Documents, including, without limitation, the Note shall have been completed, duly executed and delivered by Borrower to Lender.

(b) Lender shall have received: (1) the financing statements in form and substance reasonably acceptable to Lender for filing with the appropriate governmental agency or agencies in all jurisdictions (state and county levels) necessary or, in the opinion of Lender, desirable to perfect the Liens created by this Agreement; (2) record searches identifying all financing statements, judgments, tax liens and other Liens on file with respect to Borrower in all jurisdictions referred to under (1) above and such other jurisdictions as Lender may deem appropriate, indicating that no Person, other than Lender and any other holders of Permitted Encumbrances, has any Lien or Liens on any of the Collateral; (3) record owner and mortgage lien searches of the real estate records applicable to the Facility; (4) Lien waivers or subordinations from other lienholders, mortgagees and Borrower's landlord, if applicable, each duly executed by each person that is a party thereto, each of which shall be in full force and effect, and in form and substance satisfactory to Lender; (5) satisfactory evidence of all requisite insurance coverages, as required in this Agreement; and (6) any and all other documents related to the Collateral or Borrower that Lender reasonably requests.

(c) Lender shall have received all Project Documents with respect to the Project, each duly executed by each person that is a party thereto, each of which Project Documents shall be in full force and effect, and in form and substance satisfactory to Lender.

(d) The installation of the Equipment at the Facility shall have been completed; provided that Borrower shall have notified Lender in writing that the Project is substantially complete and Lender shall have verified that the Project has achieved Commercial Operation, subject, in all events, to Lender's inspection rights in Section 2.8. For purposes of this Agreement, in the event the date of Commercial Operation has not occurred within one year after Lender's notification to Borrower of Project approval, Lender shall have the right, exercisable upon written notice to Borrower, to terminate this Agreement and shall be under no further obligation to advance the Loan.

(e) Borrower shall have provided to Lender a complete copy of the BPU's inspection report with respect to the Equipment installed at the Facility.

(f) Metering equipment capable of measuring the electricity generated from the continued operation of the Project throughout the Term shall have been installed in accordance with the Program requirements.

(g) Borrower shall have opened a SREC Account and provided Lender with a corresponding, valid SREC Account tracking number and password.

(h) Borrower shall have certified to Lender that it has not received any rebates with respect to the Project under the CORE Program, SUNLIT Program or comparable program administered by the NJCEP, nor shall Borrower apply for or accept any rebates thereunder with respect to the Project.

(i) There shall be at such time no: (1) injunction, writ, preliminary restraining order, or any order of any nature issued by an arbitrator, court or other governmental authority directing that the transactions provided for herein and/or in the Project Documents or any of them not be consummated as herein or therein provided; or (2) suit, litigation, investigation hearing or proceedings of or before any arbitrator, court or other governmental authority pending or threatened against Borrower and/or the Customer, or any of their respective properties, revenues or assets, with respect to this Agreement, the Security Agreement, the Note, the Project Documents, and/or any of the transactions contemplated hereby or thereby that could result in a material and adverse change thereto.

(j) No Event of Default under this Agreement or any other agreement applicable to Borrower or the Equipment Provider has occurred and is continuing or will result from the making of such Loan.

(k) The representations and warranties of Borrower contained in this Agreement shall be true and correct as of the date of such requested Loan with the same effect as though made on such date, except, however: (i) for such changes as are specifically permitted hereunder; and (ii) to the extent made solely as of a previous date, such warranties shall have been true and correct as of such previous date.

(l) The Solar Loan Program, or any direct successor program thereto, remains in effect.

(m) No event shall have occurred since the date of the execution and delivery of this Agreement which, in the good faith opinion of Lender, is likely to materially and adversely affect the financial and/or credit prospects of Borrower, the operability of the Project as contemplated or otherwise impair the ability of Borrower to perform its obligations under this Agreement, the Security Agreement, the Note, the Project Documents and/or other Loan Documents.

5. Security Agreement. As security for the payment and performance of the obligations of Borrower hereunder and Note and the Loan Documents, Borrower, concurrently

with its execution of this Agreement, will execute and deliver to Lender a fully executed Security Agreement, in form and substance similar to that attached hereto as Exhibit D.

6. SRECs and Environmental Attributes.

(a) In the event that a third party offers Borrower a higher price for SRECs than the then-current Market Price, Lender permits Borrower to sell SRECs to said third party: PROVIDED, HOWEVER, that Borrower notifies Lender in writing of its intent to sell SRECs to such third party, which writing is to include the quantity of SRECs to be sold and the price for such quantity of SRECs, and Borrower utilizes the entire sale price paid by said third party towards (1) the payment of all accrued interest on the Loan, then (2) the amortization of the principal amount of the Loan in the month Borrower receives the proceeds of such sale to a third party. Anything in the foregoing to the contrary notwithstanding, during any period when Lender's Call Option is exercisable hereunder, Borrower shall not have the right to sell SRECs to any person other than Lender or its assigns.

(b) For purposes of this Agreement, an "Environmental Attribute" is an instrument used to represent the environmental costs and/or benefits associated with a fixed amount of electricity generation from the Project. For the Project, Environmental Attributes represent the general environmental benefits of renewable generation such as, for example, and not by means of exclusion, air pollution avoidance. The exact quantity of the environmental benefit (e.g., pounds of emission reductions of a given pollutant) is not indicated by an environmental attribute, though it can be quantified separately in pollution trading markets and through engineering estimates. The Environmental Attribute represents all environmental benefits, whether or not trading markets for such pollutants or benefits exist. Lender will quantify any and all Environmental Attributes, and have the right to trade said Environmental Attributes for its own account.

7. Representations and Warranties.

7.1. Organization. Standing and Power. Borrower is a _____ [form of business] duly organized, validly existing and in good standing under the laws of _____. Borrower has qualified to do business in each and every jurisdiction where the failure of Borrower to so qualify would have a material and adverse impact of Borrower's ability to perform under this Agreement, the Security Agreement, the Note and/or any other Loan Document. Borrower has all requisite power and authority to own, lease and operate its properties, to carry on its business as now being conducted, to operate the Project substantially as contemplated by the Project Documents, and to execute, deliver and perform this Agreement, the Note, the Loan Documents and all writings relating hereto and thereto. All of Borrower's federal, state, local and foreign income, profits, franchise, sales, use, occupation, property, excise and other tax returns and tax reports, if any, required to be filed with respect to the business and assets of Borrower have been filed, as of, at a minimum, the date hereof with the appropriate governmental agencies.

7.2. Authorization of Borrower. The execution, delivery and performance by Borrower of this Agreement and all other writings relating hereto and thereto have been duly and validly authorized by Borrower. No consent or approval of or notification to any party, other

than any consent or approval that has been obtained, is required in connection with the execution, delivery and performance by Borrower of this Agreement, the Security Agreement, the Note, the other Loan Documents and/or any writing relating hereto and thereto or the consummation of the transactions contemplated hereby or thereby.

7.3. Litigation Claims and Proceedings. No litigation, suits, claims, and/or judicial or administrative proceedings of any nature is pending or, to the best knowledge of Borrower, threatened against Borrower or Borrower's property or the Project, the effects of which, in Lender's judgment, would have a material adverse effect on Borrower, its business, its financial condition and/or the Project.

7.4. Liens or Encumbrances on Project Equipment. Borrower represents that there are no liens on the Project Equipment other than the Permitted Encumbrances.

7.5. Laws and Regulations. Borrower is not in any violation of federal, state or local laws, ordinances or regulations pertaining to this Agreement, the Security Agreement, the Note, any the Project Documents and/or any of the transactions contemplated in any of the foregoing or the Project.

7.6. Non-contravention. Borrower represents that the Loan Documents do not violate any agreements to which Borrower is a party or by which Borrower or its assets are bound.

7.7. Disclosures. No representation or warranty by Borrower contained in this Agreement, and no statement contained in any certificate, schedule, exhibit, list or other writing furnished to Lender in connection with this transaction and/or in connection with the Project contains any material untrue statement of fact or omits to state any material fact necessary in order to make the statements contained herein or therein not materially misleading. All copies of all writings furnished to Lender hereunder, or in connection with the transactions contemplated hereby, are true and complete in all material respects. All schedules and exhibits to this Agreement are true and complete in all material respects.

8. Representations and Warranties of Lender. As of the date hereof, Lender represents and warrants that Lender is a corporation duly organized, validly existing and in good standing under the laws of the State of New Jersey and has all requisite corporate power and authority to enter into this Agreement and to carry out the transactions contemplated hereby.

9. Covenants of Borrower.

9.1. Performance of Customer Agreement and the Project. From and after the date hereof Borrower shall:

(a) forward to Lender copies of all notices, requests, correspondence and other communications relating to the Project Documents and/or the Project promptly upon receipt thereof;

(b) name Lender as lender loss payee and an additional insured on each policy of insurance obtained in compliance with the Project Documents. Each such policy of insurance shall provide that Lender shall be entitled to thirty (30) days' prior written notice from the insurer prior to any termination or modification thereof;

(c) develop, manage, operate and maintain the Project as currently contemplated, in compliance with all provisions of the Customer Agreement, Project Documents, manufacturer's specifications and with all applicable federal, state and local laws, ordinances and regulations;

(d) maintain and/or cause to be maintained all tangible assets relating to the Project in good operating condition, reasonable wear and tear excepted;

(e) file when and as due all federal, state, local and foreign income, profits, franchise, sales, use, occupation, property, excise and other tax returns and tax reports required to be filed with respect to the business and assets of Borrower with the appropriate governmental agencies, and pay, when and as due, all such taxes to all such appropriate governmental agencies;

(f) advise Lender in writing of any breach or default, or any circumstances that constitute, or with the passage of time will come to constitute, a breach or default under, or in any way impair the validity or enforcement of any obligation or tend to reduce the amount payable from the amount under, any of the Project Documents;

(g) advise Lender in writing of any material and adverse change or any event, occurrence or circumstance that is likely to cause a material and adverse change in Project and/or the condition, financial or otherwise, business or operations of Borrower; and

(h) Borrower hereby authorizes Lender to access and review Borrower's SREC Account, and Borrower will provide Lender with all SREC Account information so as to afford Lender with such access.

9.2. Conduct of Business. Except as otherwise permitted in this Agreement from and after the date hereof, Borrower shall not:

(a) mortgage, pledge, or otherwise encumber or subject to lien or suffer to be encumbered or subjected to lien, or dispose of, or agree to dispose of or lease or license to others or agree to so lease or license, any of the assets used or useful in the Project, including, without limitation, any real or tangible personal property and, or commit to do any of the foregoing, except, however, as specified in the Security Agreement;

(b) cancel or change any material existing policy of insurance relating to the Project, unless, however, replaced by an insurance policy providing substantially the same coverage; or

(c) merge or consolidate with any partnership, corporation or other entity of any nature, or change either its name or the address of its principal offices without first giving Lender thirty (30) days' prior written notice of Borrower's intent to do so, or dissolve, liquidate

or wind up its affairs, or sell, lease, transfer or otherwise dispose of a significant portion of its assets, or agree to do any of the foregoing.

9.3. Information: Access to Properties; Books and Records.

(a) Borrower shall make available for inspection during normal business hours, as Lender may request and at Lender's expense, promptly and in the form requested, any and all information, including, without limitation, all books and records reasonably requested by Lender in connection with the Project. Borrower shall permit Lender to make copies of books and records relating to the Project. Should Lender, in the course of inspecting any such books and records, discover any material defect therein which amounts to, or reasonably will amount to, an Event of Default under Section 11.1, below, the costs and expenses incurred by Lender in performing such inspection shall be solely borne by Borrower.

(b) Borrower shall afford Lender and Lender's authorized representatives reasonable access to the real and tangible personal property relating to the Project for the purpose of conducting investigations and examinations thereof. No investigation by Lender or any of Lender's representatives pursuant to this section shall affect any representation, warranty and/or covenant of any Party hereto.

9.4. Insurance.

(a) Borrower, at a minimum, shall maintain the following insurance coverages on the Project and the Collateral:

(i) Commercial General Liability insurance, for bodily injury and property damage, with limits not less than: FIVE MILLION DOLLARS (\$5,000,000) per occurrence and FIVE MILLION DOLLARS (\$5,000,000) annual aggregate, and naming Lender as an additional insured under such policy;

(ii) All Risk Property insurance covering, at a minimum, the full replacement costs of the Project and naming solely Lender as an additional insured and lender loss payee with respect thereto with a maximum deductible under the policy of \$500 for a residential Facility or \$200 for a commercial Facility, as the case may be;

(iii) Fidelity/Crime Insurance for limits of at least ONE MILLION DOLLARS (\$1,000,000) per claim; and

(iv) such other insurance as Lender may reasonably require.

(b) Throughout the Term of this Agreement, Borrower shall carry the foregoing insurance coverages, issued by one or more nationally-known insurance underwriters, each underwriter having an A.M. Best's rating of "A-/VII" or better, or, for underwriters not rated by A.M. Best, a quality equivalent to that of an A.M. Best rating of "A-/VII" or better, as decided by Lender in its sole discretion.

(c) Borrower shall instruct each and every insurance company providing the foregoing coverages to notify Lender promptly of any cancellation or material change of said coverages, in whole or in part. Borrower is to submit annually during the Term evidence that all insurance required under this Agreement is in full force and effect.

(d) All such policies of insurance shall provide for at least thirty (30) days advance notice in writing to Lender of any cancellation or modification thereof. If Borrower fail to pay the premiums on any such insurance, Lender shall have the right (but shall be under no duty) to pay such premiums for Borrower's account. Borrower shall immediately repay to Lender any sums which Lender shall have so paid, together with interest thereon at the applicable rate with respect to the Loan. Borrower hereby authorizes and directs Lender, and Lender shall have the sole discretion, to apply or pay all such proceeds to (1) the payment of the Obligations, (2) the restoration or replacement of the property destroyed or damaged, or (3) Borrower.

(e) Each such insurance policy set forth above shall include (i) provisions or endorsements naming Lender, its affiliates, directors, officers and employees as additional insureds; (ii) provisions that such insurance is primary insurance with respect to the interest of Lender and such additional insureds and that any insurance maintained by Lender is excess and not contributory insurance with the insurance required hereunder; (iii) a cross-liability or severability of insurance interest clause; and (iv) provisions by which the insurer waives all rights of subrogation against Lender and the additional insureds.

(f) Borrower shall provide Lender with Certificates of Insurance acceptable to Lender evidencing the policies, provisions and endorsements listed above within ten (10) calendar days after they have been obtained, and, upon request of Lender, on an annual basis thereafter.

9.5. Maintenance of Equipment. During the Term, Borrower shall keep and maintain the Project and all related Equipment in good operating condition and repair, ordinary wear and tear excepted. Borrower shall ensure that any and all necessary repairs and replacements are made so that the value and operating efficiency thereof shall at all times be maintained and preserved. In the event Borrower, at Lender's reasonable judgment, fails to maintain the Equipment to ensure its continued operation in accordance with the Project Documents, Lender shall have the right to require Borrower to retain the services of an experienced third-party maintenance provider to maintain the Equipment. To the extent Borrower fails to comply with the foregoing provisions, Lender shall have the right (without any obligation to do so) to perform the foregoing obligations on behalf of Borrower. Borrower shall immediately reimburse Lender for all such monies expended by Lender in fulfilling any such obligations, together with interest thereon at the applicable rate with respect to the Loan. Borrower shall not permit any such items to become affixed to real estate as a fixture as defined under the Uniform Commercial Code.

9.6. Maintenance of Collateral. Borrower will properly maintain the Collateral, defend same against any adverse claims and demands and protect and maintain the Collateral.

9.7. No Other Interests Granted. Except as otherwise disclosed by Borrower to Lender as a Permitted Encumbrance, Borrower has not executed, will not execute, and has not had or will have executed on their or its behalf, any assignment, pledge, security or other similar agreement or financing statement covering the Collateral, or any portion thereof, except to Lender, and Borrower will keep the Collateral free from any and all liens, claims, security interests and encumbrances of any kind or nature, except for the assignment, pledge and security interest herein granted to Lender.

9.8. Change of Place of Business. Borrower will notify Lender in writing prior to any change in Borrower's place of business, or, if Borrower has or acquires more than one place of business, prior to any change in either Borrower's chief executive office and/or the office or offices where Borrower's books and records are kept.

9.9. Change in Name. Borrower will notify Lender immediately in writing of any proposed or actual change of Borrower's name, identity and/or corporate structure.

9.10. Further Assurances. Borrower agrees that, at any time and from time to time after the date hereof, upon the request of Lender, Borrower shall do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered on its behalf, all such further acts, deeds, assignments, conveyances, transfers, powers of attorney or assurances as may be reasonably required in order fully to grant, assure and confirm to Lender a perfectable, first priority security interest in the Collateral.

10. Covenants of Borrower and Lender. Borrower and Lender shall cooperate and use all reasonable efforts, in good faith, to make all registrations, filings and applications and to give all notices and obtain all governmental and regulatory consents, authorizations, approvals, licenses, permits, orders, qualifications and waivers necessary or desirable for the consummation of the transactions contemplated hereby.

11. Events of Default: Remedies: Cure Rights.

11.1. Events of Default. The occurrence of any one or more of the following events shall constitute an "Event of Default":

(a) any failure of Borrower to make any payment of principal and interest as provided in the Note and/or hereunder;

(b) any material representation or warranty made by Borrower herein, or any material statement, information or certification made or provided by Borrower to Lender in connection with this Agreement, the Note and/or the Project, shall prove to have been false or incorrect in any material respect at the time made or given;

(c) an assignment by Borrower of this Agreement or any rights created hereunder in violation of the provisions hereof;

(d) the failure by Borrower to perform or observe any of the material covenants, agreements, terms, conditions or provisions of this Agreement not otherwise specified in this section;

(e) Borrower: (i) makes an application for the appointment of a receiver, trustee or custodian for the Collateral and/or any other of Borrower's assets; (ii) files a petition under any chapter of the Bankruptcy Code or any similar federal and/or state law or regulation providing for the relief of debtors; (iii) makes an assignment for the benefit of its creditors; (iv) has a petition in bankruptcy, or other similar relief, filed against it, and such petition is not withdrawn or discharged within ninety (90) days after the date of its filing; (v) institutes any proceeding or action for the dissolution, liquidation, or termination of Borrower;

(f) Borrower fails to pay, when due, any amount required to be paid to Lender;

(g) Borrower commits an Event of Default under the Security Agreement;

(h) an Event of Default, as such term is defined in any of the Project Documents, occurs;

(i) Borrower breaches and/or defaults under any agreement between Borrower and Lender; and/or

(j) Borrower defaults under any of its obligations to a lienholder with respect to any Permitted Encumbrance.

11.2. Cure Rights; Remedies.

(a) Upon the occurrence of an Event of Default, Lender shall provide written notice of such Event of Default to Borrower, and following receipt of such notice, Borrower shall have: (i) a two-Business Day (2-Business Day) period within which to fully cure any Event of Default involving the payment of money; and (ii) a thirty-day (30-day) period within which either to cure any other Event of Default not involving the payment of money or, if the Event of Default does not involve the payment of money, is curable and cannot be fully cured within such thirty-day (30-day) period, to institute corrective action satisfactory to Lender and to pursue such corrective action diligently, provided that said thirty (30) day period shall not be made available to Borrower if Lender determines, in its sole discretion Lender's rights with respect to Borrower and/or the Collateral could be materially adversely affected. The foregoing provisions with respect to notice and cure periods shall not apply in the case of Section 11.1(e) above.

(b) Upon the occurrence of an Event of Default that is not cured as per subsection 11.2(a), Lender, in its sole discretion, may declare the entire outstanding amount of all Advances and all accrued and unpaid interest thereon to be immediately due and payable.

(c) Upon Borrower committing an Event of Default, Lender shall have the right to exercise, at its option, any and all rights and remedies available at law and/or in equity and/or other proceeding. If such Event of Default involves the payment of any amount due under this Agreement, such amount shall bear interest from the date due to the date paid at a rate equal to the interest rate stated in Subsection 11.2(h), calculated in conformance with Section 2.3.

(d) Upon the occurrence and during the continuance of any condition that, after notice or lapse of time or both, would constitute an Event of Default, Lender shall have the right, as the true and lawful agent of Borrower, with power of substitution for Borrower and in either Borrower's name, Lender's name or otherwise, for the use and benefit of Lender: (i) to offset any amounts owed by Borrower to Lender, which are not paid when due, against any amounts due and owing by Lender to Borrower from any source whatsoever; (ii) to receive, endorse, assign and/or deliver any and all notes, acceptances, checks, drafts, money orders or other evidences of payment relating to the Collateral or any part thereof; (iii) to demand, collect, receive payment of, give receipt for and give discharges and releases of all or any part of the Collateral; (vi) to commence and prosecute any and all suits, actions or proceedings at law or in equity or otherwise in any court of competent jurisdiction to collect or otherwise realize on all or any of the Collateral or to enforce any rights in respect of any Collateral; (vii) to settle, compromise, compound, adjust or defend any actions, suits or proceedings relating or pertaining to all or any portion of the Collateral; and (viii) to use, sell, assign, transfer, pledge, make any agreement with respect to or otherwise deal with all or any of the Collateral and to do all other acts and things necessary to carry out the purposes of this Agreement, as fully and completely as though Lender were the absolute owner of the Collateral for all purposes;

(e) If, in the good faith business judgment of Lender, Borrower is not performing its obligations under this Agreement or, after Borrower's receipt of a written request by Lender to provide adequate assurances of performance, is likely to breach any of its obligations under any of the Loan Documents, Lender may, at the cost and expense of Borrower, but is not obligated to, take such steps as are necessary to remedy such failure to avoid such breach. Lender shall not be obligated to take any such steps.

(f) Borrower shall reimburse Lender promptly for all reasonable costs and expenses Lender incurs in exercising any and all of its remedies, including, without limitation, the costs and expenses incurred by Lender in inspecting Borrower's books and records, as per Subsection 9.3(a), plus interest on the amount of such costs and expenses from the date incurred by Lender to the date reimbursed by Borrower, calculated in accordance with Section 2.3, and Lender shall be entitled to offset such amounts against payment of any amounts owed to Borrower from any source whatsoever.

(g) Upon the occurrence of an Event of Default, Lender may institute a suit directly against Borrower without first foreclosing on or liquidating the Collateral.

(h) Upon the occurrence of an Event of Default, Lender, in its sole discretion, may increase the rate of interest accruing on the Loan and payable hereunder to the rate of ONE

AND ONE-HALF PERCENT (1 1/2%) per month, calculated in accordance with the appropriate provision of Section 2.3, for each month after the Event of Default that the Loan remains outstanding.

(i) In the event of a failure of the foregoing remedies, Lender may enter into the Facility where the Collateral may be located, take possession of said Collateral and restore the Facility with respect thereto, the costs of which shall be recouped by Lender as set forth in Section 11.4, paragraph "First".

11.3. Lender's Right to Dispose of Collateral. Borrower agrees that Lender shall have the right, subject to the mandatory requirements of current law, to sell or otherwise dispose of all or any part of the Collateral, at public or private sale or at any broker's board or on any securities exchange, for cash, upon credit or for future delivery as Lender shall deem appropriate. Lender shall be authorized at any such sale, if it deems it advisable to do so, to restrict the prospective bidders or purchasers to persons who will represent and agree that they are purchasing the Collateral for their own account for investment and not with a view to the distribution or sale thereof, and upon consummation of any such sale Lender shall have the right to assign, transfer and deliver to the purchaser or purchasers thereof the Collateral so sold. Each such purchaser at any such sale shall hold the property sold absolutely free from any claim or right on the part of Borrower, and Borrower hereby waives to the fullest extent permitted by law, all rights of redemption, stay and appraisal which Borrower now has, or may have at any time in the future, under any rule of law or statute now existing or hereafter enacted. Lender shall recognize any right of the Customer to quiet enjoyment of the Collateral.

11.4. Application of Proceeds. Lender shall apply any Collateral consisting of cash and the proceeds of any collection or sale of any other Collateral as follows:

FIRST, to the payment of all costs and expenses incurred by Lender in connection with such collection or sale or otherwise in connection with this Agreement, any other agreement in connection with the Loan and accrued interest, including, but not limited to, all court costs and the reasonable fees, disbursements and other charges of its agents and legal counsel -- whether incurred in any action or proceeding either between the Parties or between Lender and any third party;

SECOND, to the payment in full of the accrued interest on the Loan;

THIRD, to the payment of the principal of the Loan; and

FOURTH, to Borrower and its successors or assigns, or as a court or agency of competent jurisdiction may otherwise direct.

Lender shall have absolute discretion as to the time of application of any such proceeds, moneys or balances in accordance with this Agreement. Upon any sale of the Collateral by Lender, including, without limitation, pursuant to a power of sale granted by statute or under a judicial proceeding, the receipt of Lender or of the officer making the sale shall be a sufficient discharge to the purchaser or purchasers of the Collateral so sold and such purchaser or purchasers shall not

be obligated to see to the application of any part of the purchase money paid over to Lender or such officer or be answerable in any way for the misapplication thereof.

12. Amendment and Waivers.

12.1. Amendments, Modifications and Supplements. This Agreement may be amended, modified or supplemented only by an instrument in writing executed by, and delivered on behalf of, each of the Parties.

12.2. Waivers. The representations, warranties, covenants and conditions set forth in this Agreement may be waived only by a written instrument executed by the party so waiving. The failure of any party at any time or times to require performance of any provision hereof shall in no manner affect the right of such party at a later time to enforce the same. No waiver by any party of any condition, or breach of any term, covenant, agreement, representation or warranty contained in this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of any other condition or of the breach of any other term, covenant, agreement, representation or warranty contained in this Agreement.

13. Survival of Representations, Warranties and Covenants. All representations, warranties and covenants of the Parties contained in this Agreement and/or the Note and/or made pursuant hereto or thereto shall survive until this Agreement expires or is sooner terminated or, in the case of any covenants, until such covenants have been performed fully.

14. Indemnification. Borrower indemnifies and holds harmless Lender and Lender's shareholders, subsidiaries, affiliates, officers, directors, successors and assigns, and the agents, representatives and employees of any and all of the foregoing, from and against any and all liability (including, without limitation liability in tort, whether absolute or otherwise), obligations, losses, penalties, claims, suits, costs and disbursements, including without limitation, legal fees and disbursements in any way relating to, or arising out of, the Loan Documents, the Project Documents and/or the Collateral; provided, however, that there shall be no indemnity for liability caused by Lender's gross negligence or willful misconduct. This provision shall survive the expiration or sooner termination of this Agreement.

15. Notices. Any and all notices or other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given if delivered personally by courier, or by overnight delivery by a nationally recognized overnight delivery service, or five (5) days after mailing if sent by registered or certified mail, postage prepaid, addressed as follows:

If to Lender: Public Service Electric and Gas Company
80 Park Plaza, T-8
Newark, New Jersey 07102
Attention: Solar Loan Program Administrator

With a copy to Lender's legal counsel at the same address.

If to Borrower:

Attention:

Any party may change the address to which notices or other communications are to be sent to it by giving written notice of such change in the manner provided herein.

16. Assignment. This Agreement may not be assigned by any Party without the prior written consent of the other Party. Notwithstanding the foregoing, however, Lender, without Borrower's consent, may: (a) assign its rights and delegate its obligations hereunder to one or more subsidiaries or affiliates of Lender; or (b) assign its rights to receive moneys and/or SRECs hereunder and under the Note to any unaffiliated third party for financing purposes only. In all regards, however, no such assignment or delegation by Lender shall relieve Lender of its obligations hereunder. Subject to the foregoing, this Agreement shall bind and inure to the benefit only of the Parties and their respective successors and permitted assigns. In the event that the real property where the Project is located is transferred or assigned to a third party, Borrower shall notify Lender prior to such transfer or assignment so as to afford Lender the opportunity to review the creditworthiness of such third party, and, if such creditworthiness is substantially similar to that of Borrower's, allow such third party to agree to be obligated under the terms and conditions of this Agreement and the other Loan Documents to the same extent as Borrower. If such third party does not agree to be bound by this Agreement and/or the Loan Documents or does not have a similar level of creditworthiness to Borrower's, then Borrower shall pay Lender at the time of such transfer of real property the full amount of the Loan Amortization and accrued interest.

17. Entire Agreement. This Agreement, together with the schedules and exhibits hereto and the Notes and the other documents and instruments referred to herein and/or therein, sets forth the entire agreement and understanding of the Parties in respect of the transactions hereby contemplated, and supersedes all prior agreement, arrangements and understandings relating to the subject matter hereof.

18. No Third Party Beneficiary. Nothing in this Agreement is intended or shall be construed to give any person any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein, other than the Parties.

19. Recitals. The clauses above set forth in the Recitals are herein incorporated by reference as though herein set forth at length.

20. Counterparts. This Agreement may be executed in any number of counterparts, all of which together shall be considered to constitute one instrument.

21. Section Headings. All section headings are inserted for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement and have no independent significance.

22. Interpretation. In this Agreement the singular includes the plural and the plural the singular; words importing any gender include the other genders; the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation";

references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto, without prejudice to any provisions of this Agreement prohibiting such amendments and other modifications; and references to persons include their respective permitted successors and assigns.

23. Severability. In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

24. Applicable Law. **THIS AGREEMENT IS GOVERNED EXCLUSIVELY BY AND CONSTRUED IN STRICT ACCORDANCE WITH THE LAWS OF THE STATE OF NEW JERSEY APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN THE STATE OF NEW JERSEY WITHOUT REGARD TO NEW JERSEY'S CONFLICT OF LAWS PROVISIONS THAT MAY DEFEAT THE APPLICATION OF NEW JERSEY'S SUBSTANTIVE LAW TO THIS AGREEMENT, THE NOTE AND THE UNDERLYING TRANSACTIONS.**

25. Miscellaneous. Nothing in this Agreement shall be construed to create any duty to, any standard of care with reference to, or any liability to any Person not a party to this Agreement. No undertaking by one Party to the other under any provision of this Agreement shall constitute the dedication of Lender's system or any portion thereof to Borrower or to the public, nor affect the status of Lender as an independent public utility corporation, or Borrower as an independent individual or entity. Lender's review or acceptance of the Project and its operation shall not be construed as confirming or endorsing the design or as any warranty of safety, durability, reliability and/or performance, Lender shall not by reason of such review or failure to review be responsible for the strength, safety, details of design, adequacy, capacity, reliability and/or operation of the Project, nor shall Lender's extension of the Loan to Borrower be deemed to be an endorsement of the Project, in whole or in part.

26. Relationship of the Parties. For purposes of this Agreement, Lender and Borrower expressly agree that the relationship of Lender to Borrower is that of a lender only. The intent of this provision is to clarify and stipulate that Lender is not a partner, fiduciary and/or coventurer of Borrower and that Lender's sole interest in the Collateral is for the purpose of security for repayment of the obligations of Borrower to Lender, as Grantor to Secured Party under the Security Agreement.

IN WITNESS WHEREOF, each party hereto has caused its duly authorized representative to execute and deliver this Agreement as of the date first above written.

Public Service Electric and Gas Company *[Insert Name Of Borrower]*

By: _____
(Signature)

By: _____
(Signature)

Name: _____
(Print Name)

Name: _____
(Print Name)

Title: _____

Title: _____

DRAFT

**EXHIBIT A
(Form of Note)**

[To Be Provided]

DRAFT

EXHIBIT B
(Form of Transaction Confirmation Letter)

[To Be Provided]

DRAFT

EXHIBIT C
(Form of Memorandum of Option)

[To Be Provided]

DRAFT

EXHIBIT D
(Form of Security Agreement)

[To Be Provided]

DRAFT

EXHIBIT E
BORROWER'S PROGRAM APPLICATION

[Copy of Borrower's Loan Application to be Attached]

DRAFT

**EXHIBIT F
LOAN AMORTIZATION SCHEDULE**

[below form to be completed]

| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
|----------------|---------------|-------------------|----------------|-----------------|------------------|------------------|
| | | SRECs | Total | | Principal | Scheduled |
| Payment | Date | Generated* | Payment | Interest | Payment | Loan |
| | Issuance Date | | | | | \$ A |
| 1 | mm/dd/yy | # | \$ | \$ | \$ | \$ |
| 2 | mm/dd/yy | | | | | |
| 3 | mm/dd/yy | | | | | |
| 4 | mm/dd/yy | | | | | |
| 5 | mm/dd/yy | | | | | |
| 6 | mm/dd/yy | | | | | |
| : | : | | | | | |
| : | : | | | | | |
| 175 | mm/dd/yy | | | | | |
| 176 | mm/dd/yy | | | | | |
| 177 | mm/dd/yy | | | | | |
| 178 | mm/dd/yy | | | | | |
| 179 | mm/dd/yy | | | | | |
| 180 | mm/dd/yy | | | | | \$0 |

* "SRECs Generated" column represents the SRECs anticipated to be generated by the Project during the month. Actual SREC generation may differ.

EXHIBIT G
SCHEDULE OF PERMITTED ENCUMBRANCES

[To Be Provided]

DRAFT

MEMORANDUM OF OPTION

THIS MEMORANDUM OF OPTION, made as of the ____ day of _____, 20____, by and between:

Public Service Electric and Gas Company, a New Jersey corporation, having an address at 80 Park Plaza, Newark, New Jersey 07102 ("**Lender**"), and

_____, [an] individual(s) residing at _____, New Jersey _____ ([collectively] "**Borrower**").

1. Loan Agreement. Lender and Borrower have entered into a Solar Program Loan Agreement dated _____, 20__ ("**Loan Agreement**"), for a term of ten (10) years from the date of the Loan Agreement ("**Term**"), the purpose of which is provide partial financing ("**Loan**") to Borrower for the design, purchase and installation of a solar-powered generation system ("**Project**") at Borrower's facility or residence, certain real property located in the _____ of _____, County of _____, State of New Jersey, more particularly described in Exhibit "A" attached hereto ("**Facility**").

2. Lender's Call Option. The Project generates Solar Renewable Energy Certificates ("**SRECs**"), as described in the Loan Agreement. Borrower grants to Lender an option to purchase up to 100% of the SRECs created by the continued operation of the Project until the Term expires ("**Lender's Call Option**"). It is the intention of the parties that the Lender's Call Option is independent of the Loan, and that even if the Loan is repaid in full before the end of the Term, the Lender's Call Option will survive until the expiration of the Term. The complete details of the Lender's Call Option are fully described in the Loan Agreement.

3. Survival of Lender's Call Option: It is the intention of the parties that the Lender's Call Option remain in effect for the entirety of the Term notwithstanding any sale by the Borrower of either the equipment comprising the Project ("**Project Equipment**") (alone or in connection with a sale of the Facility) or a change in the location of the Project Equipment. This is irrespective of any right that the Borrower may have to dispose of the Project Equipment after the Loan has been repaid and such Project Equipment is no longer part of the Loan collateral. It is the further intention of the parties that the Lender's Call Option shall run with the Facility throughout the Term and shall be binding upon any future parties of interest in the Facility until the expiration of the Term.

4. Purpose and Intention. This Memorandum of Option is executed for the purpose of recordation in the Office of the _____ County Clerk/Register in order to give notice of certain of the terms of the Lender's Call Option and is not intended, and shall not be construed, to define, limit or modify either the Lender's Call Option or the Loan Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Memorandum of Agreement as of the day and year first above written.

LENDER:

By: _____

Its: _____

BORROWER:

By: _____

[By: _____]

State of New Jersey)
) ss.
County of _____)

On _____, 20____, before me, _____, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument, and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument the persons, or the entity upon behalf of which the person acted, executed the instrument.

Witness my hand and official seal.

Signature of Notary

State of New Jersey)
) ss.
County of _____)

On _____, 20____, before me, _____, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument, and acknowledged to me that he/she executed the same in his/her individual capacity, and that by his/her signature on the instrument the person executed the instrument.

Witness my hand and official seal.

Signature of Notary

State of New Jersey)
) ss.
County of _____)

On _____, 20____, before me, _____, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument, and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument the persons, or the entity upon behalf of which the person acted, executed the instrument.

Witness my hand and official seal.

Signature of Notary

RECORD AND RETURN TO:

EXHIBIT "A"
DESCRIPTION OF REAL PROPERTY

MEMORANDUM OF OPTION

THIS MEMORANDUM OF OPTION, made as of the ___ day of _____, 20___, by and between:

Public Service Electric and Gas Company (“**Lender**”) a New Jersey corporation, having an address at 80 Park Plaza, Newark, New Jersey 07102, and

_____ (“**Borrower**”), a _____ of the State of _____ located at _____.

1. Loan Agreement. Lender and Borrower have entered into a Solar Program Loan Agreement (“**Loan Agreement**”), the terms and conditions of which are incorporated herein as though set forth in full, for a term of fifteen (15) years (“**Term**”), the purpose of which is to provide partial financing (“**Loan**”) to Borrower for the design, purchase and installation of a solar-powered generation system (“**Project**”) at Borrower’s facility, certain real property located in the _____ of _____, County of _____, State of New Jersey, more particularly described in Exhibit "A" attached hereto (“**Facility**”).

2. Lender’s Call Option. The Project generates Solar Renewable Energy Certificates (“**SRECs**”), as described in the Loan Agreement. Borrower grants to Lender an option to purchase up to 100% of the SRECs created by the continued operation of the Project until the Term expires (“**Lender’s Call Option**”). It is the intention of the parties that the Lender’s Call Option is independent of the Loan, and that even if the Loan is repaid in full before the end of the Term, the Lender’s Call Option will survive until the expiration of the Term. The complete details of the Lender’s Call Option are fully described in the Loan Agreement.

3. Survival of Lender’s Call Option: It is the intention of the parties that the Lender’s Call Option remain in effect for the entirety of the Term notwithstanding any sale by the Borrower of either the equipment comprising the Project (“**Project Equipment**”) (alone or in connection with a sale of the Facility) or a change in the location of the Project Equipment. This is irrespective of any right that the Borrower may have to dispose of the Project Equipment after the Loan has been repaid and such Project Equipment is no longer part of the Loan collateral.

4. Purpose and Intention. This Memorandum of Option is executed for the purpose of recordation in the Office of the _____ County Clerk/Register in order to give notice of certain of the terms of the Lender’s Call Option and is not intended, and shall not be construed, to define, limit or modify either the Lender’s Call Option or the Loan Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Memorandum of Agreement as of the day and year first above written.

LENDER:

By: _____

Its: _____

BORROWER:

By: _____

Its: _____

State of New Jersey)
) ss.
County of _____)

On _____, 200__, before me, _____, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument, and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument the persons, or the entity upon behalf of which the person acted, executed the instrument.

Witness my hand and official seal.

Signature of Notary

State of New Jersey)
) ss.
County of _____)

On _____, 200__, before me, _____, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument, and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument the persons, or the entity upon behalf of which the person acted, executed the instrument.

Witness my hand and official seal.

Signature of Notary

RECORD AND RETURN TO:

EXHIBIT "A"
DESCRIPTION OF REAL PROPERTY

EXECUTION ORIGINAL

NOTE

\$ _____, 20____
_____, New Jersey

This Note is signed and delivered by _____ (“**Borrower**”) to Public Service Electric and Gas Company, a New Jersey corporation (“**Lender**”) pursuant to the terms of the Solar Program Loan Agreement dated today (“**Loan Agreement**”). Capitalized terms that are not defined in this Note shall have the meanings given to them in the Loan Agreement.

Borrower promises to pay to Lender, at Lender’s office located at 80 Park Plaza, Newark, New Jersey 07101, or at any other place that Lender may designate to Borrower in writing:

the principal sum of _____ AND 00/100 DOLLARS (\$_____) plus interest which Borrower shall pay in monthly installments consisting of principal and interest in the amounts and on the dates indicated on the attached Loan Amortization Schedule. These payments are subject to mandatory prepayment and acceleration upon the occurrence of an Event of Default or earlier termination of the Loan Agreement. Payments due under the Loan Agreement shall be made in cash and/or the comparable value of SRECs created by the Project which are used by Borrower to pay down the outstanding amount of principal and accrued interest in the manner provided in the Loan Agreement.

The principal amount of this Note shall bear interest at the annual rate of SIX AND FIVE HUNDREDTHS PERCENT (6.5%) as provided in the Loan Agreement. If there is an Event of Default which continues uncured, Lender may increase the rate of interest accruing on the Loan to the rate of ONE AND ONE-HALF PERCENT (1 1/2%) per month, calculated according to the terms of the Loan Agreement.

This Note is the “Note” referred to in the Loan Agreement and is secured by the liens granted in the Loan Agreement, the Security Agreement and other Documents related to the Collateral. This Note is entitled to the benefits of the Loan Agreement, the Security Agreement and other documents related to the Collateral or the Loan and is subject to all of the agreements, terms and conditions contained in those documents.

This Note is subject to mandatory prepayment, and may be voluntarily prepaid, in whole or in part, in each case according to the terms and conditions in the Loan Agreement.

If an Event of Default under Section 11.1(e) of the Loan Agreement shall occur, this Note shall immediately become due and payable, without Lender providing any notice to Borrower, together with reasonable attorneys’ fees if Lender retains an attorney to obtain or enforce payment of the Loan. If any other Event of Default shall occur which is not cured within any applicable grace period, then this Note may, as provided in the Loan Agreement, be declared to be immediately due and payable, without Lender providing any notice to Borrower, together

with reasonable attorneys' fees if Lender retains an attorney to obtain or enforce payment of the Loan.

This Note shall be construed and enforced in accordance with the laws of the State of New Jersey.

Borrower expressly waives any presentment, demand, protest, notice of protest, or notice of any kind except as expressly provided in the Loan Agreement and Security Agreement.

If this Note is signed by two or more individuals as Borrower, the obligations of such individuals under this Note are joint and several. This Note shall be enforceable by Lender against each of or all of such individuals as Lender may elect. Each individual is fully responsible for all amounts due under this Note.

[NAME[S] OF BORROWER]

By: _____

Name: _____

[By: _____]

[Name: _____]

LOAN AMORTIZATION SCHEDULE

[below form to be completed]

| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
|----------------|---------------|-----------------------------|--------------------------|-----------------------------|------------------------------|---------------------------------------|
| <u>Payment</u> | <u>Date</u> | <u>SRECs Generated*</u> | <u>Total Payment</u> | <u>Interest Payment</u> | <u>Principal Payment</u> | <u>Scheduled Loan Balance</u> |
| | Issuance Date | | | | | \$ A |
| 1 | mm/dd/yy | # | \$ | \$ | \$ | \$ |
| 2 | mm/dd/yy | | | | | |
| 3 | mm/dd/yy | | | | | |
| 4 | mm/dd/yy | | | | | |
| 5 | mm/dd/yy | | | | | |
| 6 | mm/dd/yy | | | | | |
| : | : | | | | | |
| : | : | | | | | |
| 115 | mm/dd/yy | | | | | |
| 116 | mm/dd/yy | | | | | |
| 117 | mm/dd/yy | | | | | |
| 118 | mm/dd/yy | | | | | |
| 119 | mm/dd/yy | | | | | |
| 120 | mm/dd/yy | | | | | \$0 |

**"SRECs Generated" column represents the SRECs anticipated to be generated by the Project during the month. Actual SREC generation may differ.

EXECUTION ORIGINAL

NOTE

\$ _____, 20____
Newark, New Jersey

This Note is executed and delivered under and pursuant to the terms of that certain Solar Program Loan Agreement dated as of the date hereof (as amended, supplemented, restated or modified from time to time, the “**Loan Agreement**”) by and between _____ (“**Borrower**”), a _____ organized under the laws of the State of _____, and Public Service Electric and Gas Company, a New Jersey corporation (“**Lender**”), Capitalized terms not otherwise defined herein shall have the meanings provided in the Loan Agreement.

FOR VALUE RECEIVED, Borrower hereby promises to pay to the order of Lender, at the office of Lender located at 80 Park Plaza, Newark, New Jersey 07102, or at such other place as Lender may from time to time designate to Borrower in writing: the principal sum of _____ AND 00/100 DOLLARS (\$ _____), together with interest thereon as hereinafter described, in monthly installments, consisting of principal and interest in the amounts and on the dates indicated on the Loan Amortization Schedule attached hereto. Notwithstanding anything contained herein to the contrary, all principal and interest hereunder shall be due and payable on the earlier of (i) _____ 1, 20__, or (ii) such date as same may become due and payable as a result of mandatory prepayment and acceleration upon the occurrence of an Event of Default or earlier termination of the Loan Agreement pursuant to the terms thereof. Payments due under the Loan Agreement shall be made in cash and/or the comparable value of the quantity of SRECs created by operation of the Project and held by Borrower in its SREC Account at the time said SRECs are used by Borrower to pay down the outstanding amount of principal and accrued interest in the manner provided in the Loan Agreement.

The principal amount of this Note from time to time outstanding shall bear interest at the annual rate of ELEVEN AND ELEVEN-ONE- HUNDREDTHS PERCENT (11.11%) in accordance with the provisions of the Loan Agreement. Upon and after the occurrence of an Event of Default, and during the continuation thereof, Lender, in its sole discretion, may increase the rate of interest accruing on the Loan and payable under the Loan Agreement to the rate of ONE AND ONE-HALF PERCENT (1 1/2%) per month, calculated in accordance with the Loan Agreement.

This Note is the “Note” referred to in the Loan Agreement and is secured, *inter alia*, by the liens granted pursuant to the Loan Agreement, the Security Agreement and other Documents related to the Collateral, is entitled to the benefits of the Loan Agreement, the Security Agreement and other documents related to the Collateral or the Loan and is subject to all of the agreements, terms and conditions therein contained.

This Note is subject to mandatory prepayment, and may be voluntarily prepaid, in whole or in part, in each case on the terms and conditions set forth in the Loan Agreement.

If an Event of Default under Section 11.1(e) of the Loan Agreement shall occur, then this Note shall immediately become due and payable, without notice, together with reasonable attorneys' fees if the collection hereof is placed in the hands of an attorney to obtain or enforce payment hereof. If any other Event of Default shall occur which is not cured within any applicable grace period, then this Note may, as provided in the Loan Agreement, be declared to be immediately due and payable, without notice, together with reasonable attorneys' fees, if the collection hereof is placed in the hands of an attorney to obtain or enforce payment hereof.

This Note shall be construed and enforced in accordance with the laws of the State of New Jersey.

Borrower expressly waives any presentment, demand, protest, notice of protest, or notice of any kind except as expressly provided in the Loan Agreement and Security Agreement.

[NAME OF BORROWER]

By: _____
Name:
Title:

LOAN AMORTIZATION SCHEDULE

[below form to be completed]

| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
|----------------|---------------|-----------------------------|--------------------------|-----------------|------------------------------|---------------------------------------|
| <u>Payment</u> | <u>Date</u> | <u>SRECs Generated*</u> | <u>Total Payment</u> | <u>Interest</u> | <u>Principal Payment</u> | <u>Scheduled Loan Balance</u> |
| | Issuance Date | | | | | \$ A |
| 1 | mm/dd/yy | # | \$ | \$ | \$ | \$ |
| 2 | mm/dd/yy | | | | | |
| 3 | mm/dd/yy | | | | | |
| 4 | mm/dd/yy | | | | | |
| 5 | mm/dd/yy | | | | | |
| 6 | mm/dd/yy | | | | | |
| : | : | | | | | |
| : | : | | | | | |
| 175 | mm/dd/yy | | | | | |
| 176 | mm/dd/yy | | | | | |
| 177 | mm/dd/yy | | | | | |
| 178 | mm/dd/yy | | | | | |
| 179 | mm/dd/yy | | | | | |
| 180 | mm/dd/yy | | | | | \$0 |

* “SRECs Generated” column represents the SRECs anticipated to be generated by the Project during the month. Actual SREC generation may differ.

SECURITY AGREEMENT
TABLE OF CONTENTS

| | |
|--|----|
| ARTICLE I | 3 |
| DEFINITIONS; INTERPRETATIONS | 3 |
| Section 1.01 Definitions..... | 3 |
| Section 1.02 Interpretation..... | 6 |
| Section 1.03 Relationship of the Parties | 6 |
| ARTICLE II | 6 |
| SECURITY INTEREST | 6 |
| Section 2.01 Security Interest | 6 |
| Section 2.02 Financing Statements | 7 |
| Section 2.03 Further Assurances of Grantor..... | 7 |
| Section 2.04 Intentionally Omitted | 7 |
| Section 2.05 Security Interest Absolute..... | 7 |
| ARTICLE III | 8 |
| GRANTOR’S REPRESENTATIONS, | 8 |
| WARRANTIES AND COVENANTS | 8 |
| Section 3.01 Representations, Warranties and Covenants..... | 8 |
| Section 3.02 Inspection and Verification..... | 8 |
| Section 3.03 Protection of Security Interest | 8 |
| Section 3.04 Use and Disposition of Collateral | 9 |
| Section 3.05 Insurance | 9 |
| Section 3.06 Maintenance of Collateral | 9 |
| ARTICLE IV | 9 |
| EVENTS OF DEFAULT | 9 |
| Section 4.01 Events of Default | 9 |
| Section 4.02 Cure Rights; Remedies upon Event of Default..... | 9 |
| Section 4.03 Application of Proceeds | 10 |
| ARTICLE V | 10 |

| | |
|--|-------------------------------------|
| SECURED PARTY | Error! Bookmark not defined. |
| Section 5.01 Secured Party Appointed Attorney-in-Fact | Error! Bookmark not defined. |
| ARTICLE VI..... | 10 |
| OBLIGATIONS OF GRANTOR | 10 |
| Section 6.01 Joint and Several Obligations | 10 |
| ARTICLE VII | 11 |
| MISCELLANEOUS | 11 |
| Section 7.01 Notices | 11 |
| Section 7.02 Survival of Agreement..... | 11 |
| Section 7.03 Binding Effect; Assignments | 11 |
| Section 7.04 Expiration; Release | 11 |
| Section 7.05 Applicable Law..... | 11 |
| Section 7.06 No Waivers | 11 |
| Section 7.07 Waiver of Jury Trial..... | 11 |
| Section 7.08 Severability | 11 |
| Section 7.09 Counterparts..... | 12 |
| Section 7.10 Headings | 12 |

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Agreement"), is entered into on _____, 20__, by _____, [an] individual(s) residing at _____, New Jersey _____ ([collectively] "Grantor") and Public Service Electric and Gas Company, a New Jersey corporation having an address for purposes of this Agreement at 80 Park Plaza, Newark, New Jersey 07101 ("Secured Party") (Grantor and Secured Party together, "Parties").

Secured Party and Grantor have entered into a Solar Program Loan Agreement ("Loan Agreement"). As security for Secured Party's lending to Grantor the principal amount of the Loan (as defined in the Loan Agreement), Grantor and Secured Party enter into this Agreement.

ARTICLE I DEFINITIONS; INTERPRETATIONS

Section 1.01 Definitions. As used in this Agreement, the following terms shall have the following meanings:

"Books and Records" has the meaning set forth in Section 2.01(e) of this Agreement.

"Business Day" means any day other than a Saturday, a Sunday or any day on which commercial banks in the City of Newark, New Jersey are required or permitted by law to close.

"Code" means of the Uniform Commercial Code in force in the State of New Jersey, as it may be amended or superseded.

"Collateral" has the meaning set forth in Section 2.01 of this Agreement.

"Customer Agreement" means the agreement between Equipment Provider and Grantor to develop, design, procure and install the Project.

"Documents" means all instruments, files, records, ledger sheets and documents about or relating to any of the Collateral.

"Environmental Attributes," for purposes of this Agreement, means an instrument used to represent the environmental costs and/or benefits associated with a fixed amount of electricity generation from the Project. For the Project, Environmental Attributes represent the general environmental benefits of renewable generation such as, for example, air pollution avoidance. The exact quantity of the environmental benefit (for example, pounds of emission reductions of a given pollutant) is not indicated by an environmental attribute, though it can

be quantified separately in pollution trading markets and through engineering estimates. The Environmental Attribute represents all environmental benefits, whether or not trading markets for such pollutants or benefits exist. Secured Party will quantify the Environmental Attributes, and have the right to trade those Environmental Attributes for its own account.

"Equipment" means all solar panels and related Project equipment, machinery, equipment, components, additions, wirings, meters, replacement parts and consumables that compromise the Project.

"Equipment Provider" has the meaning stated in the Loan Agreement.

"Event of Default" has the meaning set forth in Section 4.01.

"General Intangibles" has the meaning stated in the Code.

"Grantor" has the meaning set forth above.

"Instruments" has the meaning stated in the Code.

"Investment Property" has the meaning stated in the Code.

"Liens" means any and all mortgages, liens, security interests and/or encumbrances of any kind, and/or pledges or deposits of any nature.

"Obligations" means: (a) the principal amount of the Loan (as defined in the Loan Agreement) advanced by Secured Party to Grantor; (b) all interest accruing on the Loan; (c) all fines, fees and penalties related to the Loan; (d) all liabilities of Secured Party to Grantor related to the Loan and the Loan Agreement; and (e) all costs and expenses incurred by Secured Party in collecting any of the above and enforcing this Agreement or the other Loan Documents (as that term is defined in the Loan Agreement), including, reasonable attorneys' fees and disbursements incurred and court costs.

"Permitted Encumbrances" means: (a) Liens expressly disclosed by Grantor to Secured Party in Exhibit G to the Loan Agreement and approved by Secured Party in writing, which may include, among other things, a home mortgage or home equity loan or line of credit, so long as the foregoing do not impair the Secured Party's first priority security interest in the Collateral; (b) Liens securing taxes, assessments and/or governmental charges and/or levies or the claims of materialmen, mechanics, carriers, warehousemen, landlords and other similar Persons, the payment of which is not currently due and payable; and (c) Liens in favor of Secured Party.

"Person" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, institution, entity, party,

corporation, limited liability company, or government agency (whether national, federal, state, county, city, municipal, or otherwise).

"Proceeds" means any consideration received from the sale, exchange, collection or other disposition of the Collateral or any portion thereof, and any and all payments received from any insurer or other person or entity as a result of the theft or damage of the Collateral or any portion thereof.

"Project" means that certain solar generation system developed, designed, purchased, installed and constructed by an Equipment Provider (as defined in the Loan Agreement) at the facility or residence owned by Grantor, and located at the Real Property.

"Project Documents" means: (a) a fully executed Customer Agreement; (b) forms signed by the Equipment Provider and each of its subcontractors on the Project waiving any liens on the Collateral; (c) Project specifications, maintenance agreements and other technical information regarding the Project; (d) any and all applicable permits, licenses, easements, variances and other authorizations; (e) Program Application documents, project plans and pro formas, and other Program-related documents; and (f) any and all other appropriate documents as may be requested by Secured Party.

"Real Property" means the premises, real property and improvements located in the Municipality of _____, County of _____, and State of New Jersey, and located at _____, _____, New Jersey and inscribed on the tax map as Lot _____ Block _____.

"Secured Party" has the meaning set forth above.

"Security Interest" has the meaning set forth in Section 2.01 hereof.

"SRECs" means Solar Renewable Energy Certificates that arise by the operation of the Project, and that are used and traded by means of the New Jersey Clean Energy Program's Website: www.njcep.com/srec (the "SREC Program Administrator"). These SRECs, once created, represent solar energy actually generated and used, and are bundled in minimum denominations of one megawatt hour of electricity production. New Jersey's SREC program allows for SRECs to be created, verified, tracked, sold to, and eventually utilized by, electricity suppliers to meet their requirements to sell solar-generated energy under the New Jersey Renewable Portfolio Standard. All electricity suppliers are required to use the SREC program to demonstrate compliance with this part of the State's Renewable Portfolio Standard.

"SREC Account" means the electronic account Grantor has established and maintains with the New Jersey Clean Energy Program to use the SREC

Program Administrator, or any successor thereto recognized by the State of New Jersey, for the sale and trade of SRECs.

Section 1.02 Interpretation. For purposes of this Agreement the singular includes the plural and the plural the singular; words denoting one gender include the other; the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; references to agreements and other contractual instruments shall be deemed to include all subsequent amendments, revisions and other modifications; and references to persons include their permitted successors and assigns.

Section 1.03 Relationship of the Parties. For purposes of this Agreement, the Parties expressly agree that the relationship of Secured Party to Grantor is that of a lender only. The intent of this provision is to clarify and stipulate that Secured Party is not a partner, fiduciary and/or coventurer of Grantor and that Secured Party's sole interest in the Collateral is for the purpose of security for repayment of the Loan.

ARTICLE II SECURITY INTEREST

Section 2.01 Security Interest. As security for the full payment and performance of the Obligations, Grantor assigns, pledges and grants to Secured Party, and Secured Party's successors and assigns, a first priority security interest, lien and pledge in and to all of Grantor's right, title and interest in and to all those assets and properties listed below (collectively, the "Security Interest"):

- (a) the Project, all Equipment and all other assets related to the Project, (as well as "fixtures", as defined under the Uniform Commercial Code, in the event such Project, Equipment or other assets are deemed to be fixtures notwithstanding the intentions of the Parties);
- (b) all Project Documents;
- (c) all SRECs, including, the SREC Account, Environmental Attributes, Investment Property related to the SRECs, and all proceeds of the sale of any of these;
- (d) all General Intangibles related to the Project and/or the Project Documents, including all causes of action, records, registrations, licenses, franchises, claims under warranties, security interest or other security held or granted to secure performance of the Customer Agreement by Equipment Provider, all rights to indemnification and all other intangible property of every kind and nature;
- (e) all Documents, computer programs, data processing records, computer software, source codes in any way related to the property described in subsections (a) through (d) above (collectively, the "Books and Records");
- (f) all rights and power of Grantor to transfer greater title than it has with respect to the property described in subsections (a) through (e) above; and

(g) all products, additions, substitutions and Proceeds of any of the property described above, including all cash and credit balances, all payments under any indemnity, warranty or guaranty with respect to any such property, all awards for taking by eminent domain, all proceeds of fire, theft or other insurance, including all refunds of unearned premiums in connection with any cancellation, adjustment or termination of any insurance policy or policies, all proceeds obtained as a result of any legal action or proceeding related of the property described above, and claims by Grantor against third parties for loss or damage to, or destruction of, any of such property.

The property described or referred to in subsections (a) through (g) above, is collectively referred to as the "Collateral."

It is the intention of Grantor and Secured Party that: (i) all Collateral will, at all times, be considered to be personal property, and not a "fixture" as defined under the Uniform Commercial Code; (ii) to the extent the Collateral may be attached to the Real Property, the Collateral is not intended to be attached permanently to the Real Property; (iii) to the extent the Collateral may be attached to the Real Property, the Collateral will be able to be removed or disconnected without materially damaging the Collateral or the Real Property; and (iv) the Real Property's use and purpose, prior to any attachment of the Collateral to the Real Property, will not be changed by the Collateral or by any attachment of the Collateral to the Real Property. Despite such intentions, Grantor and Secured Party have agreed to file financing statements with respect to the Collateral in the New Jersey Department of Treasury, Division of Revenue and in the real property records of the county in which the Real Property is located, in order to be especially cautious, in case any Collateral is determined by a court to be a fixture.

Section 2.02 Financing Statements. Secured Party is authorized to file financing statements, continuation statements, fixture filings and/or any other documents required to perfect, confirm, continue, enforce or protect the Security Interest of Secured Party, with or without the signature of Grantor, naming Grantor as "debtor" and Secured Party as "secured party" on each document.

Section 2.03 Further Assurances of Grantor. Grantor, at his/her sole cost, shall execute, acknowledge, deliver and file any such further consents, instruments, certificates and documents and to take any actions as Secured Party may reasonably request in order to perfect, preserve and protect the Security Interest.

Section 2.04 Intentionally Omitted.

Section 2.05 Security Interest Absolute. The Security Interest and all rights of Secured Party under this Agreement, and all obligations of Grantor under this Agreement, shall be absolute and unconditional without regard to: (a) any change in the time, manner or place of payment of the Obligations, including any amendment or waiver of, or consent to, any departure from the terms governing the Obligations; (b) any exchange, release or non-perfection of any Collateral, including any release or amendment or waiver of, or consent to, or departure from any guaranty, for the Obligations; or (c) any other circumstance that

might otherwise allow Grantor to discharge Grantor's duties in respect of the Obligations or in respect of this Agreement.

ARTICLE III GRANTOR'S REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 3.01 Representations, Warranties and Covenants. Grantor represents, warrants and covenants, on behalf of itself and the Collateral pledged to Secured Party, for so long as any Obligations remain outstanding, that:

(a) Title and Authority. Grantor has rights in and good title to the Collateral and has full power and authority to grant the Security Interest to Secured Party and to perform his/her obligations under this Agreement without the consent or approval of any other Person other than any consent or approval that has been obtained.

(b) Filings. Financing statements containing a description of the Collateral have been delivered to Secured Party for filing in each governmental or other office in every jurisdiction in which such a filing is required in order to perfect or establish a valid and legal security interest in the Collateral in favor of Secured Party.

(c) Validity of Security Interest. The Security Interest granted by Grantor constitutes a valid, legal and, upon the filing of the financing statements referred to in paragraph (b), above, a first priority perfected security interest in all the Collateral granted by Grantor for payment and performance of the Obligations, and the Collateral granted by Grantor is not subject to any Liens other than Permitted Encumbrances.

(d) Absence of Other Liens. Grantor has neither filed nor had filed against it any financing statement under the Code, or its equivalent in any other jurisdiction, regarding any portion of the Collateral, except for the Permitted Encumbrances and the Security Interest granted in this Agreement.

(e) Taxes. Grantor will pay all taxes and other charges relating to the Collateral or its use and will remain current on all taxes.

Section 3.02 Inspection and Verification. Secured Party and its agents have the right to inspect all Books and Records in Grantor's possession which relate to the Loan, the Project, or the Collateral, and to make copies from them. Secured Party must give Grantor reasonable notice of its desire to conduct such an inspection.

Section 3.03 Protection of Security Interest. Grantor shall, at his/her sole expense: (a) take all actions necessary to defend his/her title, right and interest in the Collateral against all Persons and, further, to defend the Security Interest of Secured Party in the Collateral and the priority of the Security Interest against any Lien that is not a Permitted Encumbrance; (b) advise Secured Party promptly, in reasonable detail, of any Lien made or asserted against any of the Collateral and (c) advise Secured Party of the occurrence of

any event that may have a negative effect on the value of the Collateral and/or on the Security Interest.

Section 3.04 Use and Disposition of Collateral. Grantor shall neither make nor allow another to make any assignment, pledge or hypothecation of the Collateral or grant any other security interest in the Collateral other than as permitted in this Agreement.

Section 3.05 Insurance. Grantor shall insure the Collateral for such coverages and in such amounts as required by the Loan Agreement.

Section 3.06 Maintenance of Collateral. Grantor shall properly protect, maintain and care for the Collateral and defend it against any adverse claims.

ARTICLE IV EVENTS OF DEFAULT

Section 4.01 Events of Default. An "Event of Default" shall exist under this Security Agreement at any time that:

(a) any representation or warranty by Grantor contained in this Agreement is not materially true and correct;

(b) Grantor breaches his/her obligation to perform any material covenant or agreement in this Agreement;

(c) an order, judgment or decree for the payment of money which would have a material and adverse effect on the Collateral or the financial condition of Grantor is entered against Grantor, if such order, judgment or decree is not satisfied and remains in effect for twenty (20) consecutive calendar days without being vacated, discharged, satisfied or stayed or bonded pending appeal;

(d) any lien or encumbrance, other than any Permitted Encumbrances or the Security Interest, shall attach to the Collateral;

(e) Secured Party's liens or security interests in any of the Collateral becomes unenforceable; and/or

(f) An Event of Default under the Loan Agreement shall remain in effect after the expiration of the applicable opportunity to cure therein.

Section 4.02 Cure Rights; Remedies upon Event of Default. (a) Secured Party shall provide Grantor with written notice of an Event of Default arising under the Security Agreement, *provided, however,* that Grantor shall be entitled to only one opportunity to cure an Event of Default arising under more than one Loan Document. Following receipt of such notice, Grantor shall have: (i) a two-Business-Day period within which to fully cure any Event of Default involving the payment of money; and (ii) a thirty-day period within which either to cure any Event of Default not involving the payment of money or,

if the Event of Default does not involve the payment of money and cannot be fully cured within the thirty-day period, to institute corrective action satisfactory to Secured Party and to pursue such corrective action diligently, *provided, however*, that the thirty-day cure period shall not be made available to Grantor if Secured Party determines, in its sole discretion, that Secured Party's rights with respect to Grantor and/or Collateral could be materially adversely affected.

(b) Upon the occurrence and during the continuance of an Event of Default, Grantor agrees to deliver each item of Collateral to Secured Party on demand. Further, the Parties agree that Secured Party shall have the right (i) to take or employ any or all the remedies set forth in Section 11.2 of the Loan Agreement, (ii) to charge, setoff and/or otherwise apply the amount of the Obligations, or any portion of the Obligations, against the amounts held by Secured Party for the benefit of Grantor; and, (iii) generally, to exercise any and all rights and remedies afforded to a secured party under the Code and/or other applicable law.

Section 4.03 Application of Proceeds. Secured Party shall apply any Collateral consisting of cash, SRECs, and the proceeds of any collection or sale of any other Collateral as follows:

FIRST, to the payment of any costs incurred by Secured Party to collect or sell the Collateral or otherwise in connection with this Agreement or any of the Loan Documents including all court costs and reasonable legal fees and disbursements -- whether incurred in any action or proceeding between the parties or between Secured Party and any third party;

SECOND, to the payment in full of the accrued interest on the Loan;

THIRD, to the payment of the principal of the Loan; and

FOURTH, to Grantor and his/her successors or assigns, or as a court or agency of competent jurisdiction may otherwise direct.

ARTICLE V OBLIGATIONS OF GRANTOR

Section 5.01 Joint and Several Obligations. If this Security Agreement is signed by two or more individuals as Grantor, the obligations of such individuals under this Security Agreement are joint and several as if each individual executed a separate Security Agreement in favor of Secured Party. This Security Agreement shall be enforceable by Secured Party against each of or all of such individuals as Secured Party may elect.

ARTICLE VI MISCELLANEOUS

Section 6.01 Notices. Notices and other communications shall be in writing and mailed or delivered to the appropriate party at the address specified in the introductory paragraph of this Agreement.

Section 6.02 Survival of Agreement. Any and all covenants, agreements, representations and warranties made by Grantor in this Agreement and in any other documents prepared or delivered in connection with this Agreement shall be considered to have been relied upon by Secured Party and shall survive the execution and delivery of this Agreement.

Section 6.03 Binding Effect; Assignments. This Agreement shall be binding upon and benefit the Parties, except, however, that Grantor shall not, without the prior written consent of Secured Party, assign or delegate any of his/her rights, duties, liabilities or obligations under this Agreement or any of his/her interest in the Collateral, or otherwise grant any option or right with respect to the Collateral except as expressly permitted under this Agreement or the Loan Agreement.

Section 6.04 Expiration; Release. This Agreement and the Security Interest shall expire upon Secured Party's execution and delivery of a written termination and release. At that time, Secured Party shall execute and deliver to Grantor, or to Grantor's designee who shall be designated by Grantor in writing, all termination statements as provided in the Code, and any other documents prepared by Grantor, at Grantor's sole expense, which Grantor shall reasonably request as evidence of the termination and release.

Section 6.05 Applicable Law. THE PARTIES AGREE THAT THIS AGREEMENT SHALL BE CONSTRUED IN STRICT ACCORDANCE WITH AND GOVERNED EXCLUSIVELY BY THE LAWS OF THE STATE OF NEW JERSEY WITHOUT REGARD TO NEW JERSEY'S CONFLICT OF LAWS PROVISIONS WHICH MAY DEFEAT THE APPLICATION OF NEW JERSEY'S SUBSTANTIVE LAWS.

Section 6.06 No Waivers. No failure or delay of Secured Party or Grantor in exercising any power or right that it has under this Agreement shall operate as a waiver. No partial exercise of any right or power, or any abandonment or discontinuance of steps to enforce any right or power, shall preclude the exercise of any other right or power. The respective rights and remedies of Secured Party and Grantor under this Agreement and the Loan Documents are cumulative and do not exclude any rights or remedies that such party would otherwise have.

Section 6.07 Waiver of Jury Trial. Each party waives any right it may have to a trial by jury in any litigation or other action arising in connection with this Agreement.

Section 6.08 Severability. The invalidity or unenforceability of any provision in this Agreement will not affect the validity or enforceability of any other provision.

Section 6.09 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute one contract.

Section 6.10 Headings. Article and Section headings are for convenience of reference only, are not part of this Agreement, have no independent substantive meaning and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

[Signatures on Following Page]

IN WITNESS WHEREOF, the parties have each caused its respective, duly authorized representative to execute and deliver this Agreement as of the day and year first above written.

Grantor:

By: _____
(Signature)

Name: _____
(Print Name)

[By: _____]
(Signature)

[Name: _____]
(Print Name)

Secured Party: PUBLIC SERVICE ELECTRIC AND GAS COMPANY

By: _____
(Signature)

Name: _____
(Print Name)

Title: _____

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Agreement"), effective as of _____, 20____, by and between _____, a _____ [*jurisdiction of formation/form of business*], having an address for purposes hereof at _____ ("Grantor") and Public Service Electric and Gas Company, a New Jersey corporation having an address for purposes hereof at 80 Park Plaza, Newark, New Jersey 07102 ("Secured Party").

WITNESSETH:

WHEREAS, concurrently with its execution of this Agreement, Secured Party and Grantor entered into that certain Solar Program Loan Agreement (as amended, restated, replaced and/or modified from time to time, the "Loan Agreement"), dated contemporaneously herewith; and

WHEREAS, in consideration of, and as security for, Secured Party's extension of the principal amount of the Loan (as such term is defined in the Loan Agreement), Grantor and Secured Party enter into this Agreement.

NOW, THEREFORE, in consideration of the mutual promises herein contained and for other good and valuable consideration, the receipt and sufficiency of which the parties hereby acknowledge, Grantor and Secured Party hereby agree as follows:

ARTICLE I DEFINITIONS; INTERPRETATIONS

Section 1.01 Definitions. As used herein, the following terms shall have the following meanings:

"Books and Records" has the meaning assigned to such term in Section 2.01(e) of this Agreement.

"Business Day" means any day other than a Saturday, a Sunday or any other day on which commercial banks in the City of Newark, State of New Jersey are required or permitted by law to close.

"Code" means of the Uniform Commercial Code as in force in the State of New Jersey, as amended or superseded at any time and from time to time.

"Collateral" has the meaning assigned to such term in Section 2.01 of this Agreement.

"Customer Agreement" means the agreement between Equipment Provider and Grantor for the procurement, engineering and installation of the Project.

"Documents" means all instruments, files, records, ledger sheets and documents covering, or relating to, any of the Collateral.

"Environmental Attributes," for purposes of this Agreement, means an instrument used to represent the environmental costs and/or benefits associated with a fixed amount of electricity generation from the Project. For the Project, Environmental Attributes represent the general environmental benefits of renewable generation such as, for example, and not by means of exclusion, air pollution avoidance. The exact quantity of the environmental benefit (*e.g.* pounds of emission reductions of a given pollutant) is not indicated by an environmental attribute, though it can be quantified separately in pollution trading markets and through engineering estimates. The Environmental Attribute represents all environmental benefits, whether or not trading markets for such pollutants or benefits exist. Secured Party will quantify any and all Environmental Attributes, and have the right to trade said Environmental Attributes for its own account.

"Equipment" means all solar panels and related Project equipment, machinery, components, additions, wirings, meters, replacement parts and consumables used and/or useful with respect to the Project.

"Equipment Provider" has the meaning stated in the Loan Agreement.

"Event of Default" has the meaning ascribed to such term in Section 4.01 hereof.

"General Intangibles" has the meaning assigned to such term in the Code.

"Grantor" has the meaning ascribed to such term in the introductory paragraph hereof.

"Instruments" has the meaning assigned to such term in the Code.

"Investment Property" has the meaning assigned to such term in the Code.

"Liens" means any and all mortgages, liens, charges, hypothecations, assignments, security interests and/or encumbrances of any kind, and/or pledges and/or deposits of any nature.

"Obligations" means: (a) the principal amount of the Loan (as defined in the Loan Agreement) advanced by Secured Party to Grantor; (b) any and all interest accrued and to accrue on the Loan; (c) any and all fines, fees and penalties related to the Loan; (d) any and all liabilities of Secured Party to Grantor related to the Loan and the Loan Agreement; and (e) any and all costs and expenses of, or incurred by, Secured Party in collecting any of the foregoing and enforcing this Agreement or the other Loan Documents (as that term is defined in the Loan Agreement), including, without limitation, reasonable attorneys' fees and disbursements incurred and court costs.

"Permitted Encumbrances" means: (a) Liens expressly disclosed by Grantor to Secured Party in Exhibit G to the Loan Agreement, and approved by Secured Party in writing; (b) Liens securing taxes, assessments and/or governmental charges and/or levies or the claims of materialmen, mechanics, carriers, warehousemen, landlords and other similar Persons, the payment of which are not currently due and payable; and (c) Liens in favor of Secured Party.

"Person" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, institution, entity, party, limited liability company, or government agency (whether national, federal, state, county, city, municipal or otherwise).

"Proceeds" means any consideration received from the sale, exchange, collection or other disposition of the Collateral or any portion thereof, and any and all payments received from any insurer or other person or entity as a result of the destruction, loss, theft, damage, casualty or other involuntary conversion of whatever nature of the Collateral or any portion thereof.

"Project" means that certain solar generation system developed, designed, procured, installed and constructed by an Equipment Provider (as defined in the Loan Agreement) at the facility owned by Grantor, and located at the Real Property.

"Project Documents" means: (a) a fully executed Customer Agreement; (b) forms executed by the Equipment Provider and each of its subcontractors on the Project waiving any liens on the Collateral; (c) Project specifications, maintenance agreements and other technical information regarding the Project; (d) any and all applicable permits, licenses, easements, variances and other authorizations; (e) Program Application documents, project plans and pro formas, and other Program-related documents; (f) any and all site leases, easements and similar instruments; and (g) any and all other appropriate documents as may be requested by Secured Party.

"Real Property" means the premises, real property and improvements located in the Municipality of _____, County of _____, and State of New Jersey, and located at _____, _____, New Jersey and inscribed on the tax map therefore as Lot _____ Block _____.

"Secured Party" has the meaning ascribed to such term in the introductory paragraph hereof.

"Security Interest" has the meaning ascribed to such term in Section 2.01 hereof.

"SRECs" means Solar Renewable Energy Certificates that arise by the operation of the Project, and that are used and traded by means of the New Jersey Clean Energy Program's Website: www.njcep.com/srec (the "SREC Program Administrator"). These SRECs, once created, represent solar energy actually generated and used, and are bundled in minimum denominations of one megawatt hour of electricity production. New Jersey's

SREC program allows for SRECs to be created, verified, tracked, sold to, and eventually utilized by, electricity suppliers to meet their requirements to sell solar-generated energy under the New Jersey Renewable Portfolio Standard. All electricity suppliers are required to use the SREC program to demonstrate compliance with this part of the State's Renewable Portfolio Standard.

"SREC Account" means the electronic account Grantor has established and maintains with the New Jersey Clean Energy Program to use the SREC Program Administrator, or any successor thereto recognized by the State of New Jersey, for the sale and trade of SRECs.

Section 1.02 Interpretation. For purposes of this Agreement the singular includes the plural and the plural the singular; words denoting one gender include the other; the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; references to agreements and other contractual instruments shall be deemed to include all subsequent amendments, revisions and other modifications thereto, without prejudice to any provisions of this Agreement prohibiting such amendments, revisions and other modifications; and references to persons include their respective permitted successors and assigns.

Section 1.03 Relationship of the Parties. For purposes of this Agreement, Secured Party and Grantor expressly agree that the relationship of Secured Party to Grantor is that of a lender only. The intent of this provision is to clarify and stipulate that Secured Party is not a partner, fiduciary and/or coventurer of Grantor and that Secured Party's sole interest in the Collateral is for the purpose of security for repayment of the obligations of Grantor to Secured Party.

ARTICLE II SECURITY INTEREST

Section 2.01 Security Interest. As security for the full payment and performance of the Obligations, Grantor hereby assigns, transfers, pledges and grants to Secured Party, and Secured Party's successors and assigns, a first-priority security interest, lien and pledge in and to all of Grantor's right, title and interest in and to all those assets and properties below described, wherever located, however arising or created, and whether now owned or existing or hereafter arising, created or acquired (collectively, the "Security Interest"):

(a) the Project, all Equipment and all other assets related thereto (as well as "fixtures", as defined under the Uniform Commercial Code, in the event such Project, Equipment or other assets are deemed to be fixtures notwithstanding the intentions of the parties hereto, as hereinafter described);

(b) all Project Documents;

(c) all SRECs, including, without limitation, the SREC Account, all Environmental Attributes, all Investment Property related thereto, all legal and economic attributes of the foregoing, whether now existing and hereafter arising, and all proceeds of the sale of the foregoing;

(d) all General Intangibles related to the Project and/or the Project Documents, including, without limitation, all *choses in action*, causes of action, records, registrations, licenses, franchises, claims under warranties, security interest or other security held or granted to secure performance of the Customer Agreement by Equipment Provider, all rights to indemnification and all other intangible property of every kind and nature;

(e) all Documents, computer programs, data processing records, computer software, source codes at any time evidencing, describing, pertaining to or in any way related to the property described in subsections (a) through (d), inclusive, above (collectively, the "Books and Records");

(f) all rights and power of Grantor to transfer greater title than it has with respect to the property described in subsections (a) through (e), inclusive, above; and

(g) all products, additions, accessions, substitutions and Proceeds of any of the above-described property, in any form whatsoever, and any and all proceeds of such Proceeds, including, without limitation, all cash and credit balances, all payments under any indemnity, warranty or guaranty with respect to any such property, all awards for taking by eminent domain, all proceeds of fire, theft or other insurance, including, without limitation, any and all refunds of unearned premiums in connection with any cancellation, adjustment or termination of any insurance policy or policies, any and all proceeds obtained as a result of any legal action or proceeding with respect to any of the foregoing property, and claims by Grantor against third parties for loss or damage to, or destruction of, any of such property.

The property described or referred to in subsections (a) through (g), inclusive, above, is hereinafter collectively referred to as the "Collateral."

It is the intention of Grantor and Secured Party that: (i) all the Collateral shall, at all times, be considered to be personal property, and not a "fixture" as defined under the Uniform Commercial Code; (ii) to the extent that Collateral may be affixed to the Real Property, the Collateral is not intended to be affixed permanently to the Real Property; (iii) to the extent Collateral may be affixed to the Real Property, the Collateral shall be removable or severable without materially damaging the Collateral or the Real Property; and (iv) the Real Property's use and purpose, prior to any affixation of Collateral to the Real Property, will not be altered by the Collateral or by any affixation of Collateral to the Real Property. Notwithstanding the intention of such parties, Grantor and Secured Party have elected to file financing statements with respect to the Collateral in accordance with the provisions of Section 2.02 hereof, not only in the Office of the Department of Treasury, Division of Revenue, State of New Jersey, but also in the real property records of the county in which the Real Property is located, as an abundance of caution, in case any such Collateral is deemed by a court to be a "fixture".

Section 2.02 Financing Statements. Without limiting the foregoing, Secured Party is hereby authorized to file one or more financing statements, continuation statements, fixture filings and/or any other documents required for the purpose of perfecting, confirming, continuing, enforcing or protecting the Security Interest of Secured Party, with or without the signature of

Grantor, naming Grantor as "debtor" and Secured Party as "secured party" in each instance thereon.

Section 2.03 Further Assurances of Grantor. Grantor, at its sole cost and expense, shall execute, acknowledge, deliver and cause to be duly filed any and all such further consents, instruments, certificates and documents and to take any and all such actions as Secured Party, at any time and from time to time, may reasonably request in order to perfect, preserve and protect the Security Interest and the rights and remedies created hereby.

Section 2.04 Place of Business. Grantor represents that, as of the date hereof, its principal place of business is located at the address set forth in the introductory paragraph hereof. Grantor shall not change or permit to be changed the location of its principal place of business, unless and until all filings required under the Code or otherwise that are necessary to be made in order to assure and preserve its Security Interest have been made and Secured Party has a valid, legal and perfected first-priority security interest in the Collateral not subject to any Liens other than the Permitted Encumbrances. Grantor shall not remove or relocate the Project and/or the Equipment from the Real Property.

Section 2.05 Security Interest Absolute. The Security Interest and any and all rights of Secured Party hereunder, and any and all obligations of Grantor hereunder, shall be absolute and unconditional irrespective of: (a) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the terms governing said Obligations; (b) any exchange, release or non-perfection of any Collateral, or any release or amendment or waiver of or consent to or departure from any guaranty, for any and all of the Obligations; or (c) any other circumstance that might otherwise constitute a defense available to, or a discharge of, Grantor in respect of the Obligations or in respect of this Agreement.

ARTICLE III GRANTOR'S REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 3.01 Representations, Warranties and Covenants. Grantor represents, warrants and covenants, on behalf of itself and the Collateral hereunder pledged, to and with Secured Party, for so long as any Obligations remain outstanding, that:

(a) **Title and Authority.** Grantor has rights in and good title to the Collateral and has full corporate power and authority to grant to Secured Party the Security Interest in such Collateral pursuant hereto and to execute, deliver and perform its obligations in accordance with the terms of this Agreement without the consent or approval of any other Person other than any consent or approval that has been obtained.

(b) **Filings.** Financing statements containing a description of the Collateral have been delivered to Secured Party for filing in each and every governmental, municipal or other office in every jurisdiction in which such filing is required in order to perfect or establish a valid and legal security interest in favor of Secured Party in respect of the Collateral.

(c) Validity of Security Interest. The Security Interest granted by Grantor constitutes a valid, legal and, upon the filing of the financing statements referred to in paragraph (b), above, a first-priority perfected security interest in all the Collateral granted by Grantor for payment and performance of the Obligations, and the Collateral granted by Grantor is not subject to any Liens other than Permitted Encumbrances.

(d) Information Regarding Names and Locations. Grantor has disclosed in writing to Secured Party any and all trade names which Grantor used or currently uses to identify itself in its business or in the ownership of any of its assets.

(e) Absence of Other Liens. Grantor has neither filed nor had filed against it any financing statement under the Code, or its equivalent in any other jurisdiction, regarding in anyway the Collateral, or any portion thereof, except solely for the Permitted Encumbrances and the Security Interest herein granted.

(f) Taxes. Grantor will pay any and all taxes and other charges relating to the Collateral or its use and will remain current on all taxes.

Section 3.02 Inspection and Verification. Secured Party and such persons as Secured Party may reasonably designate shall have the right, at any reasonable time or times upon reasonable prior notice during the usual business hours of Grantor, to inspect all Books and Records which are in Grantor's possession and to make extracts, summaries and copies from such Books and Records.

Section 3.03 Protection of Security Interest. Grantor shall, at its sole cost and expense: (a) take any and all actions necessary to defend its respective title, rights and interests in and to the Collateral against all Persons and, further, to defend the Security Interest of Secured Party in the Collateral and the priority thereof against any Lien that is not a Permitted Encumbrance; and (b) advise Secured Party promptly, in reasonable detail, of any Lien made or asserted against any of the Collateral and of the occurrence of any event that may have an adverse effect on the aggregate value of the Collateral and/or on the Security Interest herein granted.

Section 3.04 Use and Disposition of Collateral. Grantor shall neither make nor permit to be made any assignment, pledge or hypothecation of the Collateral and/or grant any other security interest in the Collateral other than as permitted hereunder.

Section 3.05 Insurance. Grantor shall insure the Collateral for such coverages and in such amounts as required by the Loan Agreement.

Section 3.06 Maintenance of Collateral. Grantor will properly maintain and care for the Collateral, defend same against any adverse claims and demands and protect and maintain the Collateral in accordance with the highest standards customary for businesses similar to Grantor's.

ARTICLE IV EVENTS OF DEFAULT

Section 4.01 Events of Default. An "Event of Default" shall exist hereunder at any time that:

- (a) any representation or warranty by Grantor herein contained is found not be true and correct in each and every material respect;
- (b) Grantor breaches its obligation to perform any material covenant or agreement contained herein;
- (c) the dissolution, liquidation, merger or termination of Grantor;
- (d) any order, judgment or decree for the payment of money which would have a material and adverse effect on the Collateral or the financial condition of Grantor is entered against Grantor, and such order, judgment or decree shall not be satisfied and be in effect for twenty (20) consecutive calendar days without being vacated, discharged, satisfied or stayed or bonded pending appeal;
- (e) any lien or encumbrance of any kind or character, other than any Permitted Encumbrances or the Security Interest herein granted, shall attach to the Collateral, or any portion thereof, or to any asset or property of Grantor, or any levy, seizure or attachment thereof or thereon;
- (f) Secured Party's liens or security interests in any of the Collateral becomes unenforceable; and/or
- (g) An Event of Default under the Loan Agreement shall remain in effect after the expiration of any applicable cure period provided therein.

Section 4.02 Remedies upon Event of Default.

- (a) Secured Party shall provide Grantor with written notice of an Event of Default arising under the Security Agreement, *provided, however*, that Grantor shall be entitled to only one opportunity to cure an Event of Default arising under more than one Loan Document. Following receipt of such notice, Grantor shall have: (i) a two-Business-Day period within which to fully cure any Event of Default involving the payment of money; and (ii) a thirty-day period within which either to cure any Event of Default not involving the payment of money or, if the Event of Default does not involve the payment of money and cannot be fully cured within the thirty-day period, to institute corrective action satisfactory to Secured Party and to pursue such corrective action diligently, *provided, however*, that the thirty-day cure period shall not be made available to Grantor if Secured Party determines, in its sole discretion, that Secured Party's rights with respect to Grantor and/or Collateral could be materially adversely affected.
- (b) If the applicable Event of Default has not been cured within the prescribed cure period, Grantor agrees to deliver each item of Collateral to Secured Party on demand. Further, the parties agree that Secured Party has the right to take any of the following remedies: (a) to apply all or part of the Obligations against the amounts held by Secured Party for the benefit of Grantor, without notice to Grantor except as required by law; (b) to exercise any other remedies

a secured party has under the Code or other applicable law, and, in the event of the failure of the foregoing remedies, (c) to enter onto the Facility where the Collateral may be located, take possession of it and restore the roof, the costs of which shall be recouped by Secured Party as set forth in Section 4.03, paragraph "First".

Upon the occurrence and during the continuance of an Event of Default, Grantor agrees to deliver each item of Collateral to Secured Party on demand. Further, the parties agree that Secured Party shall have the right to take any or all of the following remedies at the same or different times: (a) without notice to Grantor, except as required by law, and at any time and from time to time, charge, setoff and/or otherwise apply the amount of the Obligations, or any portion thereof, against the amounts held by Secured Party for the benefit of Grantor, with or without legal process and with or without prior notice, or demand for performance to take possession of the Collateral or any portion thereof; and (b) without liability for trespass, to enter onto any of Grantor's premises where such Collateral may be located for the purpose of taking possession of or removing such Collateral; and (c) generally, to exercise any and all rights and remedies afforded to a secured party under the Code and/or other applicable law.

Section 4.03 Application of Proceeds. Secured Party shall apply any Collateral consisting of cash and the proceeds of any collection or sale of any other Collateral as follows:

FIRST, to the payment of all costs and expenses incurred by Secured Party in connection with such collection or sale or otherwise in connection with this Agreement, or any other agreement in connection with the Loan and accrued interest, including, but not limited to, all court costs and the reasonable fees, disbursements and other charges of its agents and legal counsel -- whether incurred in any action or proceeding either between the parties or between Secured Party and any third party;

SECOND, to the payment in full of the accrued interest on the Loan;

THIRD, to the payment of the principal of the Loan; and

FOURTH, to Grantor and its successors or assigns, or as a court or agency of competent jurisdiction may otherwise direct.

ARTICLE V SECURED PARTY

Section 5.01 Secured Party Appointed Attorney-in-Fact. Grantor hereby appoints Secured Party to act as attorney-in-fact on behalf of Grantor for the purposes of carrying out the provisions of this Agreement and taking any action and executing any instrument or other writing which Secured Party may deem reasonably necessary or advisable to accomplish the purposes hereof, which appointment is irrevocable and coupled with an interest.

ARTICLE VI MISCELLANEOUS

Section 6.01 Notices. Notices and other communications provided for herein shall be in writing and given and mailed or delivered to the appropriate party at the address specified for such party in the introductory paragraph of this Agreement.

Section 6.02 Survival of Agreement. Any and all covenants, agreements, representations and warranties made by Grantor herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by Secured Party and shall survive the execution and delivery hereof.

Section 6.03 Binding Effect; Assignments. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except, however, that Grantor shall not, without the prior written consent of Secured Party, assign or delegate any of its rights, duties, liabilities or obligations hereunder or any of its interest herein or in the Collateral, or any part thereof, or otherwise pledge, encumber or grant any option or right with respect to the Collateral, or any part thereof, except as expressly permitted under either this Agreement or the Loan Agreement.

Section 6.04 Expiration; Release. This Agreement and the Security Interest shall expire upon Secured Party's execution and delivery of a written termination and release thereof, at which time Secured Party shall execute and deliver to Grantor, or to such other person or persons as Grantor shall reasonably designate in writing, all termination statements, as per the Code, and similar documents prepared by Grantor, at Grantor's sole cost and expense, which Grantor shall reasonably request to evidence such termination and release.

Section 6.05 Applicable Law. THE PARTIES AGREE THAT THIS AGREEMENT SHALL BE CONSTRUED IN STRICT ACCORDANCE WITH AND GOVERNED EXCLUSIVELY BY THE LAWS OF THE STATE OF NEW JERSEY WITHOUT REGARD TO NEW JERSEY'S CONFLICT OF LAWS PROVISIONS WHICH MAY DEFEAT THE APPLICATION OF NEW JERSEY'S SUBSTANTIVE LAWS.

Section 6.06 No Waivers. No failure or delay of Secured Party or Grantor in exercising any power or right hereunder shall operate as a waiver thereof. No single or partial exercise of any right or power hereunder, or any abandonment or discontinuance of steps to enforce such right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The respective rights and remedies of Secured Party and Grantor hereunder and under the Loan Agreement are cumulative and do not exclude any rights or remedies that such party would otherwise have.

Section 6.07 Waiver of Jury Trial. Each party hereto hereby waives, to the fullest extent permitted by law, any right it may have to a trial by jury in respect of any litigation or other action directly or indirectly arising out of, under or in connection with this Agreement.

Section 6.08 Severability. The invalidity or unenforceability of any provision in this Agreement will not affect the validity or enforceability of any other provision.

Section 6.09 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract.

Section 6.10 Headings. Article and Section headings are for convenience of reference only, are not part of this Agreement, have no independent substantive meaning and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

IN WITNESS WHEREOF, the parties have each caused its respective, duly authorized representative to execute and deliver this Agreement as of the day and year first above written.

Grantor: _____

By: _____
(Signature)

Name: _____
(Print Name)

Title: _____

Secured Party: PUBLIC SERVICE ELECTRIC AND GAS COMPANY

By: _____
(Signature)

Name: _____
(Print Name)

Title: _____

**SUBORDINATION AGREEMENT
(Mortgage Lienholder)**

THIS AGREEMENT is entered into on _____, 200_ by and between [Name of Mortgagee] (“Subordinated Lienholder”) and Public Service Electric and Gas Company or its subsidiary (“Priority Lienholder”).

WHEREAS, Subordinated Lienholder is the holder of a Promissory Note (the “Note”) from [Name of Borrower] (“Borrower”) secured by a [Mortgage] or [Security Agreement] dated [Month Day, Year] on real property located at [property address] (“Premises”).

WHEREAS, Borrower owns certain solar panel equipment, more particularly described on Schedule A attached hereto, together with all related equipment, components, additions, wiring, meters, replacement parts and consumables with respect thereto, all of which located on and/or affixed to Premises (collectively, the “Collateral”).

WHEREAS, Priority Lienholder has made and/or may in the future make loans and other credit accommodations (collectively, the “Priority Loan”) to Borrower secured by, among other things, the Collateral.

WHEREAS, as a condition of making the Priority Loan to Borrower, Priority Lienholder has required Borrower to obtain and deliver a valid, binding, enforceable and unconditional subordination of all current and future rights, powers, and privileges of Subordinated Lienholder in the Collateral to the rights, powers, and privileges of Priority Lienholder in the Collateral. Subordinated Lienholder has determined that the execution and delivery of this Agreement is in its best interest and in furtherance of its corporate purposes.

NOW, THEREFORE, in order to induce Priority Lienholder to extend or maintain the Priority Loan, and for other good and valuable consideration, Subordinated Lienholder hereby agrees as follows:

1. Subordination. Subordinated Lienholder hereby absolutely and unconditionally subordinates all of its current and future rights, powers, and privileges in any security interest, lien or levy in the Collateral to the security interest of Priority Lienholder in the Collateral. Subordinated Lienholder further agrees that so long as Priority Lienholder has any security interest in such Collateral, Subordinated Lienholder will not exercise any rights (if any) with respect to the Collateral, including the rights of distress, repossession or foreclosure.

2. Rights to Enter Premises. Priority Lienholder shall have the right, from time to time, without obligation or charge, to enter upon the Premises for the purpose of inspecting, repairing, maintaining and servicing the Collateral. Furthermore, in the course of exercising its rights, Priority Lienholder shall also have the right to enter upon

Premises and take possession of any or all of the Collateral (including fixtures) in a reasonable and lawful manner, notwithstanding that the Borrower may be in default of its obligation(s) to Subordinated Lienholder. The Collateral shall remain the property of Borrower and may be removed by Priority Lienholder notwithstanding that it may be now or hereafter affixed to Premises; provided, however, that Priority Lienholder shall reasonably repair such damage caused to the Premises by removal of the Collateral, or at Priority Lienholder's option, Priority Lienholder shall provide Subordinated Lienholder reasonable compensation for such damage. Subordinated Lienholder will not hinder Priority Lienholder's actions in assembling all of the Collateral located on or affixed to Premises, will permit Priority Lienholder to remove the Collateral from Premises without charge, will grant Priority Lienholder access to Premises at a time reasonably convenient to the parties, and will not hinder Priority Lienholder's actions in enforcing its lien on the Collateral. If Borrower vacates Premises or its right to possession or occupancy is otherwise terminated, Subordinated Lienholder shall provide written notice to Priority Lienholder and allow Priority Lienholder to have a reasonable time following said written notice to remove the Collateral. Subordinated Lienholder further agrees that Priority Lienholder may use Premises to conduct a sale of the Collateral and that potential buyers may have access to Premises for the purpose of inspecting or bidding upon the Collateral.

3. No Default. Subordinated Lienholder represents to Priority Lienholder that (i) Borrower is not in default under the Note and (ii) Subordinated Lienholder has full right, power and authority to execute and perform this Agreement without the necessity of obtaining the consent of any person or entity.

4. Successors and/or Assigns. The provisions of this Agreement shall be binding upon (a) the Subordinated Lienholder and its successors and assigns; and (b) the Borrower and its successors and assigns including any person now or hereafter holding any interest in the Premises; and shall inure to the benefit of the Priority Lienholder and its successors and assigns, including any assignee or transferee of, or participant in, the Priority Loan.

5. Final Agreement. This Agreement constitutes the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporary agreements, commitments and understandings between the parties with respect to the subject matter hereof. There are no unwritten agreements between the parties.

6. Notices. Notices required by this Agreement shall be in writing, and shall be deemed delivered upon receipt, to the following addresses:

Priority Lienholder: Public Service Electric and Gas Company
80 Park Plaza
Newark, NJ 07102
Attention: _____

Subordinated Lienholder: [Name]

[Contact]
[Street Address]
[City, State, Zip]

The above addresses may be changed by written notice as provided herein to the other party.

7. Termination. This Agreement shall remain in full force and effect until any and all obligations or liabilities of Borrower to Priority Lienholder are paid and satisfied in full.

8. Waiver. Subject to the rights and priorities granted to Priority Lienholder herein, nothing herein shall be deemed to waive or adversely affect any rights that Subordinated Lienholder may have against Borrower.

9. Recordation. This Agreement may be recorded in the real estate records of county in which the Premises is located. Subordinated Lienholder shall execute such other agreements, amendments hereto or acknowledgements as reasonably required by Priority Lienholder in order to so record this Agreement.

10. Required Notices. Subordinated Lienholder agrees to give notice to Priority Lienholder of any declaration of an event of default under the Note or the loan agreements related to the Note. In the event Subordinated Lienholder commences any execution upon, or foreclosure proceedings with respect to, the Premises or other action upon the collateral securing the Note, such proceedings shall be, and shall be specifically advertised as being, under and subject to the terms, conditions, lien operation and payment of the Priority Loan.

11. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision.

12. Further Assurances. Until such time as the Priority Loan is fully repaid and satisfied, Subordinated Lienholder shall execute, acknowledge and deliver, upon demand, any and all further subordinations or other instruments in recordable form as the Priority Lienholder may reasonably require to effectuate the purpose and intent of this Subordination Agreement.

13. Governing Law. This Agreement shall be governed by and construed in accordance with the substantive laws of the State of New Jersey.

IN WITNESS WHEREOF, and intending to be legally bound hereby, this Agreement is duly executed, sealed and delivered as of the date first written above.

[Name of Subordinated Lienholder]

By: _____
Name:
Title:

Public Service Electric and Gas Company

By: _____
Name:
Title:

Agreed to and Acknowledged by:

[Name of Borrower]

By: _____ (Seal)
Name:
Title:

FORM ACKNOWLEDGEMENTS

Individual:

STATE OF NEW JERSEY, COUNTY OF _____, SS:

I CERTIFY that on _____, 20____, _____ personally came before me and acknowledged under oath, to my satisfaction, that this person:

- (a) is named in and personally signed the attached document; and
- (b) signed and delivered this document as his or her act and deed.

Notary Public or Attorney at Law of New Jersey

Corporation (Short form -no attestation, no Corporate Seal Required):

STATE OF NEW JERSEY, COUNTY OF _____, SS:

I CERTIFY that on _____, 20____, _____ personally came before me and this person acknowledged under oath, to my satisfaction, that:

- (a) this person signed, sealed and delivered the attached document as _____ President of _____, the corporation named in this document;
- (b) this document was signed and made by the corporation as its voluntary act and deed by virtue of authority from its Board of Directors.

Notary Public or Attorney at Law of New Jersey

Partnership:

STATE OF NEW JERSEY, COUNTY OF _____, SS:

I CERTIFY that on _____, 20____, _____ personally came before me and acknowledged under oath, to my satisfaction, that this person (or if more than one, each person):

- (a) is named in and personally signed the attached document as partner of _____, a New Jersey general partnership;
- (b) signed and delivered this document as his or her act and deed, on behalf of said partnership.

Notary Public or Attorney at Law of New Jersey

Limited Partnership (individual general partner):

STATE OF NEW JERSEY, COUNTY OF _____, SS:

I CERTIFY that on _____, 20____, _____ personally came before me and acknowledged under oath, to my satisfaction, that this person (or if more than one, each person):

- (a) is named in and personally signed the attached document as general partner of _____, a New Jersey limited partnership;
- (b) signed and delivered this document as his or her act and deed, on behalf of said limited partnership.

Notary Public or Attorney at Law of New Jersey

Limited Partnership (where corporation is general partner):

STATE OF NEW JERSEY, COUNTY OF _____, SS:

I CERTIFY that on _____, 20____, _____ personally came before me and this person acknowledged under oath to my satisfaction, that:

- (a) this person signed and delivered the attached document as _____ President of _____, the corporation named in this document; and
- (b) this document was signed, and made by the corporation as its voluntary act and deed by virtue of authority from its Board of Directors, as general partner of _____, L.P., a New Jersey limited partnership, on behalf of said limited partnership.

Notary Public or Attorney at Law of New Jersey

Limited Liability Company:

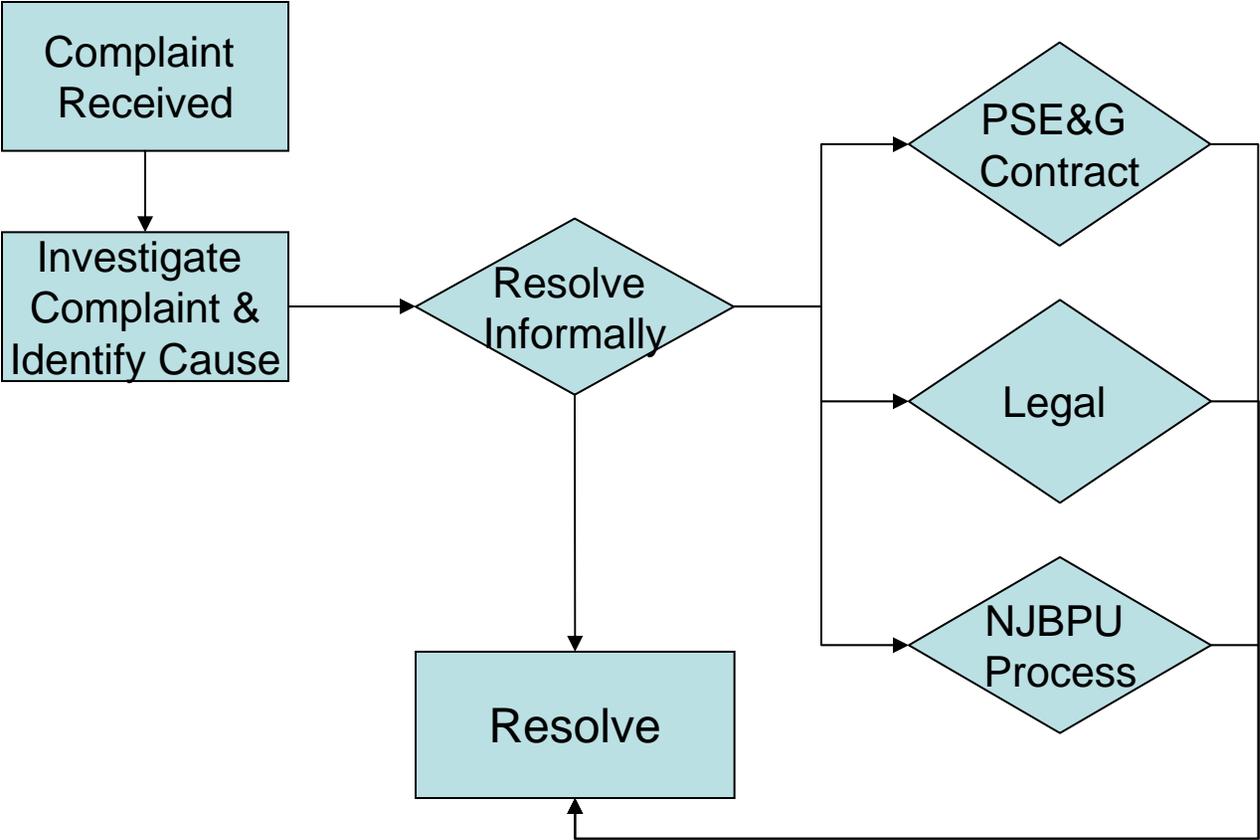
STATE OF NEW JERSEY, COUNTY OF _____, SS.:

I CERTIFY that on _____, 20____, _____ personally came before me and acknowledged under oath, to my satisfaction, that this person:

- (a) is named in and personally signed the attached document as _____ [insert appropriate title] of _____, a New Jersey limited liability company; and
- (b) signed and delivered this document as his or her act and deed on behalf of said limited liability company.

Notary Public or Attorney at Law of New Jersey

COMPLAINT PROCESS FLOW CHART



1 **PUBLIC SERVICE ELECTRIC AND GAS COMPANY**
2 **DIRECT TESTIMONY**
3 **OF**
4 **STEPHEN SWETZ**
5 **MANAGER – RATES AND REGULATION**

6
7 My name is Stephen Swetz and I am the Manager – Rates and
8 Regulation for Public Service Electric and Gas Company (PSE&G, the Company).
9 My credentials are set forth in the attached Schedule SS-1.

10
11 **SCOPE OF TESTIMONY**

12 The purpose of my testimony is to support the Company’s proposed
13 methodology for recovery of the costs related to PSE&G’s Solar Loan investment
14 program, called the Solar Loan II Program (“Solar Loan II” or “Program”), including
15 projected rate and bill impacts. My testimony provides details of the proposed
16 calculations and recovery mechanisms.

17
18 **COST RECOVERY MECHANISM**

19 General

20 PSE&G is proposing to recover the revenue requirements associated
21 with the direct costs of the Program. Direct costs include all costs related to; loans
22 issued under the Program, capital expenditures to support the management of the

1 Program and operations and maintenance costs including the administrative costs of
2 running the Program. These costs would be offset by the net benefits derived from
3 the net proceeds from the sale of SRECs, cash payments in lieu of SRECs, as well as
4 the SREC call option net benefit. PSE&G is proposing that the Board authorize the
5 recovery of the revenue requirements of the Program in accordance with the Regional
6 Greenhouse Gas Initiative (RGGI) legislation, *N.J.S.A. 48:3-98.1 et seq.* The details
7 of the costs proposed to be recovered, as well as the mechanism for such recovery, are
8 described in the following sections of this testimony.

9

10 Calculation of the Revenue Requirements of Direct Costs

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

15 *Revenue Requirements = (Pre-Tax Cost of Capital * Net Investment) – Net*
16 *Loan Accrued Interest + Amortization and/or Depreciation + Operation and*
17 *Maintenance Costs – Net Proceeds from the sale of SRECs – Cash Payments in*
18 *lieu of SRECs*

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

1 Pre-Tax Cost of Capital – The weighted average cost of capital (WACC) for
2 the Program is described in the Testimony of Mark G. Kahrer. The calculation
3 deriving this current value, which is equal to 8.2423% per year, is shown in
4 Schedule MGK-3. For calculating Revenue Requirements, the corresponding
5 Pre-Tax WACC of 11.9525% per year or 0.9960% per month is used (See
6 Schedule MGK-3).

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

- 9 • Total Loan Outstanding Balances.
- 10 • SREC Inventory
- 11 • Capitalized Plant less its associated accumulated depreciation less its
12 Accumulated Deferred Income Tax (ADIT).

13 The assumptions supporting the Loans and associated amortization schedules,
14 SREC Inventory and capitalized plant related to the Program are found in the
15 direct testimony and work papers of Alfredo Z. Matos.

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

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

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

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

10 The assumptions supporting the estimated Operations and Maintenance costs
11 are described in the Direct Testimony and work papers of Mr. Matos.

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

$$14 \qquad \qquad \qquad (SREC \text{ Value of Credited to Loans} + \text{Gain}/(\text{Loss}) \text{ on Sale of SRECs}$$
$$15 \qquad \qquad \qquad + SREC \text{ Call Option Net Benefit}$$

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

18 For modeling purposes, the loans were dispersed in three discrete
19 tranches: February 2011, November 2011 and September 2012. In actuality, the loans
20 will be dispersed in any month once the Program commences. In addition, an SREC

1 Floor Price of \$475 was assumed to calculate Revenue Requirements. Since the floor
2 price will be determined via bids submitted in competitive solicitation in the Program
3 (see Mr. Matos' testimony, Attachment A), the revenue requirements will vary as a
4 result. The summary monthly calculations of the Revenue Requirements through
5 December 2012 and the aggregate summary annual revenue requirements through the
6 year 2027 are shown in Schedules SS-2. The detailed monthly calculations of the
7 Revenue Requirements through December 2013 and the aggregate detail annual
8 revenue requirements through the year 2027 are shown in Schedules SS-3. The
9 expected revenue requirement for the Program is \$ 1,713,535 for the initial period¹.
10 The peak revenue requirement in the subsequent annual periods is \$ 3,839,918 and
11 occurs in 2012 based upon Program assumptions.

12

13 Method for Recovery of Direct Cost

14 PSE&G will recover the net Revenue Requirements associated with this
15 Program through a separate component of the electric RGGI Recovery Charge (RRC).
16 The electric RRC was established via the BPU's order approving the Company's
17 Carbon Abatement Program (Docket No. EOO8060426) issued on December 16,
18 2008. The Solar Loan II component will be added to the electric RRC in the
19 Company's electric tariff and be applicable to all electric rate schedules on an equal

¹ See the following section "Method for Recovery of Direct Costs" for description of "initial period"

1 cents per kilowatt-hour. PSE&G is proposing to implement the Solar Loan II
2 component of the electric RRC simultaneously with Board approval of this Program
3 based upon forecasted expenditures and usage. Since board approval is anticipated by
4 the end of 2009, the initial period for determining rates will be from January 1, 2010
5 through December 31, 2010. If Board approval is received prior to January 1, 2010,
6 rates will still go into effect January 1, 2010 as filed for the initial rate period. All
7 Program costs incurred prior to January 1, 2010 will be deferred. If Board approval is
8 received after January 1, 2010 but prior to December 31, 2010, the proposed initial
9 rate period charge will still be implemented for the remaining months of the initial
10 rate period. In that instance, all Program costs incurred prior to the rate-effective date
11 will be deferred until rates go into effect. Thereafter, rates for all subsequent rate
12 periods will be based upon a calendar year.

13 For all subsequent rate periods, an annual filing will be made by
14 October 1st of each year to set forth a calculation of the Solar Loan II component of
15 the electric RRC for estimated revenue requirements for the subsequent year plus the
16 projected over/under deferred balance as of December 31st for the current year. The
17 charges proposed in the annual filings made by October 1st of each year will go into
18 effect provisionally or as final rates, on January 1st of the subsequent year, upon
19 issuance of a Board Order authorizing these provisional or final rates.

1 The calculation of the proposed Solar Loan II component of the electric
2 RRC is shown in Schedule SS-4. The Revenue Requirements, for the initial and all
3 subsequent rate periods, are divided by the current forecasted kilowatt-hours sales to
4 determine the Solar Loan II component of the electric RRC without the New Jersey
5 Sales and Use Tax (SUT) applied. The forecasted kilowatt-hours sales used for this
6 analysis are consistent with those filed in the Company's 2009 SBC filing. This same
7 level of sales is held constant for all subsequent annual periods for illustrative
8 purposes only (See Schedule SS-4). The proposed Solar Loan II component of the
9 electric RRC for each period is then applied to all the existing class average rates and
10 the percentage change is calculated. In addition, the annual bill impacts for the
11 typical RS customer are calculated for each period through 2027. The first full year's
12 change to the RS typical annual bill is \$0.24 or 0.019%. The maximum impact to the
13 RS typical annual bill from the Program occurs in 2012 and is \$0.64 or 0.050%. The
14 cumulative rate impacts of this Program along with the Company's Solar Loan I
15 Program and its Carbon Abatement Program through 2013 can be found on Schedule
16 SS-5, which will be provided within ten business days.

17 The electronic version of this filing contains the supporting detailed
18 assumptions and calculations for Schedules SS-2 and through SS-5 in electronic work
19 papers labeled WP_AZM 1.xls, WP_SS 1.xls, WP_SS 2.xls

1 Under the Company's proposal, any over/under recovery of the actual
2 revenue requirements compared to revenues would be deferred. The monthly WACC
3 would be applicable as the carrying charge rate on any over/under recovered balance
4 on a monthly basis and computed as indicated below.

5
$$\text{Monthly Carrying Charge} = \text{Monthly Pre-Tax WACC} * (\text{Beginning Deferred}$$

6
$$\text{Balance} + \text{Ending Deferred Balance}) / 2 * (1 - \text{Tax Rate})$$

7 The monthly carrying charge on the over/under recovery balance would
8 be added to the month ending deferred balance to create the month ending deferred
9 balance with carrying charge. The ending deferred balance with carrying charge
10 becomes the beginning monthly balance for the subsequent month. The method of
11 including the deferred balance in setting the Solar Loan II component of the electric
12 RRC for all subsequent periods is described in the second paragraph of this section.

13 The Board's Order pursuant to N.J.S.A. 48:3-98.1, Appendix A, section
14 I(a), BPU Docket No. EO08030164, requires three years of a pro-forma Income
15 Statement and Balance Sheet showing the incremental impacts from the Program. We
16 will prepare the projected Income Statement and Balance Sheet for the Solar Loan II
17 Program from 2009 to 2028 and provided them as Schedule SS – 6, within ten
18 business days. The supporting detailed calculations can be found in the electronic
19 work papers WP_SS 1.xls

20 This concludes my testimony at this time.

Schedule Index

- Schedule SS – 1..... Qualifications of Stephen Swetz
- Schedule SS – 2..... Revenue Requirements Calculation - Summary
- Schedule SS – 3..... Revenue Requirements Calculation – Detail
- Schedule SS – 4..... Solar Loan II Program - Rate Impact Analysis
- Schedule SS – 5..... Cumulative Rate Impact Analysis - Solar Program Recovery Charge (SPRC) & Electric RGGI Recovery Charge (RRC)(to be provided in ten business days)
- Schedule SS – 6..... Solar Loan II Program Income Statement and Balance Sheet (to be provided in ten business days)

Electronic Work Paper Index

- WP_AZM 1.xls..... Detailed Program Assumptions
- WP_SS 1.xls..... Revenue Requirements Summary and Rate Analysis Calculations
- WP_SS 2.xls..... Aggregate Loan Amortization Schedules

1 Programs to the New Jersey Board of Public Utilities. I have also contributed to other
2 filings that the Company has made to the New Jersey Board of Public Utilities;
3 including the Capital Economic Stimulus Infrastructure Investment, Economic Energy
4 Efficiency Stimulus, and Solar Loan I Programs as well as unbundling electric rates,
5 Off Tariff Rate Agreements. I have led in various economic analyses, asset
6 valuations, rate design and pricing efforts and participated in electric and gas marginal
7 cost studies

8 I am an active participant of the American Gas Association's Rate and
9 Strategic Issues Committee and the Economic Regulation and Committee of the
10 Edison Electric Institute.

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

Schedule SS-2

| | | Monthly Pre-Tax WACC | | 0.99604% | | Income Tax Rate | | 41.084% | | | | | | | | | | | | | |
|--------------------------------|------------------------|---------------------------|--|--------------------------------------|--|--|-----------------------|---------------------------|---------------------------------|-----------------------|-----------------------------|----------------|------------------------------|-----------------------------|---------------------------|------------------------------|-------------------------------------|-----------------------------------|-----------------------|---|-------------|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) | (17) | (18) | (19) | (20) | | |
| Total Loan Outstanding Balance | SREC Inventory | Total Net Loan Investment | Return Requirement On Net Loan Investments | Net Plant Investment | Return Requirement On Plant Investment | Loan Accrued Interest | Loan Interest Paid | Net Loan Accrued Interest | Loan Principal Paid / Amortized | Plant Depreciation | Depreciation / Amortization | O&M Expenses | SREC Value Credited to Loans | Gain / (Loss) on SREC Sales | SREC Disposition Expenses | SREC Call Option Net Benefit | Net Proceeds from the Sale of SRECs | Cash Payments to Loans | Revenue Requirements | | |
| Monthly Calculations | | | | | | | | | | | | | | | | | | | | | |
| Jan-10 | - | - | - | - | - | - | - | - | - | - | - | 104,961 | - | - | - | - | - | - | - | - | 104,961 |
| Feb-10 | - | - | - | - | - | - | - | - | - | - | - | 198,313 | - | - | - | - | - | - | - | - | 198,313 |
| Mar-10 | - | - | - | - | - | - | - | - | - | - | - | 198,313 | - | - | - | - | - | - | - | - | 198,313 |
| Apr-10 | - | - | - | - | - | - | - | - | - | - | - | 104,961 | - | - | - | - | - | - | - | - | 104,961 |
| May-10 | - | - | - | - | - | - | - | - | - | - | - | 154,563 | - | - | - | - | - | - | - | - | 154,563 |
| Jun-10 | - | - | - | - | - | - | - | - | - | - | - | 154,563 | - | - | - | - | - | - | - | - | 154,563 |
| Jul-10 | - | - | - | - | - | - | - | - | - | - | - | 77,878 | - | - | - | - | - | - | - | - | 77,878 |
| Aug-10 | - | - | - | - | - | - | - | - | - | - | - | 171,230 | - | - | - | - | - | - | - | - | 171,230 |
| Sep-10 | - | - | - | - | - | - | - | - | - | - | - | 160,526 | - | - | - | - | - | - | - | - | 160,526 |
| Oct-10 | - | - | - | - | - | - | - | - | - | - | - | 67,174 | - | - | - | - | - | - | - | - | 67,174 |
| Nov-10 | - | - | - | - | - | - | - | - | - | - | - | 160,526 | - | - | - | - | - | - | - | - | 160,526 |
| Dec-10 | - | - | - | - | - | - | - | - | - | - | - | 160,526 | - | - | - | - | - | - | - | - | 160,526 |
| Jan-11 | - | - | - | - | - | - | - | - | - | - | - | 86,448 | - | - | - | - | - | - | - | - | 86,448 |
| Feb-11 | 51,655,951 | - | 51,655,951 | 200,000 | 996 | - | - | - | - | - | - | 179,613 | - | - | - | - | - | - | - | - | 180,609 |
| Mar-11 | 52,158,062 | - | 52,158,062 | 197,375 | 1,979 | 502,111 | - | 502,111 | - | 1,667 | 1,667 | 204,613 | - | - | - | - | - | - | - | - | 220,662 |
| Apr-11 | 52,665,107 | - | 52,665,107 | 197,375 | 1,979 | 507,045 | - | 507,045 | - | 1,667 | 1,667 | 166,448 | - | - | - | - | - | - | - | - | 102,538 |
| May-11 | 52,297,122 | 880,012 | 53,177,134 | 192,124 | 1,927 | 512,028 | 880,012 | (367,984) | - | 1,667 | 1,667 | 179,613 | 880,012 | - | - | - | 880,012 | - | - | - | 195,745 |
| Jun-11 | 51,952,686 | 1,732,942 | 53,685,628 | 189,499 | 1,901 | 508,494 | 825,735 | (317,241) | 27,195 | 1,667 | 28,861 | 179,613 | 852,930 | - | - | - | 852,930 | - | - | - | 204,352 |
| Jul-11 | 51,517,196 | 940,680 | 52,457,876 | 186,874 | 1,874 | 505,190 | 829,120 | (323,930) | 111,560 | 1,667 | 113,226 | 111,448 | 940,680 | (11,872) | 51,632 | - | 877,176 | - | - | - | 208,034 |
| Aug-11 | 51,133,090 | 1,825,785 | 52,958,875 | 184,248 | 1,848 | 500,999 | 500,999 | - | 384,106 | 1,667 | 385,773 | 204,613 | 885,105 | - | - | - | 885,105 | - | - | - | 229,631 |
| Sep-11 | 50,737,689 | 2,718,495 | 53,456,184 | 181,623 | 1,822 | 497,309 | 497,309 | - | 395,401 | 1,667 | 397,068 | 179,613 | 892,710 | - | - | - | 892,710 | - | - | - | 213,285 |
| Oct-11 | 50,346,091 | 885,105 | 51,231,196 | 178,998 | 1,796 | 493,508 | 493,508 | - | 391,597 | 1,667 | 393,264 | 86,448 | 885,105 | - | 81,555 | - | 803,550 | - | - | - | 210,403 |
| Nov-11 | 152,716,117 | 1,746,225 | 154,462,342 | 176,372 | 1,770 | 489,745 | 489,745 | - | 371,375 | 1,667 | 373,042 | 179,613 | 861,120 | - | - | - | 861,120 | - | - | - | 203,588 |
| Dec-11 | 153,388,950 | 2,558,205 | 155,947,155 | 173,747 | 1,744 | 1,484,813 | 486,179 | 998,634 | 325,801 | 1,667 | 327,468 | 179,613 | 811,980 | - | - | - | 811,980 | - | - | - | 236,719 |
| Jan-12 | 154,300,717 | 579,735 | 154,880,452 | 170,574 | 1,715 | 1,491,502 | 483,055 | 1,008,447 | 96,680 | 1,667 | 96,347 | 175,762 | 579,735 | - | 76,746 | - | 502,989 | - | - | - | 317,687 |
| Feb-12 | 154,137,496 | 2,243,475 | 156,380,971 | 167,401 | 1,683 | 1,500,519 | 1,591,322 | (90,803) | 72,418 | 1,667 | 74,084 | 175,762 | 1,663,740 | - | - | - | 1,663,740 | - | - | - | 221,266 |
| Mar-12 | 153,632,943 | 4,247,100 | 157,880,043 | 164,228 | 1,652 | 1,499,071 | 1,813,885 | (314,814) | 189,740 | 1,667 | 191,406 | 175,762 | 2,003,625 | - | - | - | 2,003,625 | - | - | - | 237,629 |
| Apr-12 | 152,979,715 | 2,147,535 | 155,127,250 | 161,055 | 1,620 | 1,494,307 | 1,869,307 | (375,000) | 278,228 | 1,667 | 279,894 | 175,762 | 2,147,535 | - | 127,413 | - | 2,020,122 | - | - | - | 384,706 |
| May-12 | 151,866,312 | 4,749,030 | 156,615,342 | 157,882 | 1,588 | 1,488,092 | 2,156,988 | (668,895) | 444,507 | 1,667 | 446,174 | 175,762 | 2,601,495 | - | - | - | 2,601,495 | - | - | - | 236,057 |
| Jun-12 | 150,833,261 | 7,259,480 | 158,092,741 | 155,954 | 1,557 | 1,477,399 | 2,034,968 | (557,569) | 475,482 | 1,667 | 477,149 | 175,762 | 2,510,450 | - | - | - | 2,510,450 | - | - | - | 261,540 |
| Jul-12 | 149,530,402 | 2,770,350 | 152,300,752 | 151,536 | 1,525 | 1,467,491 | 1,467,491 | - | 1,302,859 | 1,667 | 1,304,526 | 175,762 | 2,770,350 | (81,180) | 215,349 | - | 2,473,821 | - | - | - | 582,662 |
| Aug-12 | 199,626,471 | 5,375,100 | 205,001,571 | 151,979 | 1,494 | 1,454,955 | 1,454,955 | - | 1,149,795 | 1,667 | 1,151,462 | 175,762 | 2,604,750 | - | - | - | 2,604,750 | - | - | - | 240,947 |
| Sep-12 | 198,939,589 | 8,004,000 | 206,943,589 | 145,189 | 1,462 | 1,942,018 | 1,443,906 | 498,111 | 1,184,994 | 1,667 | 1,186,660 | 175,762 | 2,628,900 | - | - | - | 2,628,900 | - | - | - | 278,774 |
| | From Sched SS-3 Col 11 | From Sched SS-3 Col 15 | Col 1 + Col 2 | Prior Col 3 * [Monthly Pre Tax WACC] | From Sched SS-3 Col 26 | (Prior Col 5 + Col 5) / 2 * [Monthly Pre Tax WACC] | From Sched SS-3 Col 4 | From Sched SS-3 Col 7 | Col 7 - Col 8 | From Sched SS-3 Col 8 | From Sched SS-3 Col 20 | Col 9 + Col 10 | From Sched SS-3 Col 28 | From Sched SS-3 Col 5 | From Sched SS-3 Col 14 | From Sched SS-3 Col 17 | From Sched SS-3 Col 18 | Col 14 + Col 15 - Col 16 + Col 17 | From Sched SS-3 Col 6 | Col 4 + Col 6 + Col 9 + Col 12 + Col 13 - Col 18 - Col 19 | |
| Annual Summary | | | | | | | | | | | | | | | | | | | | | |
| 2010 | - | - | - | - | - | - | - | - | - | - | - | 1,713,535 | - | - | - | - | - | - | - | - | 1,713,535 |
| 2011 | 153,388,950 | 2,558,205 | 155,947,155 | 6,254,229 | 173,747 | 19,609 | 6,001,241 | 5,002,606 | 998,634 | 2,007,036 | 16,667 | 2,023,702 | 1,857,691 | 7,009,642 | (11,872) | 133,187 | - | 6,864,583 | - | - | 2,292,014 |
| 2012 | 195,545,476 | 9,174,125 | 204,719,601 | 20,546,839 | 135,670 | 18,492 | 19,595,366 | 20,201,490 | (606,123) | 8,483,215 | 20,000 | 8,503,215 | 2,109,146 | 28,684,705 | (81,180) | 659,628 | - | 27,943,897 | - | - | 3,839,918 |
| 2013 | 181,979,637 | 9,407,990 | 191,387,627 | 23,471,977 | 108,111 | 14,569 | 22,253,735 | 22,646,246 | (392,511) | 13,173,328 | 20,000 | 13,193,328 | 1,020,499 | 35,819,574 | (366,758) | 1,056,569 | - | 34,396,247 | - | - | 3,696,637 |
| 2014 | 168,493,449 | 9,083,550 | 177,576,999 | 21,836,005 | 86,878 | 11,653 | 20,709,467 | 20,709,467 | - | 13,486,188 | 20,000 | 13,506,188 | 1,050,814 | 34,195,655 | (171,728) | 1,030,451 | - | 32,993,476 | - | - | 3,411,185 |
| 2015 | 154,631,841 | 8,762,944 | 163,394,785 | 20,175,334 | 65,646 | 9,115 | 19,137,381 | 19,137,381 | - | 13,861,608 | 20,000 | 13,881,608 | 1,027,039 | 32,998,989 | (170,912) | 994,460 | - | 31,833,617 | - | - | 3,304,479 |
| 2016 | 140,293,799 | 8,462,220 | 148,756,019 | 18,466,218 | 49,097 | 6,857 | 17,517,115 | 17,517,115 | - | 14,338,041 | 20,000 | 14,358,041 | 1,104,200 | 31,855,156 | (159,390) | 959,895 | - | 30,735,871 | - | - | 3,199,445 |
| 2017 | 125,386,577 | 8,164,076 | 133,550,653 | 16,695,397 | 37,313 | 5,164 | 15,835,524 | 15,835,524 | - | 14,907,223 | 20,000 | 14,927,223 | 1,137,326 | 30,742,747 | (158,565) | 926,470 | - | 29,657,712 | - | - | 3,107,398 |
| 2018 | 109,366,790 | 7,885,470 | 117,252,260 | 14,839,120 | 25,530 | 3,756 | 14,069,321 | 14,069,321 | - | 16,019,787 | 20,000 | 16,039,787 | 1,171,446 | 30,089,108 | (147,294) | 894,416 | - | 29,047,398 | - | - | 3,006,711 |
| 2019 | 91,744,118 | 7,610,567 | 99,354,684 | 12,816,405 | 13,747 | 2,347 | 12,138,852 | 12,138,852 | - | 17,622,672 | 20,000 | 17,642,672 | 1,206,589 | 29,761,524 | (146,043) | 863,569 | 20,879 | 28,772,792 | - | - | 2,895,221 |
| 2020 | 72,545,292 | 7,345,498 | 79,890,790 | 10,601,558 | 1,964 | 939 | 10,006,933 | 10,006,933 | - | 19,198,826 | 20,000 | 19,218,826 | 1,242,787 | 29,205,759 | (140,917) | 833,469 | 114,826 | 28,346,199 | - | - | 2,717,911 |
| 2021 | 51,833,907 | 6,945,191 | 58,779,097 | 8,201,391 | 0 | 20 | 7,666,063 | 7,666,063 | - | 20,711,385 | 3,333 | 20,714,719 | 1,280,070 | 28,377,448 | (134,327) | 798,354 | 177,925 | 27,622,692 | - | - | 2,573,507 |
| 2022 | 30,141,061 | 6,500,130 | 36,641,191 | 5,585,167 | 0 | 0 | 5,090,865 | 5,090,865 | - | 21,692,845 | - | 21,692,845 | 1,318,472 | 26,783,710 | (126,363) | 750,039 | 300,901 | 26,208,210 | - | - | 2,388,274 |
| 2023 | 11,983,723 | 6,273,979 | 18,257,703 | 3,185,948 | 0 | 0 | 2,715,112 | 2,715,112 | - | 18,157,338 | - | 18,157,338 | 1,358,027 | 20,872,450 | (120,386) | 711,844 | 1,470,640 | 21,510,860 | - | - | 1,190,453 |
| 2024 | 3,312,738 | 6,055,161 | 9,367,899 | 1,334,052 | 0 | 0 | 879,635 | 879,635 | - | 8,670,986 | - | 8,670,986 | 1,398,767 | 9,550,620 | (116,188) | 687,047 | 3,720,713 | 12,468,099 | - | - | (1,064,294) |
| 2025 | - | 5,844,201 | 5,844,201 | 576,221 | 0 | | | | | | | | | | | | | | | | |

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

| | | | | Monthly Pre-Tax WACC | | 0.99604% | | | | | | | | | |
|-----------------------------|--------------------|---|------------------------|-------------------------------------|----------------------------------|----------------------------------|----------------------------------|--------------------------------------|----------------------------------|----------------------------------|---|----------------------------------|----------------------------------|-------------------------------------|---|
| | | | | Income Tax Rate | | 41.084% | | | | | | | | | |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | | |
| Loan Amount Issued | Capitalized Plant | <u>Return On Total Outstanding Loan Balance</u> | Loan Accrued Interest | <u>SREC Value Credited to Loans</u> | <u>Cash Payments to Loans</u> | Loan Interest Paid | Loan Principal Paid / Amortized | <u>Loan Accrued Interest Balance</u> | Loan Principal Balance | Total Loan Outstanding Balance | <u>Value of SREC Transferred to PSE&G</u> | SREC Auction Sales | Gain / (Loss) on SREC Sales | | |
| Monthly Calculations | | | | | | | | | | | | | | | |
| Jan-10 | | | | | | | | | | | | | | | |
| Feb-10 | | | | | | | | | | | | | | | |
| Mar-10 | | | | | | | | | | | | | | | |
| Apr-10 | | | | | | | | | | | | | | | |
| May-10 | | | | | | | | | | | | | | | |
| Jun-10 | | | | | | | | | | | | | | | |
| Jul-10 | | | | | | | | | | | | | | | |
| Aug-10 | | | | | | | | | | | | | | | |
| Sep-10 | | | | | | | | | | | | | | | |
| Oct-10 | | | | | | | | | | | | | | | |
| Nov-10 | | | | | | | | | | | | | | | |
| Dec-10 | | | | | | | | | | | | | | | |
| Jan-11 | | | | | | | | | | | | | | | |
| Feb-11 | 51,655,951 | 200,000 | | | | | | | 51,655,951 | 51,655,951 | | | | | |
| Mar-11 | | | 514,515 | 502,111 | - | - | - | 502,111 | 51,655,951 | 52,158,062 | - | - | - | - | - |
| Apr-11 | | | 519,516 | 507,045 | - | - | - | 1,009,156 | 51,655,951 | 52,665,107 | - | - | - | - | - |
| May-11 | | | 524,566 | 512,028 | 880,012 | | 880,012 | 641,172 | 51,655,951 | 52,297,122 | 880,012 | - | - | - | - |
| Jun-11 | | | 520,901 | 508,494 | 852,930 | | 825,735 | 323,930 | 51,628,756 | 51,952,686 | 852,930 | - | - | - | - |
| Jul-11 | | | 517,470 | 505,190 | 940,680 | | 829,120 | 111,560 | 51,517,196 | 51,517,196 | 940,680 | 1,721,070 | | (11,872) | |
| Aug-11 | | | 513,133 | 500,999 | 885,105 | | 500,999 | 384,106 | 51,133,090 | 51,133,090 | 885,105 | - | - | - | - |
| Sep-11 | | | 509,307 | 497,309 | 892,710 | | 497,309 | 395,401 | 50,737,689 | 50,737,689 | 892,710 | - | - | - | - |
| Oct-11 | | | 505,369 | 493,508 | 885,105 | | 493,508 | 391,597 | 50,346,091 | 50,346,091 | 885,105 | 2,718,495 | - | - | - |
| Nov-11 | 102,741,401 | | 501,468 | 489,745 | 861,120 | | 489,745 | 371,375 | 52,716,117 | 52,716,117 | 861,120 | - | - | - | - |
| Dec-11 | | | 1,521,116 | 1,484,813 | 811,980 | | 486,179 | 325,801 | 998,634 | 152,390,316 | 153,388,950 | 811,980 | - | - | - |
| Jan-12 | | | 1,527,818 | 1,491,502 | 579,735 | | 483,055 | 96,680 | 2,007,081 | 152,293,636 | 154,300,717 | 579,735 | 2,558,205 | - | - |
| Feb-12 | | | 1,536,899 | 1,500,519 | 1,663,740 | | 1,591,322 | 72,418 | 1,916,278 | 152,221,218 | 154,137,496 | 1,663,740 | - | - | - |
| Mar-12 | | | 1,535,274 | 1,499,071 | 2,003,625 | | 1,813,885 | 189,740 | 1,601,465 | 152,031,478 | 153,632,943 | 2,003,625 | - | - | - |
| Apr-12 | | | 1,530,248 | 1,494,307 | 2,147,535 | | 1,869,307 | 278,228 | 1,226,464 | 151,753,251 | 152,979,715 | 2,147,535 | 4,247,100 | - | - |
| May-12 | | | 1,523,742 | 1,488,092 | 2,601,495 | | 2,156,988 | 444,507 | 557,569 | 151,308,743 | 151,866,312 | 2,601,495 | - | - | - |
| Jun-12 | | | 1,512,652 | 1,477,399 | 2,510,450 | | 2,034,968 | 475,482 | - | 150,833,261 | 150,833,261 | 2,510,450 | - | - | - |
| Jul-12 | | | 1,502,362 | 1,467,491 | 2,770,350 | | 1,467,491 | 1,302,859 | - | 149,530,402 | 149,530,402 | 2,770,350 | 7,178,300 | (81,180) | |
| Aug-12 | 51,245,864 | | 1,489,385 | 1,454,955 | 2,604,750 | | 1,454,955 | 1,149,795 | - | 199,626,471 | 199,626,471 | 2,604,750 | - | - | - |
| Sep-12 | | | 1,988,363 | 1,942,018 | 2,628,900 | | 1,443,906 | 1,184,994 | 498,111 | 198,441,477 | 198,939,589 | 2,628,900 | - | - | - |
| | Program Assumption | Program Assumption | Prior Col 11 * PT WACC | WP_SS-2.xls 'Loans' wksht Col 11 | WP_SS-2.xls 'Loans' wksht Col 13 | WP_SS-2.xls 'Loans' wksht Col 14 | WP_SS-2.xls 'Loans' wksht Col 16 | WP_SS-2.xls 'Loans' wksht Col 17 | WP_SS-2.xls 'Loans' wksht Col 18 | WP_SS-2.xls 'Loans' wksht Col 19 | Col 9 + Col 10 | WP_SS-2.xls 'Loans' wksht Col 19 | WP_SS-2.xls 'Loans' wksht Col 28 | Prior Col 15 - Col 13 [Auction Mth] | |
| Annual Summary | | | | | | | | | | | | | | | |
| 2010 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2011 | 154,397,352 | 200,000 | 6,147,361 | 6,001,241 | 7,009,642 | - | 5,002,606 | 2,007,036 | 998,634 | 152,390,316 | 153,388,950 | 7,009,642 | 4,439,565 | (11,872) | |
| 2012 | 51,245,864 | - | 20,063,543 | 19,595,366 | 28,684,705 | - | 20,201,490 | 8,483,215 | 392,511 | 195,152,965 | 195,545,476 | 28,684,705 | 21,987,605 | (81,180) | |
| 2013 | - | - | 22,763,024 | 22,253,735 | 35,819,574 | - | 22,646,246 | 13,173,328 | - | 181,979,637 | 181,979,637 | 35,819,574 | 35,218,951 | (366,758) | |
| 2014 | - | - | 21,154,486 | 20,709,467 | 34,195,655 | - | 20,709,467 | 13,486,188 | - | 168,493,449 | 168,493,449 | 34,195,655 | 34,348,367 | (171,728) | |
| 2015 | - | - | 19,517,534 | 19,137,381 | 32,998,989 | - | 19,137,381 | 13,861,608 | - | 154,631,841 | 154,631,841 | 32,998,989 | 33,148,683 | (170,912) | |
| 2016 | - | - | 17,831,367 | 17,517,115 | 31,855,156 | - | 17,517,115 | 14,338,041 | - | 140,293,799 | 140,293,799 | 31,855,156 | 31,996,490 | (159,390) | |
| 2017 | - | - | 16,082,624 | 15,835,524 | 30,742,747 | - | 15,835,524 | 14,907,223 | - | 125,386,577 | 125,386,577 | 30,742,747 | 30,882,326 | (158,565) | |
| 2018 | - | - | 14,247,569 | 14,069,321 | 30,089,108 | - | 14,069,321 | 16,019,787 | - | 109,366,790 | 109,366,790 | 29,682,568 | 29,813,880 | (147,294) | |
| 2019 | - | - | 12,245,215 | 12,138,852 | 29,761,524 | - | 12,138,852 | 17,622,672 | - | 91,744,118 | 91,744,118 | 28,656,760 | 28,785,620 | (146,043) | |
| 2020 | - | - | 10,050,285 | 10,006,933 | 29,205,759 | - | 10,006,933 | 19,198,826 | - | 72,545,292 | 72,545,292 | 27,658,147 | 27,782,298 | (140,912) | |
| 2021 | - | - | 7,674,039 | 7,666,063 | 28,377,448 | - | 7,666,063 | 20,711,385 | - | 51,833,907 | 51,833,907 | 26,345,815 | 26,611,796 | (134,327) | |
| 2022 | - | - | 5,090,865 | 5,090,865 | 26,783,710 | - | 5,090,865 | 21,692,845 | - | 30,141,061 | 30,141,061 | 24,682,588 | 25,001,285 | (126,363) | |
| 2023 | - | - | 2,715,112 | 2,715,112 | 20,872,450 | - | 2,715,112 | 18,157,338 | - | 11,983,723 | 11,983,723 | 23,622,360 | 23,728,124 | (120,386) | |
| 2024 | - | - | 879,635 | 879,635 | 9,550,620 | - | 879,635 | 8,670,986 | - | 3,312,738 | 3,312,738 | 22,798,943 | 22,901,574 | (116,188) | |
| 2025 | - | - | 137,638 | 137,638 | 3,450,376 | - | 137,638 | 3,312,738 | - | - | - | 22,004,423 | 22,103,262 | (112,121) | |
| 2026 | - | - | - | - | - | - | - | - | - | - | - | 15,697,500 | 18,120,711 | (81,255) | |
| 2027 | - | - | - | - | - | - | - | - | - | - | - | 3,301,960 | 6,615,465 | (26,229) | |
| Total | 205,643,216 | 200,000 | 176,600,299 | 173,754,249 | 379,397,464 | - | 173,754,249 | 205,643,216 | - | 425,757,532 | 423,486,005 | 423,486,005 | 423,486,005 | (2,271,527) | |

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

Monthly Pre-Tax WACC 0.99604%
 Income Tax Rate 41.084%

| (15) | (16) | (17) | (18) | (19) | (20) | (21) | (22) | (23) | (24) | (25) | (26) | (27) | (28) | (29) |
|---|--------------------------|----------------------------------|----------------------------------|-------------------------------|--|--------------------------|---------------|--------------------------------|-------------------------------------|---------------------------------|----------------------|--|--------------------|--|
| SREC Inventory | Return on SREC Inventory | SREC Disposition Expenses | SREC Call Option Net Benefit | Gross Plant | Plant Depreciation | Accumulated Depreciation | Net Plant | Tax Depreciation | Deferred Income Tax | Accumulated Deferred Income Tax | Net Plant Investment | Return Requirement on Plant Investment | O&M Expenses | Revenue Requirements |
| - | - | - | - | - | - | - | - | - | - | - | - | - | 104,961 | 104,961 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | 198,313 | 198,313 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | 198,313 | 198,313 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | 104,961 | 104,961 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | 154,563 | 154,563 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | 154,563 | 154,563 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | 77,878 | 77,878 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | 171,230 | 171,230 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | 160,526 | 160,526 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | 67,174 | 67,174 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | 160,526 | 160,526 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | 160,526 | 160,526 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | 86,448 | 86,448 |
| - | - | - | - | 200,000 | - | - | 200,000 | - | - | - | 200,000 | 996 | 179,613 | 180,609 |
| - | - | - | - | 200,000 | 1,667 | 1,667 | 198,333 | 4,000 | 959 | 959 | 197,375 | 1,979 | 204,613 | 220,662 |
| - | - | - | - | 200,000 | 1,667 | 3,333 | 196,667 | 4,000 | 959 | 1,917 | 194,749 | 1,953 | 86,448 | 102,538 |
| 880,012 | - | - | - | 200,000 | 1,667 | 5,000 | 195,000 | 4,000 | 959 | 2,876 | 192,124 | 1,927 | 179,613 | 195,745 |
| 1,732,942 | 8,765 | - | - | 200,000 | 1,667 | 6,667 | 193,333 | 4,000 | 959 | 3,835 | 189,499 | 1,901 | 179,613 | 204,352 |
| 940,680 | 17,261 | 51,632 | - | 200,000 | 1,667 | 8,333 | 191,667 | 4,000 | 959 | 4,793 | 186,874 | 1,874 | 111,448 | 208,034 |
| 1,825,785 | 9,370 | - | - | 200,000 | 1,667 | 10,000 | 190,000 | 4,000 | 959 | 5,752 | 184,248 | 1,848 | 204,613 | 229,631 |
| 2,718,495 | 18,186 | - | - | 200,000 | 1,667 | 11,667 | 188,333 | 4,000 | 959 | 6,710 | 181,623 | 1,822 | 179,613 | 213,285 |
| 885,105 | 27,077 | 81,555 | - | 200,000 | 1,667 | 13,333 | 186,667 | 4,000 | 959 | 7,669 | 178,998 | 1,796 | 86,448 | 210,403 |
| 1,746,225 | 8,816 | - | - | 200,000 | 1,667 | 15,000 | 185,000 | 4,000 | 959 | 8,628 | 176,372 | 1,770 | 179,613 | 203,588 |
| 2,558,205 | 17,393 | - | - | 200,000 | 1,667 | 16,667 | 183,333 | 4,000 | 959 | 9,586 | 173,747 | 1,744 | 179,613 | 236,719 |
| 579,735 | 25,481 | 76,746 | - | 200,000 | 1,667 | 18,333 | 181,667 | 5,333 | 1,506 | 11,093 | 170,574 | 1,715 | 175,762 | 317,687 |
| 2,243,475 | 5,774 | - | - | 200,000 | 1,667 | 20,000 | 180,000 | 5,333 | 1,506 | 12,599 | 167,401 | 1,683 | 175,762 | 221,266 |
| 4,247,100 | 22,346 | - | - | 200,000 | 1,667 | 21,667 | 178,333 | 5,333 | 1,506 | 14,106 | 164,228 | 1,652 | 175,762 | 237,629 |
| 2,147,535 | 42,303 | 127,413 | - | 200,000 | 1,667 | 23,333 | 176,667 | 5,333 | 1,506 | 15,612 | 161,055 | 1,620 | 175,762 | 384,706 |
| 4,749,030 | 21,390 | - | - | 200,000 | 1,667 | 25,000 | 175,000 | 5,333 | 1,506 | 17,118 | 157,882 | 1,588 | 175,762 | 236,057 |
| 7,259,480 | 47,302 | - | - | 200,000 | 1,667 | 26,667 | 173,333 | 5,333 | 1,506 | 18,625 | 154,709 | 1,557 | 175,762 | 261,540 |
| 2,770,350 | 72,307 | 215,349 | - | 200,000 | 1,667 | 28,333 | 171,667 | 5,333 | 1,506 | 20,131 | 151,536 | 1,525 | 175,762 | 582,662 |
| 5,375,100 | 27,594 | - | - | 200,000 | 1,667 | 30,000 | 170,000 | 5,333 | 1,506 | 21,638 | 148,362 | 1,494 | 175,762 | 240,947 |
| 8,004,000 | 53,538 | - | - | 200,000 | 1,667 | 31,667 | 168,333 | 5,333 | 1,506 | 23,144 | 145,189 | 1,462 | 175,762 | 278,774 |
| Prior Col 15 + Col 12 - Col 13 - Col 14 | Prior Col 15 * PT WACC | WP_SS-2.xls 'Loans' wksht Col 32 | WP_SS-2.xls 'Loans' wksht Col 33 | Prior Month + (Col 1 + Col 2) | 1/120 of Each Prior 120 Months of Col 2 (10 year amortization) | Prior Col 21 + Col 20 | Col 3 - Col 6 | See WP_SS-1.xls 'AmortE' wksht | (Col 23 - Col 20) * Income Tax Rate | Prior Col 25 + Col 24 | Col 22 - Col 25 | (Prior Col 27 + Col 27) / 2 * Monthly Pre Tax WACC | Program Assumption | Col 3 - Col 4 - Col 5 - Col 6 + Col 7 + Col 8 - Col 14 + Col 16 + Col 17 - Col 18 + Col 20 + Col 27 + Col 28 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | 1,713,535 | 1,713,535 |
| 2,558,205 | 106,868 | 133,187 | - | 200,000 | 16,667 | 16,667 | 183,333 | 40,000 | 9,586 | 9,586 | 173,747 | 19,609 | 1,857,691 | 2,292,014 |
| 9,174,125 | 483,296 | 659,628 | - | 200,000 | 20,000 | 36,667 | 163,333 | 64,000 | 18,077 | 27,663 | 135,670 | 18,492 | 2,109,146 | 3,839,918 |
| 9,407,990 | 708,953 | 1,056,569 | - | 200,000 | 20,000 | 56,667 | 143,333 | 38,400 | 7,559 | 35,223 | 108,111 | 14,569 | 1,020,499 | 3,696,637 |
| 9,083,550 | 681,519 | 1,030,451 | - | 200,000 | 20,000 | 76,667 | 123,333 | 23,000 | 1,233 | 36,455 | 86,878 | 11,653 | 1,050,814 | 3,411,185 |
| 8,762,944 | 657,799 | 994,460 | - | 200,000 | 20,000 | 96,667 | 103,333 | 23,000 | 1,233 | 37,688 | 65,646 | 9,115 | 1,072,039 | 3,304,479 |
| 8,462,220 | 634,851 | 959,895 | - | 200,000 | 20,000 | 116,667 | 83,333 | 11,600 | (3,451) | 34,237 | 49,097 | 6,857 | 1,104,200 | 3,199,445 |
| 8,164,076 | 612,773 | 926,470 | - | 200,000 | 20,000 | 136,667 | 63,333 | - | (8,217) | 26,020 | 37,313 | 5,164 | 1,137,326 | 3,107,398 |
| 7,885,470 | 591,551 | 894,416 | - | 200,000 | 20,000 | 156,667 | 43,333 | - | (8,217) | 17,803 | 25,530 | 3,756 | 1,171,446 | 3,006,711 |
| 7,610,567 | 571,190 | 863,569 | 20,879 | 200,000 | 20,000 | 176,667 | 23,333 | - | (8,217) | 9,586 | 13,747 | 2,347 | 1,206,589 | 2,895,221 |
| 7,345,498 | 551,273 | 833,469 | 114,826 | 200,000 | 20,000 | 196,667 | 3,333 | - | (8,217) | 1,369 | 1,964 | 939 | 1,242,787 | 2,717,911 |
| 6,945,191 | 527,352 | 798,354 | 177,925 | 200,000 | 3,333 | 200,000 | 0 | - | (1,369) | (0) | 0 | 20 | 1,280,070 | 2,573,507 |
| 6,500,130 | 494,301 | 750,039 | 300,901 | 200,000 | - | 200,000 | 0 | - | - | (0) | 0 | 0 | 1,318,472 | 2,388,274 |
| 6,273,979 | 470,836 | 711,844 | 1,470,640 | 200,000 | - | 200,000 | 0 | - | - | (0) | 0 | 0 | 1,358,027 | 1,190,453 |
| 6,055,161 | 454,417 | 687,047 | 3,720,713 | 200,000 | - | 200,000 | 0 | - | - | (0) | 0 | 0 | 1,398,767 | (1,064,294) |
| 5,844,201 | 438,582 | 663,098 | 4,803,775 | 200,000 | - | 200,000 | 0 | - | - | (0) | 0 | 0 | 1,440,730 | (2,149,244) |
| 3,339,734 | 348,512 | 543,621 | 3,924,375 | 200,000 | - | 200,000 | 0 | - | - | (0) | 0 | 0 | 1,483,952 | (1,467,034) |
| - | 102,963 | 198,464 | 825,490 | 200,000 | - | 200,000 | 0 | - | - | (0) | 0 | 0 | 1,528,471 | 1,030,637 |
| - | 8,437,038 | 12,704,580 | 15,359,524 | - | 200,000 | - | - | 200,000 | (0) | - | - | 92,521 | 24,494,562 | 35,686,754 |

PSE&G Solar Loan II Program
Solar Loan II - Rate Impact Analysis

7% SUT Rate
 44,823,552 kWh Sales (000) - Annual

6,960 Avg RS kWh / yr.
 722 Avg RS kWh / Summer Month
 509 Avg RS kWh / Winter Month

0.000021 Current electric RRC (\$/kWh)

| (1) | (2) | (3) | (4) - (13) Class Average Rate w/SUT - \$/kWh ¹ | | | | | | | | | | (14) - (16) Typical RS RRC (\$) | | | (17) | (18) | (19) | |
|------------------------------------|---------------------|-------------------------------|---|----------|----------|----------|---------------|-----------------|----------------|----------|----------|----------|---------------------------------|---------------------|-------------|---------------------------|------------------------------|---------------------|---------|
| Solar Loan II | | | Class Average Rate w/SUT - \$/kWh ¹ | | | | | | | | | | Typical RS RRC (\$) | | | Change in RS | % Change in RS | | |
| Solar Loan II Revenue Requirements | II w/o SUT (\$/kWh) | Solar Loan II w/ SUT (\$/kWh) | RS | RHS | RLM | GLP | LPL-S (0-749) | LPL-S (750-999) | LPL-S (1,000+) | LPL-P | HTS-S | HTS-HV | Summer Monthly Bill | Winter Monthly Bill | Annual Bill | Typical Annual Bill (\$s) | RS Typical Annual Bill (\$s) | Typical Annual Bill | |
| Current | | | 0.183074 | 0.161083 | 0.171609 | 0.176113 | 0.154741 | 0.157620 | 0.161963 | 0.152961 | 0.144593 | 0.136245 | 0.02 | 0.01 | 0.16 | | 1,269.28 | | |
| 2010 | 1,713,535 | 0.000038 | 0.000041 | 0.183115 | 0.161124 | 0.171650 | 0.176154 | 0.154782 | 0.157661 | 0.162004 | 0.153002 | 0.144634 | 0.136286 | 0.04 | 0.03 | 0.40 | 0.24 | 1,269.52 | 0.019% |
| 2011 | 2,292,014 | 0.000051 | 0.000055 | 0.183129 | 0.161138 | 0.171664 | 0.176168 | 0.154796 | 0.157675 | 0.162018 | 0.153016 | 0.144648 | 0.136300 | 0.05 | 0.04 | 0.52 | 0.36 | 1,269.64 | 0.028% |
| 2012 | 3,839,918 | 0.000086 | 0.000092 | 0.183166 | 0.161175 | 0.171701 | 0.176205 | 0.154833 | 0.157712 | 0.162055 | 0.153035 | 0.144685 | 0.136337 | 0.08 | 0.06 | 0.80 | 0.64 | 1,269.92 | 0.050% |
| 2013 | 3,696,637 | 0.000082 | 0.000088 | 0.183162 | 0.161171 | 0.171697 | 0.176201 | 0.154829 | 0.157708 | 0.162051 | 0.153049 | 0.144681 | 0.136333 | 0.08 | 0.06 | 0.80 | 0.64 | 1,269.92 | 0.050% |
| 2014 | 3,411,185 | 0.000076 | 0.000081 | 0.183155 | 0.161164 | 0.171690 | 0.176194 | 0.154822 | 0.157701 | 0.162044 | 0.153042 | 0.144674 | 0.136326 | 0.07 | 0.05 | 0.68 | 0.52 | 1,269.80 | 0.041% |
| 2015 | 3,304,479 | 0.000074 | 0.000079 | 0.183153 | 0.161162 | 0.171688 | 0.176192 | 0.154820 | 0.157699 | 0.162042 | 0.153040 | 0.144672 | 0.136324 | 0.07 | 0.05 | 0.68 | 0.52 | 1,269.80 | 0.041% |
| 2016 | 3,199,445 | 0.000071 | 0.000076 | 0.183150 | 0.161159 | 0.171685 | 0.176189 | 0.154817 | 0.157696 | 0.162039 | 0.153037 | 0.144669 | 0.136321 | 0.07 | 0.05 | 0.68 | 0.52 | 1,269.80 | 0.041% |
| 2017 | 3,107,398 | 0.000069 | 0.000074 | 0.183148 | 0.161157 | 0.171683 | 0.176187 | 0.154815 | 0.157694 | 0.162037 | 0.153035 | 0.144667 | 0.136319 | 0.07 | 0.05 | 0.68 | 0.52 | 1,269.80 | 0.041% |
| 2018 | 3,006,711 | 0.000067 | 0.000072 | 0.183146 | 0.161155 | 0.171681 | 0.176185 | 0.154813 | 0.157692 | 0.162035 | 0.153033 | 0.144665 | 0.136317 | 0.07 | 0.05 | 0.68 | 0.52 | 1,269.80 | 0.041% |
| 2019 | 2,895,221 | 0.000065 | 0.000070 | 0.183144 | 0.161153 | 0.171679 | 0.176183 | 0.154811 | 0.157690 | 0.162033 | 0.153031 | 0.144663 | 0.136315 | 0.07 | 0.05 | 0.68 | 0.52 | 1,269.80 | 0.041% |
| 2020 | 2,717,911 | 0.000061 | 0.000065 | 0.183139 | 0.161148 | 0.171674 | 0.176178 | 0.154806 | 0.157685 | 0.162028 | 0.153026 | 0.144658 | 0.136310 | 0.06 | 0.04 | 0.56 | 0.40 | 1,269.68 | 0.032% |
| 2021 | 2,573,507 | 0.000057 | 0.000061 | 0.183135 | 0.161144 | 0.171670 | 0.176174 | 0.154802 | 0.157681 | 0.162024 | 0.153022 | 0.144654 | 0.136306 | 0.06 | 0.04 | 0.56 | 0.40 | 1,269.68 | 0.032% |
| 2022 | 2,388,274 | 0.000053 | 0.000057 | 0.183131 | 0.161140 | 0.171666 | 0.176170 | 0.154798 | 0.157677 | 0.162020 | 0.153018 | 0.144650 | 0.136302 | 0.06 | 0.04 | 0.56 | 0.40 | 1,269.68 | 0.032% |
| 2023 | 1,190,453 | 0.000027 | 0.000029 | 0.183103 | 0.161112 | 0.171638 | 0.176142 | 0.154770 | 0.157649 | 0.161992 | 0.152990 | 0.144622 | 0.136274 | 0.04 | 0.03 | 0.40 | 0.24 | 1,269.52 | 0.019% |
| 2024 | (1,064,294) | (0.000024) | (0.000026) | 0.183048 | 0.161057 | 0.171583 | 0.176087 | 0.154715 | 0.157594 | 0.161937 | 0.152935 | 0.144567 | 0.136219 | - | - | - | (0.16) | 1,269.12 | -0.13% |
| 2025 | (2,149,244) | (0.000048) | (0.000051) | 0.183023 | 0.161032 | 0.171558 | 0.176062 | 0.154690 | 0.157569 | 0.161912 | 0.152910 | 0.144542 | 0.136194 | (0.02) | (0.02) | (0.24) | (0.40) | 1,268.88 | -0.032% |
| 2026 | (1,467,034) | (0.000033) | (0.000035) | 0.183039 | 0.161048 | 0.171574 | 0.176078 | 0.154706 | 0.157585 | 0.161928 | 0.152926 | 0.144558 | 0.136210 | (0.01) | (0.01) | (0.12) | (0.28) | 1,269.00 | -0.022% |
| 2027 | 1,030,637 | 0.000023 | 0.000025 | 0.183099 | 0.161108 | 0.171634 | 0.176138 | 0.154766 | 0.157645 | 0.161988 | 0.152986 | 0.144618 | 0.136270 | 0.03 | 0.02 | 0.28 | 0.12 | 1,269.40 | 0.009% |

Current Class Avg Rate + Col 2 for Each Rate Class (Col 4 thru Col 13)

(Cur. eRRC + Col 3) * Avg RS kWh Sum Mo Rnd 2
 (Cur. eRRC + Col 3) * Avg RS kWh Win Mo
 (4 * Col 14) + (8 * Col 15)

Col 16 - Current Col 16
 Current Col 18 + Col 17
 Current Col 18

% Change from Current Class Average Rate w/SUT

| | RS | RHS | RLM | GLP | LPL-S (0-749) | LPL-S (750-999) | LPL-S (1,000+) | LPL-P | HTS-S | HTS-HV |
|------|---------|---------|---------|---------|---------------|-----------------|----------------|---------|---------|---------|
| 2010 | 0.022% | 0.025% | 0.024% | 0.023% | 0.026% | 0.026% | 0.025% | 0.027% | 0.028% | 0.030% |
| 2011 | 0.030% | 0.034% | 0.032% | 0.031% | 0.036% | 0.035% | 0.034% | 0.036% | 0.038% | 0.040% |
| 2012 | 0.050% | 0.057% | 0.054% | 0.052% | 0.059% | 0.058% | 0.057% | 0.060% | 0.064% | 0.068% |
| 2013 | 0.048% | 0.055% | 0.051% | 0.050% | 0.057% | 0.056% | 0.054% | 0.058% | 0.061% | 0.065% |
| 2014 | 0.044% | 0.050% | 0.047% | 0.046% | 0.052% | 0.051% | 0.050% | 0.053% | 0.056% | 0.059% |
| 2015 | 0.043% | 0.049% | 0.046% | 0.045% | 0.051% | 0.050% | 0.049% | 0.052% | 0.055% | 0.058% |
| 2016 | 0.042% | 0.047% | 0.044% | 0.043% | 0.049% | 0.048% | 0.047% | 0.050% | 0.053% | 0.056% |
| 2017 | 0.040% | 0.046% | 0.043% | 0.042% | 0.048% | 0.047% | 0.046% | 0.048% | 0.051% | 0.054% |
| 2018 | 0.039% | 0.045% | 0.042% | 0.041% | 0.047% | 0.046% | 0.044% | 0.047% | 0.050% | 0.053% |
| 2019 | 0.038% | 0.043% | 0.041% | 0.040% | 0.045% | 0.044% | 0.043% | 0.046% | 0.048% | 0.051% |
| 2020 | 0.036% | 0.040% | 0.038% | 0.037% | 0.042% | 0.041% | 0.040% | 0.042% | 0.045% | 0.048% |
| 2021 | 0.033% | 0.038% | 0.036% | 0.035% | 0.039% | 0.039% | 0.038% | 0.040% | 0.042% | 0.045% |
| 2022 | 0.031% | 0.035% | 0.033% | 0.032% | 0.037% | 0.036% | 0.035% | 0.037% | 0.039% | 0.042% |
| 2023 | 0.016% | 0.018% | 0.017% | 0.016% | 0.019% | 0.018% | 0.018% | 0.019% | 0.020% | 0.021% |
| 2024 | -0.014% | -0.016% | -0.015% | -0.015% | -0.017% | -0.016% | -0.016% | -0.017% | -0.018% | -0.019% |
| 2025 | -0.028% | -0.032% | -0.030% | -0.029% | -0.033% | -0.032% | -0.031% | -0.033% | -0.035% | -0.037% |
| 2026 | -0.019% | -0.022% | -0.020% | -0.020% | -0.023% | -0.022% | -0.022% | -0.023% | -0.024% | -0.026% |
| 2027 | 0.014% | 0.016% | 0.015% | 0.014% | 0.016% | 0.016% | 0.015% | 0.016% | 0.017% | 0.018% |

¹All customers assumed to have BGS Supply

1
2
3
4
5

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY
DIRECT TESTIMONY
OF
MARK G. KAHRER
VICE PRESIDENT-FINANCE**

6

7

My name is Mark G. Kahrer and I am an employee of Public Service

8

Enterprise Group, Inc. (PSEG) Services Corporation in the position of Vice

9

President—Finance for Public Service Electric & Gas (“PSE&G” or “Company”).

10

My business address is 80 Park Plaza, Newark, New Jersey. My credentials are

11

included in the attached Schedule MGK-1 of this testimony.

12

13

SCOPE OF TESTIMONY

14

The purpose of my testimony is to support the required return on the

15

investments proposed by PSE&G in its Solar Loan II Program (“Program”). The

16

testimony provides the support for the cost and capitalization for the components of

17

the Weighted Average Cost of Capital (WACC) that is used in the testimony of

18

Stephen Swetz in the calculation of the revenue requirements associated with the

19

Program.

1 **OVERVIEW OF THE PSE&G SOLAR LOAN II PROGRAM**

2 The Solar Loan II Program is proposed by PSE&G pursuant to a
3 directive by the New Jersey Board of Utilities (“BPU” or “Board”) contained in an
4 Order dated August 7, 2008 in Docket No. EO06100744. This Program together with
5 the Company’s proposal for the Solar 4 All program, once approved, will assist the
6 State in achieving its Renewable Portfolio Standard (“RPS”) targets and operate to
7 support the development of an SREC market.

8 PSE&G estimates that it will invest approximately \$206 million by
9 providing loans to parties to develop 55 MW of solar photovoltaic systems (“Solar
10 Systems”), 40 MW of new solar capacity and an estimated 15 MW of Solar Systems
11 that represents remaining un-subscribed capacity from the Solar Loan I program that
12 would be folded into the new Solar Loan II program once approved. In addition the
13 Company will be investing approximately \$200 thousand for the communication
14 system to monitor the Program. Of these expenditures approximately \$116 million is
15 expected to be invested by the end of 2011. See Schedule MGK-2, attached, for the
16 detailed year-by-year capital investment included in the Program.

1 **COST RECOVERY OF THE PSE&G SOLAR LOAN II PROGRAM**

2 The revenue requirements and cost recovery mechanism of the
3 Company's proposed Program are described in detail in the testimony of Stephen
4 Swetz. Costs to be recovered include:

- 5 • Return of and on the money loaned to the various parties who would
6 develop and own the 55 MW of Solar Systems.
- 7 • Return of and on the invested capital associated with the IT and
8 communications systems required by the Program.
- 9 • Expenses including administrative costs and operation and maintenance
10 costs.
- 11 • Less the net proceeds realized from the sale of SRECs and/or the cash
12 received from the loan recipients for repayment of the loans.
- 13 • Less the value received from the exercising of any call options on the
14 SRECs should a loan be repaid earlier than the 10 / 15 year term of the
15 Residential/Non-Residential loan.

16 Return of the Company's investment as represented by the loans will be mirror the
17 amortization of the loan balance. Return on that unrecovered investment would be at
18 WACC. The return of the capitalized communication system will be over its book
19 life. Return on the unrecovered investment would also be at WACC. Schedule
20 MGK-3, attached, shows the calculation of the WACC proposed for this Program.

1 Schedule MGK-4, attached, is provided as required by the Minimum Filing
2 Requirements for Petitions under N.J.S.A. 48:3-98.1. Schedule MGK-4 shows the
3 calculation of the capital structure approved by the Board in its most recent electric
4 and gas cases as well as the allowed overall rate of return approved by the Board

5

6 **DESCRIPTION OF WACC FOR PURPOSES OF THE PROGRAM**

7 PSE&G will determine its revenue requirements based upon a WACC
8 including income tax effects. WACC, for purposes of the Program, will reflect:

- 9 • A capital structure that:
- 10 ○ Reflects the latest available actual PSE&G capital outstanding as of this
11 filing (January 31, 2009).
 - 12 ○ Includes long-term debt due within one year.
 - 13 ○ Excludes short-term debt.
 - 14 ○ Includes a pro forma adjustment that represents the capital required to
15 finance the investment called for by this Program filing along with the
16 capital required to finance the investments called for in the Economic
17 Energy Efficiency Stimulus Program filing, the Capital Economic
18 Stimulus Infrastructure filing, the Solar 4 All filing and anticipated
19 additional loans to be made under the Solar Loan I program through the
20 end of 2011. The pro forma adjustment will assume the capital required

1 will be a combination of new long-term debt at coupon rates consistent
2 with today's market cost and common equity such that the pro forma
3 PSE&G capital structure will reflect a 51.2 percent common equity
4 component.

5 • A cost of debt equal to the weighted embedded cost of long-term debt with
6 a pro forma adjustment to reflect the anticipated financing as described
7 above.

8 • A cost of preferred stock equal to the weighted embedded cost of preferred
9 stock currently outstanding.

10 • A cost of common equity more reflective of the market's current
11 expectations (which will be discussed later in my testimony).

12 The WACC in the Program's filing is 8.2423% annually. Including tax effects, the
13 weighted pre-tax cost is 11.9525%. This would correspond to a 0.9960% monthly
14 rate. The WACC is based on the capitalization and costs presented in Schedule
15 MGK-3.

16

17 **DETERMINATION OF THE CAPITAL STRUCTURE**

18 The WACC in Schedule MGK-3 reflects actual data for PSE&G as of
19 January 31, 2009, the information available as of the time this filing was being
20 prepared. The capitalization ratio is derived by beginning with actual capitalization as

1 of January 31, 2009 as per the Financial Statements of PSE&G provided monthly to
2 the BPU. An adjustment is made to reflect:

- 3 • An approximate \$465 million debt issue to support the financing of the
4 capital expenditures associated with this Program and the four other
5 programs as described above through the end of 2011.

6 The \$465 million pro forma debt issue represents approximately 41.77% of the capital
7 requirements associated with program expenditures (see Schedule MGK-5) with the
8 balance of the capital requirements coming from common equity. This
9 41.77%/58.23% assumed debt/equity financing is such that the resulting pro forma
10 PSE&G capital structure would reflect a 51.2 percent common equity component.
11 Schedule MGK-5 shows the derivation of the capital structure reflected in the WACC
12 calculation.

13 The 51.2 percent common equity in the proposed capital structure is
14 consistent with that allowed New Jersey Natural Gas (NJNG) (BPU Docket No.
15 GR07110889) in a decision dated October 3, 2008. The percent common equity
16 reflected is also in line with the 50 percent common equity component reflected in the
17 overall allowed rate of return allowed New Jersey American Water in December 2008
18 (BPU Docket No. WR08010020) and the 51 percent common equity component the
19 Board approved for United Water Toms River in January 2009 (BPU Docket No.
20 WR08030139).

1 Over the last six months we have seen extreme volatility in the financial
2 markets. The higher percent common equity allowed NJNG is consistent with the
3 requirements of the current financial markets. A recent SNLi article quotes James
4 Hempstead, Moody's senior vice president, as saying:

5 For the long term, the biggest risk could come from new
6 environmental legislation. Although such new laws may
7 be introduced sooner rather than later, it could take some
8 time before the details of implementation are fully worked
9 out. But given the sheer magnitude of the implications for
10 the sector, we remain befuddled as to why utilities are not
11 more aggressive with their balance-sheet strengthening
12 programs.

13
14 PSE&G is heeding that advice. In fact since August of 2008 the Company has grown
15 the percent common equity in its capital structure from 49.98% to 50.14% percent by
16 the end of January 2009. The expectation is that common equity will grow to
17 approximately 51.2% by the end of 2009.

18

19 **COST OF THE COMPONENTS OF THE WACC**

20 *Cost of Long-term Debt*

21 Schedule MGK-6 shows the calculation of the embedded cost of long-
22 term debt based upon January 31, 2009 actual outstanding series cost information
23 with the pro forma adjustments described above. The pro forma \$465 million debt
24 issue is at an expected coupon rate of 5.475%. The projected rate represents the
25 average of indicative quotes for a new 10-year debt issue by PSE&G as provided to

1 the Company on March 20, 2009 by BNP Paribas, UBS and Royal Bank of Scotland
2 who regularly follow our credit and bonds. This projected rate will be updated within
3 30 days prior to the expected decision date set by RGGI rules for this application.

4

5 ***Cost of Customer Deposits***

6 The cost for customer deposits is established annually by the BPU with
7 a new rate effective each January. The rate that became effective January 1, 2009 is
8 2.34% and is used for this filing.

9

10 ***Cost of Preferred Stock***

11 Schedule MGK-7 shows the derivation of the weighted embedded cost
12 of preferred stock of 5.03%. The Company does not foresee the issuance of any new
13 preferred stock in the near future.

14

15 ***Cost of Common Equity***

16 As noted above, over the last six months we have seen extreme
17 volatility in the financial markets. The market for new capital is thin and the horizon
18 is very uncertain. The competition for scarce funds in the external markets is stronger
19 than ever, and investors are demanding higher returns before they consider an equity
20 investment. During this time, we have observed a dramatic increase in the cost of

1 capital. The existing regulatory WACC applied to the Company's electric and gas
2 operations reflect allowed returns on equity (ROEs) of 9.75% and 10% respectively.
3 But these rates were established in 2003 for electric operations and 2006 for gas.
4 Recent articles have recognized the upward movement in the cost of money across the
5 board. An article entitled "Attracting Equity" from "energybizinsider" dated
6 February 6, 2009 states:

7 With September's and October's turmoil, utilities found
8 themselves cut off from some of the lower-cost debt
9 capital available until 2008. They now are paying about 2
10 percent more for borrowed money.... For higher-quality
11 names, said John Whitlock, Standard & Poor's managing
12 director for regulated utilities, a common form of
13 syndicated debt has a three- to five-year maturity and an
14 interest rate of 8%.

15
16 Tanya Bodell of CRA International Inc., in her article "Revisiting Your Generation
17 Investment Strategy in a Recession" (Jan/Feb 2009 issue of Electric Light & Power)
18 states:

19 Nearly every assumption an investor in physical
20 generation asset should consider has changed significantly
21 during the past six months...
22 o **Cost of Capital.** It has risen because of the credit
23 crisis, increasing by a reported 200 to 400 basis
24 points.

25
26 Recent regulatory allowed ROEs are supportive of the ROE reflected in
27 the WACC requested for this program. The average allowed ROE for Electric/Gas
28 Utilities in the fourth quarter of 2008 was 10.33% as reported by Regulatory Research

1 Associates. More recent utility decisions rendered so far in 2009 averaged 10.54%
2 (see Schedule MGK-8).

3 The BPU appears to recognize that the cost of common equity is now
4 higher. Looking back over the period 2002 through 2007 we see that the BPU had
5 allowed the electric and gas utilities it regulates an ROE that averaged 9.83%, on an
6 average 45.7% common equity in capitalization (see Schedule MGK- 9). The recent
7 NJNG, NJ American Water and United Water Toms River decisions show a
8 movement in the upward direction that the markets are looking for—namely allowed
9 ROEs of 10.3%, 10.3% and 10%, respectively and common equity percentages of
10 51.2%, 50% and 51%, respectively. While the Company believes the appropriate cost
11 of common equity is still above that allowed NJNG, to expedite the resolution of this
12 filing PSE&G is proposing that the WACC for purposes of this filing reflect the
13 10.3% ROE and 51.2% capitalization that the BPU saw fit to grant NJNG in its
14 October 3, 2008 decision.

15

16 **CONCLUSION**

17 This Program is a key component of a multi-pronged approach to
18 helping the State achieve its RPS targets and support the objective of creating a viable
19 SREC market in today's economic environment. A more compensatory return is

1 required, though, to go forward. As Tanya Bodell points out in her Electric Light &

2 Power article:

3 During low economic growth while commodity prices
4 have high cost of capital, one might see the following:

- 5 ○ Renewables look less rosy. When projected fuel
6 prices fall, the expected cost of producing electricity
7 falls. When load decreases, demand for the
8 megawatt-hours of renewable resource generation
9 required to meet a renewable portfolio standard
10 percentage decreases. The green spread (the price of
11 electricity plus a renewable energy credit) narrows,
12 and renewable resources require government
13 subsidies. In combination with the withdrawal of tax
14 equity financing, renewable projects are delayed or
15 cancelled.

16
17 It is clear that this Program is now needed more than ever.

18 This concludes my testimony.

19

**QUALIFICATIONS
OF
MARK G. KAHRER
VICE PRESIDENT--FINANCE**

I have been employed at PSEG for more than 25 years, serving in a number of financial positions in the company including Director – Corporate Accounting, Director – Financial Risk Management, Assistant Treasurer and, most recently, Vice President – Finance and Development of PSEG Power LLC, prior to my appointment as Vice President – Finance for PSE&G. In those roles, I was responsible for closing the corporation’s books of record, filing compliance reports with the Securities and Exchange Commission and the Federal Energy Regulatory Commission (“Commission”), establishing a risk governance framework and policies, overseeing the administration of more than \$4.5 billion in pension, 401(K) and nuclear decommissioning trust funds, implementing the corporation’s insurance programs and leading the corporate finance group, which was responsible for issuing more than \$7 billion in debt and equity securities during my tenure. In addition, I was also responsible for managing PSE&G’s relationships with financial rating entities such as Fitch Ratings, Moody’s Investors Service and Standard and Poor’s.

I have a Bachelor of Science degree in accounting from St. Peter’s College, a Masters in Business Administration with a concentration in finance from

Seton Hall University, and I am a Certified Public Accountant licensed in the State of New Jersey.

PSE&G Solar Loan II Program**Investment**

(thousands of dollars)

| <i>Expenditures:</i> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>Total</u> |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| Loans | - | 12,843 | 102,826 | 89,975 | 205,643 |
| Communications | - | - | 200 | - | 200 |
| Total | - | 12,843 | 103,026 | 89,975 | 205,843 |
| Cumulative Expenditure | - | 12,843 | 115,869 | 205,843 | |

PSE&G Solar Loan II Program
Weighted Average Cost of Capital (WACC)

| | <u>Percent</u> | <u>Cost</u> | <u>WACC</u> | <u>Revenue Conversion Factor</u> | <u>WACC Including Tax Effects</u> |
|-------------------|----------------|-------------|----------------|--|---|
| Long-term Debt | 46.86% | 6.1845% | 2.8983% | | 2.8983% |
| Customer Deposits | <u>1.00%</u> | 2.3400% | <u>0.0234%</u> | | <u>0.0234%</u> |
| Sub-total | 47.87% | | 2.9217% | | 2.9217% |
| Preferred Stock | 0.94% | 5.0296% | 0.0471% | 1.697332 | 0.0799% |
| Common Equity | <u>51.20%</u> | 10.3000% | <u>5.2735%</u> | 1.697332 | <u>8.9509%</u> |
| Total | 100.00% | | 8.2423% | | 11.9525% |
| Monthly WACC | | | 0.6869% | | 0.9960% |

NOTE: Reflects a tax rate of: 41.084%

PSE&G Solar Loan II Program
Minimum Filing Requirement IV.h. for Petitions under N.J.S.A. 48:3-98.1

Electric (1):

| | <u>Percent</u> | <u>Cost</u> | <u>Overall Rate of Return</u> |
|-------------------|-----------------|-------------|-----------------------------------|
| Long-term Debt | 50.6434% | 6.19% | 3.1348% |
| Customer Deposits | <u>0.6831%</u> | 2.94% | <u>0.0201%</u> |
| Sub-total | 51.3265% | | 3.1549% |
| Preferred Stock | 1.2708% | 5.03% | 0.0639% |
| Common Equity | <u>47.4027%</u> | 9.75% | <u>4.6218%</u> |
| Total | 100.0000% | | 7.8406% |

Gas (2):

| | <u>Percent</u> | <u>Cost</u> | <u>Overall Rate of Return</u> |
|-------------------|-----------------|-------------|-----------------------------------|
| Long-term Debt | 50.6434% | 6.19% | 3.1348% |
| Customer Deposits | <u>0.6831%</u> | 2.94% | <u>0.0201%</u> |
| Sub-total | 51.3265% | | 3.1549% |
| Preferred Stock | 1.2708% | 5.03% | 0.0639% |
| Common Equity | <u>47.4027%</u> | 10.00% | <u>4.7403%</u> |
| Total | 100.0000% | | 7.9591% |

(1) BPU Docket No. ER02050303

(2) BPU Docket No. GR05100845

PSE&G Solar Loan II Program**Development of Capitalization**

(thousands of dollars)

Actual Capital Structure:

| | Capitalization | |
|-------------------|-----------------------|--------------|
| | Balance @ | Ratio |
| | Jan-09 | |
| Long-term Debt | 3,523,761 | 47.63% |
| Customer Deposits | 85,214 | 1.15% |
| Sub-total | 3,608,975 | 48.78% |
| Preferred Stock | 79,655 | 1.08% |
| Common Equity | 3,709,342 | 50.14% |
| Total | 7,397,971 | 100.00% |

Financing Requirement:

| | Capital Economic Stimulus | | EEE Stimulus | | Solar 4 All | Add'l Loans | | |
|-----------------------|----------------------------------|------------|---------------------|------------|--------------------|---------------------|----------------------|--------------|
| | Electric | Gas | Electric | Gas | Electric | Solar Loan I | Solar Loan II | Total |
| Investment thru 2011: | | | | | | | | |
| Investment | 404,164 | 294,127 | 120,642 | 48,358 | 389,905 | 58,332 | 115,869 | 1,431,397 |
| Accum. Deprec/Amort | 20,490 | 14,359 | 20,761 | 8,322 | 29,362 | - | - | 93,295 |
| Accum. Def. Tax | 7,162 | 9,919 | 40,781 | 16,347 | 41,897 | - | - | 116,107 |
| Accum. Def. ITC | - | - | - | - | 108,406 | - | - | 108,406 |
| Amount to Finance | 376,512 | 269,849 | 59,099 | 23,689 | 210,240 | 58,332 | 115,869 | 1,113,590 |

Allocation of Financing Requirement between Debt and Equity:

| | Financing Requirement | Ratio |
|----------------|------------------------------|--------------|
| Long-term Debt | 465,113 | 41.77% |
| Common Equity | 648,477 | 58.23% |
| Total | 1,113,590 | 100.00% |

WACC:

| | Capitalization | | | Capitalization |
|-------------------|-----------------------|------------------|------------------|-----------------------|
| | Balance @ | Net to be | Pro Forma | Ratio |
| | Jan-09 | Financed | | |
| Long-term Debt | 3,523,761 | 465,113 | 3,988,873 | 46.86% |
| Customer Deposits | 85,214 | - | 85,214 | 1.00% |
| Sub-total | 3,608,975 | 465,113 | 4,074,088 | 47.87% |
| Preferred Stock | 79,655 | - | 79,655 | 0.94% |
| Common Equity | 3,709,342 | 648,477 | 4,357,818 | 51.20% |
| Total | 7,397,971 | 1,113,590 | 8,511,561 | 100.00% |

PSE&G Solar Loan II Program
Embedded Cost of Long-term Debt
(dollars)

| | | COST OF BOND YIELD BASIS | PRINCIPAL AMOUNT OUTSTANDING | PLUS NET UNAMORTIZED PREMIUM/ (DISCOUNT) | PLUS NET UNAMORTIZED SELLING EXPENSE | PLUS NET UNAMORTIZED PREMIUM/ (DISCOUNT) & SELLING EXPENSE | PRINCIPAL AMOUNT AND UNAMORTIZED PREMIUM/ (DISCOUNT) & SELLING EXPENSE- NET | WEIGHT IN % OF PRINCIPAL AMOUNT AND UNAMORTIZED PREMIUM/ (DISCOUNT) & SELLING EXPENSE- NET | COST IN PERCENT |
|---------------------------------------|--------------------------------------|-----------------------------------|------------------------------------|--|--|---|--|---|--------------------|
| 6.750% | SERIES VV DUE 1-1-16 | 7.299% | \$171,245,000.00 | (\$920,444.94) | (\$11,620.00) | (\$932,064.94) | \$170,312,935.06 | 4.2901% | 0.3131% |
| 6.450% | PC SERIES T DUE 10-1-19 | 7.129% | \$4,600,000.00 | (\$37,392.85) | (\$35,584.00) | (\$72,976.85) | \$4,527,023.15 | 0.1140% | 0.0081% |
| 9.250% | SERIES CC DUE 6-1-21 | 9.709% | \$134,380,000.00 | (\$158,950.05) | (\$7,104.00) | (\$166,054.05) | \$134,213,945.95 | 3.3807% | 0.3282% |
| 5.200% | PC SERIES M DUE 3-1-25 | 5.696% | \$23,000,000.00 | (\$190,776.68) | (\$170,226.00) | (\$361,002.68) | \$22,638,997.32 | 0.5703% | 0.0325% |
| 3.664% | PC SERIES Z (2003 B1) DUE 11-1-33 ^ | 3.969% | \$50,000,000.00 | \$0.00 | (\$320,570.32) | (\$320,570.32) | \$49,679,429.68 | 1.2514% | 0.0497% |
| 3.664% | PC SERIES AA (2003 B2) DUE 11-1-33 ^ | 3.969% | \$50,000,000.00 | \$0.00 | (\$320,570.32) | (\$320,570.32) | \$49,679,429.68 | 1.2514% | 0.0497% |
| 5.450% | PC SERIES O DUE 2-1-32 | 5.885% | \$50,000,000.00 | (\$574,917.39) | (\$156,492.00) | (\$731,409.39) | \$49,268,590.61 | 1.2410% | 0.0730% |
| 6.400% | PC SERIES P DUE 5-1-32 | 6.901% | \$100,000,000.00 | (\$1,088,921.71) | (\$477,090.00) | (\$1,566,011.71) | \$98,433,988.29 | 2.4795% | 0.1711% |
| 8.000% | SERIES DUE 6-1-37 | 8.347% | \$7,462,900.00 | \$0.00 | \$0.00 | \$0.00 | \$7,462,900.00 | 0.1880% | 0.0157% |
| 5.000% | SERIES DUE 7-1-37 | 5.218% | \$7,537,800.00 | \$0.00 | \$0.00 | \$0.00 | \$7,537,800.00 | 0.1899% | 0.0099% |
| 2.272% | FRN SERIES B DUE 3-12-10 ^ | 4.661% | \$300,000,000.00 | \$0.00 | (\$598,715.24) | (\$598,715.24) | \$299,401,284.76 | 7.5417% | 0.3515% |
| 8.160% | SERIES DUE 5/26/09 * | 8.745% | \$16,500,000.00 | (\$1,645.35) | (\$255.00) | (\$1,900.33) | \$16,498,099.67 | 0.4156% | 0.0363% |
| 8.100% | SERIES DUE 5/26/09 * | 8.683% | \$43,500,000.00 | (\$4,337.65) | (\$672.00) | (\$5,009.71) | \$43,494,990.29 | 1.0956% | 0.0951% |
| 5.125% | SERIES DUE 9/01/12 * | 5.830% | \$300,000,000.00 | (\$419,250.00) | (\$746,323.19) | (\$1,165,573.19) | \$298,834,426.81 | 7.5274% | 0.4389% |
| 5.000% | SERIES DUE 1/01/13 * | 5.641% | \$150,000,000.00 | \$0.00 | (\$398,098.10) | (\$398,098.10) | \$149,601,901.90 | 3.7684% | 0.2126% |
| 5.000% | SERIES DUE 8/15/14 * | 5.694% | \$250,000,000.00 | (\$549,175.00) | (\$943,298.93) | (\$1,492,473.93) | \$248,507,526.07 | 6.2597% | 0.3565% |
| 7.040% | SERIES DUE 11/06/20 * | 7.569% | \$9,000,000.00 | (\$34,479.66) | (\$39,762.00) | (\$74,241.60) | \$8,925,758.40 | 0.2248% | 0.0170% |
| 5.375% | SERIES DUE 9/1/13 * | 6.037% | \$300,000,000.00 | (\$146,059.23) | (\$893,478.76) | (\$1,039,537.97) | \$298,960,462.03 | 7.5306% | 0.4546% |
| 7.180% | SERIES DUE 8/01/23 * | 7.726% | \$5,000,000.00 | (\$18,116.34) | (\$34,800.00) | (\$52,916.37) | \$4,947,083.63 | 0.1246% | 0.0096% |
| 7.150% | SERIES DUE 8/30/23 * | 7.694% | \$33,500,000.00 | (\$121,565.84) | (\$233,334.00) | (\$354,899.91) | \$33,145,100.09 | 0.8349% | 0.0642% |
| 5.250% | SERIES DUE 7/1/35 * | 5.619% | \$250,000,000.00 | (\$693,437.50) | (\$1,889,451.94) | (\$2,582,889.44) | \$247,417,110.56 | 6.2323% | 0.3502% |
| 5.700% | SERIES DUE 12/1/36 * | 6.098% | \$250,000,000.00 | (\$984,994.81) | (\$2,021,098.07) | (\$3,006,092.88) | \$246,993,907.12 | 6.2216% | 0.3794% |
| 5.800% | SERIES DUE 5/1/37 * | 6.183% | \$350,000,000.00 | (\$643,462.00) | (\$2,804,834.49) | (\$3,448,296.52) | \$346,551,703.48 | 8.7294% | 0.5397% |
| 5.300% | SERIES DUE 5/1/18 * | 5.958% | \$400,000,000.00 | (\$294,853.32) | (\$2,533,895.97) | (\$2,828,749.29) | \$397,171,250.71 | 10.0044% | 0.5961% |
| 6.330% | SERIES DUE 11/1/2013 * | 7.520% | \$275,000,000.00 | (\$82,406.73) | (\$1,691,633.70) | (\$1,774,040.43) | \$273,225,959.57 | 6.8824% | 0.5175% |
| 5.475% | NEW 10 YR NOTE DUE 2019 * | 6.130% | \$465,610,000.00 | \$0.00 | (\$3,093,660.00) | (\$3,093,660.00) | \$462,516,340.00 | 11.6504% | 0.7142% |
| TOTAL PSE&G LONG TERM DEBT | | | \$3,996,335,700.00 | (\$6,965,187.04) | (\$19,422,568.04) | (\$26,387,755.17) | \$3,969,947,944.83 | 100.000% | 6.1845% |

PSE&G Solar Loan II Program
Embedded Cost of Preferred Stock
(dollars)

| <u>SERIES</u> | <u>DATE OF ISSUE</u> | <u>ORIG. ISSUE NUMBER OF SHARES</u> | <u>ORIG. ISSUE PAR VALUE OUTSTANDING</u> | <u>PREMIUM/ (DISCOUNT)</u> | <u>EXPENSES</u> | <u>ORIG. ISSUE PROCEEDS TO THE COMPANY</u> | <u>ORIG. ISSUE PERCENT OF PAR VALUE</u> | <u>ORIG. ISSUE COST TO COMPANY</u> | <u>CURRENT PAR VALUE OUTSTANDING</u> | <u>WEIGHT IN % OF CURRENT PAR VALUE OUTSTANDING</u> | <u>COST IN PERCENT</u> |
|---------------|----------------------|-------------------------------------|--|----------------------------|---------------------|--|---|------------------------------------|--------------------------------------|---|------------------------|
| 4.08% | 10-25-49 | 250,000 | \$25,000,000.00 | \$37,500.00 | \$115,835.55 | 24921664.45 | 99.6867% | 4.0928% | \$14,622,100.00 | 18.387167% | 0.752554% |
| 4.18% | 5-27-54 | 249,942 | \$24,994,200.00 | \$31,691.30 | \$49,054.24 | 24976837.06 | 99.9305% | 4.1829% | \$11,695,800.00 | 14.707369% | 0.615195% |
| 4.30% | 10-03-55 | 250,000 | \$25,000,000.00 | \$0.00 | \$67,061.93 | 24932938.07 | 99.7318% | 4.3116% | \$14,947,800.00 | 18.796732% | 0.810433% |
| 5.05% | 3-12-58 | 250,000 | \$25,000,000.00 | \$25,000.00 | \$64,244.33 | 24960755.67 | 99.8430% | 5.0579% | \$10,400,200.00 | 13.078163% | 0.661486% |
| 5.28% | 12-21-60 | 250,000 | \$25,000,000.00 | \$37,500.00 | \$63,235.67 | 24974264.33 | 99.8971% | 5.2854% | \$11,786,400.00 | 14.821298% | 0.783371% |
| 6.92% | 2-03-94 | 600,000 | \$60,000,000.00 | (\$288,000.00) | \$55,000.00 | 59657000 | 99.4283% | 6.9598% | \$16,071,100.00 | 20.209272% | 1.406522% |
| | | 1,849,942 | \$184,994,200.00 | (\$156,308.70) | \$414,431.72 | \$184,423,459.58 | | | \$79,523,400.00 | 100.000000% | 5.029562% |

PSE&G Solar Loan II Program
Recent Allowed ROEs

| <u>Company</u> | <u>Decision Date</u> | <u>ROE</u> |
|-------------------------------------|-----------------------------|-------------------|
| Michigan Gas Utilities | 1/13/2009 | 10.45% |
| Public Service Co. of Oklahoma | 1/14/2009 | 10.50% |
| Cleveland Electric Illuminating Co. | 1/21/2009 | 10.97% |
| Ohio Edison | 1/21/2009 | 10.97% |
| Toledo Edison | 1/21/2009 | 10.97% |
| Union Electric Company | 1/27/2009 | 10.76% |
| Idaho Power Company | 1/30/2009 | 10.50% |
| New England Gas Company | 2/2/2009 | 10.05% |
| United Illuminating Company | 2/4/2009 | 8.75% |
| Indiana Michigan Power Company | 3/4/2009 | 10.50% |
| Southern California Edison | 3/12/2009 | 11.50% |
| Average | | 10.54% |

PSE&G Solar Loan II Program
Allowed ROEs and Common Equity in Capitalization

Past Allowed Returns:

| <u>Company</u> | <u>Docket No.</u> | <u>Date</u> | <u>ROE</u> | <u>Percent Common Equity</u> |
|------------------------|--------------------------|--------------------|-------------------|---|
| PSE&G | GR01050297 | 1/9/2002 | 10.00% | NA |
| Pivotal Utility | GR02040245 | 11/20/2002 | 10.00% | NA |
| PSE&G | ER02050303 | 7/9/2003 | 9.75% | 41.45% |
| Rockland Electric | ER02100724 | 7/15/2003 | 9.75% | 46.00% |
| Jersey Central | ER02080506 | 7/25/2003 | 9.50% | 46.00% |
| South Jersey Gas | GR03080683 | 7/8/2004 | 10.00% | 46.00% |
| Atlantic City Electric | ER03020110 | 5/26/2005 | 9.75% | 46.22% |
| Jersey Central | ER02080506 | 6/1/2005 | 9.75% | 46.00% |
| PSE&G | GR05100845 | 11/9/2006 | 10.00% | 47.40% |
| Rockland Electric | ER06060483 | 3/22/2007 | <u>9.75%</u> | <u>46.51%</u> |
| Average | | | 9.83% | 45.70% |

Recent Allowed Return:

| | | | | |
|-------------------------|------------|-----------|--------|--------|
| New Jersey Natural Gas | GR07110889 | 10/3/2008 | 10.30% | 51.20% |
| NJ American Water | WR08010020 | 12/8/2008 | 10.30% | 50.00% |
| United Water Toms River | WR08030139 | 1/28/2009 | 10.00% | 51.00% |

1 **PUBLIC SERVICE ELECTRIC AND GAS COMPANY**
2 **DIRECT TESTIMONY**
3 **OF**
4 **DANIEL M. FURLONG**
5 **ASSISTANT CONTROLLER**

6
7 My name is Daniel M. Furlong and I am an Assistant Controller of
8 Public Service Enterprise Group, Inc. (PSEG) Services Corporation. My business
9 address is 80 Park Plaza, Newark, New Jersey. My professional background and
10 qualifications as a witness in this proceeding are included in Schedule DMF-1 of this
11 testimony.

12
13 **SCOPE OF TESTIMONY**

14 The purpose of my testimony is to describe the accounting for the
15 Public Service Electric and Gas Company’s (“PSE&G” or “Company”) Solar Loan II
16 Program (“Program”). My testimony provides the accounting entries associated with
17 Solar loans, with Program costs and with Program cost recovery through the Regional
18 Greenhouse Gas Initiative Recovery Charge (RRC). The proposed cost recovery is
19 described in detail in the testimony of Stephen Swetz (Attachment B). The
20 accounting entries are summarized in Schedule DMF-2.

1 **ACCOUNTING FOR THE SOLAR LOANS**

2 (1) When a Solar loan is issued it is recorded as an investment on the Company's
3 books.

| | | | |
|---|-------------------------------------|-----|-----|
| 4 | 124 Other Investments – Solar Loans | XXX | |
| 5 | 131 Cash | | XXX |

6 (2) Each month the Company will accrue the interest earned on the outstanding
7 loans at the contracted rate. The accrued interest will be added to the
8 investment outstanding in the loans.

| | | | |
|----|---------------------------------------|-----|-----|
| 9 | 171 Interest Receivable – Solar Loans | XXX | |
| 10 | 419 Interest and Dividend Income | | XXX |

11 (3) Each month the Company will accrue the difference between the 6.5%
12 residential loan interest rate and the Weighted Average Cost of Capital of
13 11.9525% and defer that amount as a regulatory asset for recovery through the
14 RRC.

| | | | |
|----|--------------------------------------|-----|-----|
| 15 | 182.3 Solar Loan II Regulatory Asset | XXX | |
| 16 | 419 Interest and Dividend Income | | XXX |

17 (4) The Company will record the receipt of the Solar Renewable Energy
18 Certificates (SRECs). The SRECs will be carried as an asset on the Company's
19 books until they are sold at auction. The loan is reduced by the larger of the
20 current SREC value or the floor value. The interest receivable is reduced first
21 and the balance reduces the loan principal.

| | | | |
|----|-----------------|-----|--|
| 22 | 174 SREC Assets | XXX | |
|----|-----------------|-----|--|

| | | | |
|----|--|-----|--|
| 1 | 171 Interest Receivable – Solar Loans | XXX | |
| 2 | 124 Other Investments – Solar Loans | XXX | |
| 3 | (5) If the SREC’s current value is less than the floor value, the Company will defer | | |
| 4 | the difference as part of the Program regulatory asset for recovery through the | | |
| 5 | RRC. | | |
| 6 | 182.3 Solar Loan II Regulatory Asset | XXX | |
| 7 | 174 SREC Assets | XXX | |
| 8 | (6) The loans permit the borrower to pay cash instead of an SREC. The cash is | | |
| 9 | applied first to the interest receivable and then to the loan principal. | | |
| 10 | 131 Cash | XXX | |
| 11 | 171 Interest Receivable – Solar Loans | XXX | |
| 12 | 124 Other Investments – Solar Loans | XXX | |
| 13 | (7) If a loan is defaulted the Company will defer the net loss, including any | | |
| 14 | associated expense or recovery, to the Program regulatory asset for recovery | | |
| 15 | through the RRC. | | |
| 16 | 131 Cash (if any) | XXX | |
| 17 | 182.3 Solar Loan II Regulatory Asset | XXX | |
| 18 | 124 Other Investments – Solar Loans | XXX | |
| 19 | (8) If the Company exercises the SREC call option, the purchased SRECs will be | | |
| 20 | added to the inventory. | | |
| 21 | 174 SREC Assets | XXX | |
| 22 | 131 Cash | XXX | |

1 (9) When the SRECs are sold the Company will defer any gain or loss to the
2 Program regulatory asset for recovery through the RRC. If sold at a gain the
3 entry is:

| | | | |
|---|--------------------------------------|-----|-----|
| 4 | 131 Cash | XXX | |
| 5 | 182.3 Solar Loan II Regulatory Asset | | XXX |
| 6 | 174 SREC Assets | | XXX |

7 If sold at a loss the entry is:

| | | | |
|----|--------------------------------------|-----|-----|
| 8 | 131 Cash | XXX | |
| 9 | 182.3 Solar Loan II Regulatory Asset | XXX | |
| 10 | 174 SREC Assets | | XXX |

11

12 **ACCOUNTING FOR PROGRAM COSTS**

13 PSE&G is proposing to recover the revenue requirements associated with the direct
14 costs of the Program. Direct costs include all Program capital expenditures and the
15 Administrative Costs of running the Program.

16 (1) The Program capital assets are expected to include a communication device
17 which will be attached to the inverter. This investment will be capitalized in
18 accordance with the Company's capitalization policy.

| | | | |
|----|---|-----|-----|
| 19 | 384 Communication Equipment | XXX | |
| 20 | 131 Cash (payroll, outside services, M&S) | | XXX |

21 (2) The communication device will be depreciated over 10 years.

| | | | |
|----|------------------------------|-----|-----|
| 22 | 403 Depreciation Expense | XXX | |
| 23 | 108 Accumulated Depreciation | | XXX |

1 (3) The Company will expense as incurred the administrative costs associated with
2 the Program.

| | | |
|---|---|-----|
| 3 | 908 Customer Assistance Expenses | XXX |
| 4 | 131 Cash (payroll, outside services, M&S) | XXX |

5 (4) Each month the Company will accrue a carrying cost on the net outstanding
6 Program assets. For the loan asset, the interest receivable, and the SREC
7 inventory assets, the monthly pre-tax WACC rate will be multiplied by the
8 prior month's ending asset balances. For the net communication fixed asset,
9 the monthly pre-tax WACC rate will be multiplied by the average monthly net
10 asset balance. The resulting carrying costs will be added to the Program
11 regulatory asset for recovery through the deferred balance RRC.

| | | |
|----|--------------------------------------|-----|
| 12 | 182.3 Solar Loan II Regulatory Asset | XXX |
| 13 | 431 Interest Expense | XXX |
| 14 | 419 Interest and Dividend Income | XXX |

15

16 **ACCOUNTING FOR PROGRAM COST RECOVERY**

17 (1) Monthly the Company will record the RRC clause revenues collected.

| | | |
|----|----------------------------------|-----|
| 18 | 142 Customer Accounts Receivable | XXX |
| 19 | 400 Electric Operating Revenues | XXX |

20 (2) Each month the difference between the Program Revenue Requirement and the
21 amount collected through the RRC, i.e. the over or under collection, will be
22 deferred. The revenue requirements are defined as:

1 *Revenue Requirements = (Pre-Tax Cost of Capital * Net Investment) – Net*
2 *Loan Accrued Interest + Amortization and/or Depreciation + Operation and*
3 *Maintenance Costs – Net Proceeds from the sale of SRECs – Cash Payments in*
4 *lieu of SRECs*

5 For an under collection the entry will be:

| | | | |
|---|--------------------------------------|-----|-----|
| 6 | 182.3 Solar Loan II Regulatory Asset | XXX | |
| 7 | 908 Customer Assistance Expenses | | XXX |

8 For an over collection the entry will be:

| | | | |
|----|--------------------------------------|-----|-----|
| 9 | 908 Customer Assistance Expenses | XXX | |
| 10 | 182.3 Solar Loan II Regulatory Asset | | XXX |

11 (3) Each month the Company will accrue a monthly carrying cost on the Program
12 regulatory asset/liability. The monthly WACC would be computed as
13 indicated below.

14 *Monthly Carrying Charge = Monthly Pre-Tax WACC * (Beginning Deferred*
15 *Balance + Ending Deferred Balance) / 2 * (1 – Tax Rate)*

16 For an under collection the entry will be:

| | | | |
|----|--------------------------------------|-----|-----|
| 17 | 182.3 Solar Loan II Regulatory Asset | XXX | |
| 18 | 431 Interest Expense | | XXX |
| 19 | 419 Other Income | | XXX |

20 For an over collection the entry will be:

| | | | |
|----|--------------------------------------|-----|-----|
| 21 | 426.5 Other Deductions | XXX | |
| 22 | 431 Interest Expense | XXX | |
| 23 | 182.3 Solar Loan II Regulatory Asset | | XXX |

1 **INCOME TAXES**

2 The Company will record deferred incomes taxes for all of the tax-book
3 timing differences that result from this program. The different lives and methods for
4 tax vs. book depreciation and entries to regulatory asset or liability accounts represent
5 timing differences.

6

7 **HISTORICAL FINANCIAL INFORMATION**

8 The following financial data, as required by the applicable sections of
9 N.J.A.C. 14:1-5.11 and N.J.A.C. 14:1-5.12, are included with my testimony.

| | | |
|----|----------------|--|
| 10 | Schedule DMF-3 | Balance Sheets – 12/2006, 12/2007, 12/2008 |
| 11 | Schedule DMF-4 | Income Statements–2006, 2007, 2008 |
| 12 | Schedule DMF-5 | Balance Sheet – 02/2009 |
| 13 | Schedule DMF-6 | Revenue by Class of Business 2008 |
| 14 | Schedule DMF-7 | Affiliate Payments 2006, 2007, 2008 |

15

16 This concludes my testimony at this time.

1 I have previously testified before the New Jersey Board of Public
2 Utilities in several proceedings while I was Director Rates for JCP&L. I was the
3 accounting and revenue requirements witness in three base rate proceedings. In
4 addition I was a primary witness in several Levelized Energy Adjustment Clause
5 proceedings during the same time frame.

6 I testified as a rebuttal witness in *I/M/O the Petition of Public Service*
7 *Electric and Gas Company for Declaratory Ruling Clarifying the Cost Responsibility*
8 *for Nuclear Generation Asset Decommissioning Funds* (BPU Docket No.
9 EO02080610). I also testified in PSE&G's gas base rate case, *I/M/O the Petition of*
10 *Public Service Electric and Gas Company for Approval of an Increase in Gas Rates,*
11 *Depreciation Rates for Gas Property and for Changes in the Tariff for Gas Service*
12 (BPU Docket No. GR05100845), in PSE&G's RAC 13/14 case, *I/M/O the Motion of*
13 *Public Service Electric and Gas Company to Modify its Manufactured Gas Plant*
14 *(MGP) Remediation Component Within its Electric Societal Benefits Charge (SBC)*
15 *and its Gas SBC, et al.*, (BPU Docket No. ER07020104), in PSE&G's RAC 15 case,
16 *I/M/O the Motion of Public Service Electric and Gas Company to Modify its*
17 *Manufactured Gas Plant (MGP) Remediation Component Within its Electric Societal*
18 *Benefits Charge (SBC) and its Gas SBC, et al.*, (BPU Docket No. ER07120970), in
19 PSE&G's Carbon Abatement filing, *I/M/O the Petition of Public Service Electric and*
20 *Gas Company Offering a Carbon Abatement Program, et al.*, (BPU Docket No.

1 EO086060426), and in PSE&G's RAC 16 case, *I/M/O the Motion of Public Service*
2 *Electric and Gas Company to Modify its Manufactured Gas Plant (MGP)*
3 *Remediation Component Within its Electric Societal Benefits Charge (SBC) and its*
4 *Gas SBC, et al.*, (BPU Docket No. ER08121041). Most recently I testified in *I/M/O*
5 *the Motion of Public Service Electric and Gas Company for Approval of a Solar*
6 *Generation Investment Program and an Associated Cost Recovery Mechanism* (BPU
7 Docket No. E009020215).

**PSE&G Solar Loan II Program
Accounting Entries**

| <u>Entry</u> | <u>Acct</u> | <u>Description</u> | <u>Debit</u> | <u>Credit</u> |
|------------------------------|-------------|--|--------------|---------------|
| Solar Loan Accounting | | | | |
| 1 | | To record the issuance of the loan. | | |
| | 124 | Other Investments - Solar Loan II | XXX | |
| | 131 | Cash | | XXX |
| 2 | | Monthly accrual of interest income on the loan at contract rate. | | |
| | 171 | Interest Receivable - Solar Loans | XXX | |
| | 419 | Interest and Dividend Income | | XXX |
| 3 | | Monthly accrual of interest differential on Residential Loans. | | |
| | 182.3 | Solar Loan II Regulatory Asset - Loan Costs | XXX | |
| | 419 | Interest and Dividend Income | | XXX |
| 4 | | To record the receipt of the SRECs at higher of the floor value or the current market value. | | |
| | 174 | Solar Renewable Energy Certificates Asset | XXX | |
| | 171 | Interest Receivable - Solar Loans | | XXX |
| | 124 | Other Investments - Solar Loan II | | XXX |
| 5 | | To defer the loss if SREC is worth less than the floor value in 3 above. | | |
| | 182.3 | Solar Loan II Regulatory Asset - Loan Costs | XXX | |
| | 174 | Solar Renewable Energy Certificates Asset | | XXX |
| 6 | | To record the receipt of cash in lieu of SRECs. | | |
| | 131 | Cash | XXX | |
| | 171 | Interest Receivable - Solar Loans | | XXX |
| | 124 | Other Investments - Solar Loan II | | XXX |
| 7 | | To defer the expense associated with loan defaults offset by any collateral. | | |
| | 131 | Cash (if any) | XXX | |
| | 182.3 | Solar Loan II Regulatory Asset - Loan Costs | XXX | |
| | 124 | Other Investments - Solar Loan II | | XXX |
| 8 | | To record the optional purchase of SRECs. (call option.) | | |
| | 174 | Solar Renewable Energy Certificates Asset | XXX | |
| | 131 | Cash | | XXX |
| 9 | | To defer the gain or loss when the SRECs are sold. If sold at a gain: | | |
| | 131 | Cash | XXX | |
| | 182.3 | Solar Loan II Regulatory Asset - Loan Costs | | XXX |
| | 174 | Solar Renewable Energy Certificates Asset | | XXX |
| | | If sold at a loss: | | |
| | 131 | Cash | XXX | |
| | 182.3 | Solar Loan II Regulatory Asset - Loan Costs | XXX | |
| | 174 | Solar Renewable Energy Certificates Asset | | XXX |

**PSE&G Solar Loan II Program
Accounting Entries**

| <u>Entry</u> | <u>Acct</u> | <u>Description</u> | <u>Debit</u> | <u>Credit</u> |
|---|-------------|---|--------------|---------------|
| 10 | | To record non-current portion of Notes Receivable (for reporting purposes only). | | |
| | 141 | Current Note Receivable For Solar Program | XXX | |
| | 124 | Other Investments - Solar Loan II | | XXX |
| Accounting for Program Costs | | | | |
| | | To capitalize the program communications equipment. | | |
| 1 | 384 | Communications Equipment | XXX | |
| | 131 | Cash (payroll, outside services, M&S) | | XXX |
| 2 | | To depreciate the communications equipment over 10 years. | | |
| | 403 | Depreciation Expense | XXX | |
| | 108 | Accumulated Depreciation | | XXX |
| 3 | | To record the administrative costs of the Solar program net of application fees. | | |
| | 908 | Customer Assistance Expenses | XXX | |
| | 131 | Cash (payroll, outside services, M&S) | | XXX |
| 4 | | To accrue the carrying cost on the net outstanding investment in the program. | | |
| | 182.3 | Solar Loan II Regulatory Asset - Loan Costs | XXX | |
| | 431 | Interest Expense | | XXX |
| | 419 | Interest and Dividend Income | | XXX |
| Accounting for Program Cost Recovery | | | | |
| 1 | | To record the monthly RRC revenues. | | |
| | 142 | Customer Accounts Receivable | XXX | |
| | 400 | Electric Operating Revenues | | XXX |
| 2 | | To record monthly over-under collection through the RRC. | | |
| | | If under collected: | | |
| | 182.3 | Solar Loan II Regulatory Asset - Loan Costs | XXX | |
| | 908 | Customer Assistance Expenses | | XXX |
| | | If over collected: | | |
| | 182.3 | Solar Loan II Regulatory Asset - Loan Costs | | XXX |
| | 908 | Customer Assistance Expenses | XXX | |
| 3 | | To record the monthly carrying cost on over-under collection of the Program deferred costs. | | |
| | | If under collected: | | |
| | 182.3 | Solar Loan II Regulatory Asset - Loan Costs | XXX | |
| | 431 | Interest Expense | | XXX |
| | 419 | Interest and Dividend Income | | XXX |
| | | If over collected: | | |
| | 426.5 | other Deductions | XXX | |
| | 431 | Interest Expense | XXX | |
| | 182.3 | Solar Loan II Regulatory Asset - Loan Costs | | XXX |

Balance Sheet

| | <u>Dec.31, 2006</u> | <u>Dec.31, 2007</u> | <u>Dec.31, 2008</u> |
|---|---------------------|---------------------|---------------------|
| | | (THOUSANDS) | |
| Assets and Other Debits | | | |
| Utility Plant | | | |
| Electric Utility Plant | | | |
| 101 Electric Utility Plant in Service | 6,707,986 | 7,085,555 | 7,483,415 |
| 103 Electric Experimental Plant Unclassified | 0 | 0 | 0 |
| 105 Electric Utility Plant Held for Future Use | 26,376 | 8,165 | 8,474 |
| 107 Electric Construction Work in Progress | <u>57,049</u> | <u>24,684</u> | <u>88,205</u> |
| Total Electric Utility Plant | 6,791,411 | 7,118,404 | 7,580,094 |
| Gas Utility Plant | | | |
| 101 Gas Utility Plant in Service | 4,167,457 | 4,322,406 | 4,525,896 |
| 103 Gas Experimental Plant Unclassified | 0 | 0 | 0 |
| 105 Gas Utility Plant Held for Future Use | 0 | 0 | 0 |
| 107 Gas Construction Work in Progress | <u>509</u> | <u>1,601</u> | <u>6,141</u> |
| Total Gas Utility Plant | 4,167,966 | 4,324,007 | 4,532,037 |
| Common Utility Plant | | | |
| 101 Common Utility Plant in Service | 160,152 | 82,327 | 85,076 |
| 107 Common Construction Work in Progress | <u>0</u> | <u>27,521</u> | <u>81,539</u> |
| Total Common Utility Plant | <u>160,152</u> | <u>109,848</u> | <u>166,615</u> |
| Total Utility Plant | 11,119,529 | 11,552,259 | 12,278,746 |
| Accumulated Provisions for Depreciation and Amortization | | | |
| Electric Utility Plant | | | |
| 108 & 111 Electric Utility Plant in Service | (2,261,775) | (2,374,881) | (2,509,962) |
| Gas Utility Plant | | | |
| 108 & 111 Gas Utility Plant in Service | (1,739,553) | (1,788,393) | (1,853,355) |
| Common Utility Plant | | | |
| 108 & 111 Common Utility Plant in Service | (128,968) | (54,808) | (51,454) |
| Total Accumulated Provisions for Depreciation and Amortization of Utility Plant | <u>(4,130,296)</u> | <u>(4,218,082)</u> | <u>(4,414,771)</u> |
| Net Utility Plant Excluding Nuclear Fuel | 6,989,233 | 7,334,177 | 7,863,975 |
| Nuclear Fuel | | | |
| 120.1 In Process | 0 | 0 | 0 |
| 120.2 Materials and Assemblies Stock | 0 | 0 | 0 |
| 120.3 In Reactor | 0 | 0 | 0 |
| 120.4 Spent | 0 | 0 | 0 |
| Accumulated Provisions for Amortization | | | |
| 120.5 Nuclear Fuel | 0 | 0 | 0 |
| Net Nuclear Fuel | <u>0</u> | <u>0</u> | <u>0</u> |
| Net Utility Plant | <u>6,989,233</u> | <u>7,334,177</u> | <u>7,863,975</u> |

Balance Sheet

| | <u>Dec.31, 2006</u> | <u>Dec.31, 2007</u> | <u>Dec.31, 2008</u> |
|---|---------------------|---------------------|---------------------|
| | (THOUSANDS) | | |
| Assets and Other Debits (Continued) | | | |
| Other Property and Investments | | | |
| 121 Nonutility Property | 2,857 | 2,857 | 2,857 |
| 122 Accumulated Provision for Depreciation and Amortization of Nonutility Property | (330) | (357) | (384) |
| 123.1 Investment in Subsidiary Companies | 55,679 | 56,726 | 56,572 |
| 124 Other Investments | 141,587 | 145,984 | 150,867 |
| 125-8 Special Funds | <u>53,293</u> | <u>57,103</u> | <u>46,187</u> |
| Total Other Property and Investments | 253,087 | 262,313 | 256,099 |
| Current and Accrued Assets | | | |
| 131 Cash | 26,691 | 29,475 | 47,284 |
| 132-4 Special Deposits | 279 | 178 | 194 |
| 135 Working Funds | 0 | 0 | 0 |
| 136 Temporary Cash Investments | 0 | 0 | 40,300 |
| 141-3 Notes and Accounts Receivable | 850,070 | 1,039,546 | 972,497 |
| 144 Accumulated Provision for Uncollectible Accounts - Credit | (46,404) | (44,985) | (65,390) |
| 145-6 Receivables from Associated Companies | 98,866 | 85,410 | 112,569 |
| 151-5 Materials and Supplies (incl. 163) | 49,604 | 53,277 | 60,932 |
| 158 Allowances | 0 | 0 | 0 |
| 164 Gas Stored Underground - Current | 0 | 0 | 0 |
| 165 Prepayments | 14,009 | 57,170 | 44,621 |
| 171 Interest and Dividends Receivable | 220 | 4,561 | 34,262 |
| 172 Rents Receivable | 1,542 | 529 | 2,019 |
| 173 Accrued Utility Revenues | 327,755 | 353,031 | 454,286 |
| 174 Miscellaneous Current and Accrued | | | |
| 176 (Less) Long-Term Debt Portion of Derivative Instrument | 2,430 | 842 | 556 |
| Derivative Instrument Assests-Hedges | | | |
| Total Current and Accrued Assets | 1,325,061 | 1,579,034 | 1,704,130 |
| Deferred Debits | | | |
| 181 Unamortized Debt Expense | 20,627 | 21,930 | 16,511 |
| 182 Unrec'd Plt and Reg Costs and Other Reg Assets | 3,936,719 | 3,577,221 | 4,897,986 |
| 183 Preliminary Survey and Investigation Charges | 0 | 76 | 383 |
| 184 Clearing Accounts | 0 | 0 | 0 |
| 185 Temporary Facilities | 0 | 0 | 0 |
| 186 Miscellaneous Deferred Debits | 25,870 | 20,707 | 19,019 |
| 188 Research and Development Expenditures | 0 | 0 | 0 |
| 189 Unamortized Loss on Reacquired Debt | 84,689 | 79,689 | 112,096 |
| 190 Accumulated Deferred Income Taxes | <u>467,102</u> | <u>477,592</u> | <u>494,714</u> |
| Total Deferred Debits | <u>4,535,007</u> | <u>4,177,215</u> | <u>5,540,709</u> |
| Total Assets and Other Debits | <u>\$13,102,387</u> | <u>\$13,352,739</u> | <u>\$15,364,913</u> |

Balance Sheet

| | <u>Dec.31, 2006</u> | <u>Dec.31, 2007</u> | <u>Dec.31, 2008</u> |
|---|---------------------|---------------------|---------------------|
| | (THOUSANDS) | | |
| Liabilities and Other Credits | | | |
| Proprietary Capital | | | |
| 201 Common Stock Issued | 892,260 | 892,260 | 892,260 |
| 204 Preferred Stock Issued | 79,523 | 79,523 | 79,523 |
| 207 Premium on Capital Stock | 132 | 132 | 132 |
| 208 Donations from Stockholders | 1,155,937 | 1,155,937 | 1,155,937 |
| 210 Gain on Resale or Cancellation of Reacquired Capital Stock | 0 | 0 | 0 |
| 211 Miscellaneous Paid-In Capital | 0 | 0 | 0 |
| 215 Appropriated Retained Earnings | 0 | 0 | 0 |
| 216 Unappropriated Retained Earnings | 1,064,553 | 1,239,624 | 1,599,212 |
| 219 Other Comprehensive Income | <u>852</u> | 2,499 | 1,942 |
| Total Proprietary Capital | 3,193,258 | 3,369,975 | 3,729,006 |
| Long-Term Debt | | | |
| 221 Bonds | 3,120,168 | 3,357,231 | 3,530,726 |
| 223 Advances from Assoc. Co. | 0 | 0 | 0 |
| 225 Unamortized Premium on Long-Term Debt | 2,989 | 2,805 | |
| 226 Unamortized Discount on Long-Term Debt | <u>(7,493)</u> | <u>(7,519)</u> | <u>(7,020)</u> |
| Total Long-Term Debt | 3,115,664 | 3,352,517 | 3,523,706 |
| Other Non-Current Liabilities | | | |
| 227-9 Other Non-current Liabilities | 1,055,469 | 920,685 | 1,472,423 |
| Long-Term Portion of Derivative Instrument Liabilities-Hedges | 16,574 | 35,245 | 52,996 |
| 230 Asset Retirement Obligation | <u>220,825</u> | <u>231,269</u> | <u>240,556</u> |
| Total Other Non-Current Liabilities | 1,292,868 | 1,187,199 | 1,765,975 |
| Current and Accrued Liabilities | | | |
| 231 Notes Payable | 30,514 | 64,858 | 19,478 |
| 232 Accounts Payable | 100,932 | 131,479 | 135,747 |
| 233-4 Payables to Associated Companies | 707,124 | 615,594 | 868,293 |
| 235 Customer Deposits | 56,319 | 71,830 | 84,179 |
| 236 Taxes Accrued | 3,867 | 29,349 | 2,934 |
| 237 Interest Accrued | 49,790 | 68,294 | 66,077 |
| 238 Dividends Declared | 0 | 0 | 5 |
| 239 Matured Long-Term Debt | 0 | 0 | 0 |
| 241 Tax Collections Payable | 2,653 | 1,018 | 605 |
| 242 Miscellaneous Current and Accrued Liabilities | 457,253 | 483,986 | 499,954 |
| 243 Obligations Under Capital leases | 0 | 0 | 0 |
| 245 Derivative Instrument Liabilities - Hedges | 20,491 | 53,447 | 70,272 |
| Long-Term Portion of Derivative Instrument Liabilities-Hedges | <u>(16,574)</u> | <u>(35,245)</u> | <u>(52,996)</u> |
| Total Current and Accrued Liabilities | 1,412,369 | 1,484,610 | 1,694,548 |
| Deferred Credits | | | |
| 252 Customer Advances for Construction | 11,412 | 10,086 | 9,697 |
| 253 Other Deferred Credits | 507,673 | 656,451 | 1,329,749 |
| 254 Other Regulatory Liabilities | 616,852 | 391,213 | 329,413 |
| 255 Accumulated Deferred Investment Tax Credits | 44,405 | 41,427 | 38,957 |
| 281-3 Accumulated Deferred Income Taxes | <u>2,907,886</u> | <u>2,859,261</u> | <u>2,943,862</u> |
| Total Deferred Credits | <u>4,088,229</u> | <u>3,958,438</u> | <u>4,651,678</u> |
| Total Liabilities and Other Credits | <u>\$13,102,387</u> | <u>\$13,352,739</u> | <u>\$15,364,913</u> |

Electric Income Account

| | <u>Year 2006 *</u> | <u>Year 2007 *</u> | <u>Year 2008 *</u> |
|--|--------------------|--------------------|--------------------|
| | | (Thousands) | |
| Utility Operating Income | | | |
| 400 Electric Operating Revenues | (4,325,457) | (5,005,403) | (5,446,903) |
| Electric Operating Expenses: | | | |
| 401 Operation Expense | 3,441,161 | 4,059,607 | 4,531,567 |
| 402 Maintenance Expense | 115,211 | 105,329 | 99,518 |
| 403 Depreciation Expense | 139,534 | 143,904 | 148,545 |
| 404 Amortization of Limited Term Plant | 10,324 | 4,320 | 1,279 |
| 407 Amortization of Property Losses | 154,714 | 153,999 | 144,223 |
| 408.1 Taxes Other Than Income Taxes | 113,606 | 116,129 | 114,760 |
| 409.1 Income Taxes - Federal | 195,287 | 170,170 | 127,673 |
| 410.1 Provision for Deferred Income Taxes | (12,180) | 94,993 | 89,454 |
| 411.1 Provision for Deferred Income Taxes - Credit | (104,823) | (147,055) | (96,748) |
| 411.103 Accretion Expense-Electric | 26 | 2 | 1 |
| 411.4 Investment Tax Credit Adjustments (Net) | (1,067) | (1,026) | (954) |
| Total Electric Utility Operating Expenses | <u>4,051,794</u> | <u>4,700,372</u> | <u>5,159,318</u> |
| Electric Utility Operating Income | <u>(273,663)</u> | <u>(305,031)</u> | <u>(287,585)</u> |

* Electric Distribution only

Balance Sheet

February 28, 2009
(THOUSANDS)

Assets and Other Debits

Utility Plant

Electric Utility Plant

| | | |
|-----|--|----------------|
| 101 | Electric Utility Plant in Service | 7,559,133 |
| 103 | Electric Experimental Plant Unclassified | 0 |
| 105 | Electric Utility Plant Held for Future Use | 8,476 |
| 107 | Electric Construction Work in Progress | <u>101,275</u> |
| | Total Electric Utility Plant | 7,668,884 |

Gas Utility Plant

| | | |
|-----|---------------------------------------|------------|
| 101 | Gas Utility Plant in Service | 4,552,941 |
| 103 | Gas Experimental Plant Unclassified | 0 |
| 105 | Gas Utility Plant Held for Future Use | 0 |
| 107 | Gas Construction Work in Progress | <u>350</u> |
| | Total Gas Utility Plant | 4,553,291 |

Common Utility Plant

| | | |
|-----|--------------------------------------|----------------|
| 101 | Common Utility Plant in Service | 85,753 |
| 107 | Common Construction Work in Progress | <u>93,515</u> |
| | Total Common Utility Plant | <u>179,268</u> |
| | Total Utility Plant | 12,401,443 |

Accumulated Provisions for Depreciation and Amortization

Electric Utility Plant

| | | |
|-----------|--|-------------|
| 108 & 111 | Electric Utility Plant in Service | (2,536,278) |
| 108.5 | Electric Utility Plant Held for Future Use | 0 |
| | Total Electric Utility Plant | (2,536,278) |

Gas Utility Plant

| | | |
|-----------|------------------------------|-------------|
| 108 & 111 | Gas Utility Plant in Service | (1,866,658) |
|-----------|------------------------------|-------------|

Common Utility Plant

| | | |
|-----------|---------------------------------|----------|
| 108 & 111 | Common Utility Plant in Service | (52,525) |
|-----------|---------------------------------|----------|

Total Accumulated Provisions for
Depreciation and Amortization
of Utility Plant

(4,455,461)

Net Utility Plant Excluding Nuclear Fuel

7,945,982

Nuclear Fuel

| | | |
|-------|--------------------------------|---|
| 120.1 | In Process | 0 |
| 120.2 | Materials and Assemblies Stock | 0 |
| 120.3 | In Reactor | 0 |
| 120.4 | Spent | 0 |

Accumulated Provisions for Amortization

| | | |
|-------|-------------------|------------------|
| 120.5 | Nuclear Fuel | 0 |
| | Net Nuclear Fuel | <u>0</u> |
| | Net Utility Plant | <u>7,945,982</u> |

Balance Sheet

February 28, 2009
(THOUSANDS)

Assets and Other Debits (Continued)

Other Property and Investments

| | | |
|-------|---|---------------|
| 121 | Nonutility Property | 2,857 |
| 122 | Accumulated Provision for Depreciation and Amortization of Nonutility Property | (388) |
| 123 | Investment in Associated Companies | 33,948 |
| 123.1 | Investment in Subsidiary Companies | 22,441 |
| 124 | Other Investments | 153,642 |
| 125-8 | Special Funds | <u>46,987</u> |
| | Total Other Property and Investments | 259,487 |

Current and Accrued Assets

| | | |
|-------|---|-----------|
| 131 | Cash | 35,162 |
| 132-4 | Special Deposits | 1 |
| 135 | Working Funds | |
| 136 | Temporary Cash Investments | 11,500 |
| 141-3 | Notes and Accounts Receivable | 1,081,368 |
| 144 | Accumulated Provision for Uncollectible Accounts - Credit | (70,381) |
| 145-6 | Receivables from Associated Companies | 81,088 |
| 151-5 | Materials and Supplies (incl. 163) | 62,869 |
| 158 | Allowances | 0 |
| 164 | Gas Stored Underground - Current | 0 |
| 165 | Prepayments | 18,387 |
| 171 | Interest and Dividends Receivable | 34,989 |
| 172 | Rents Receivable | 3,568 |
| 173 | Accrued Utility Revenues | 556,239 |
| 174 | Miscellaneous Current and Accrued | |
| 176 | (Less) Long-Term Debt Portion of Derivative Instrument Derivative Instrument Assets-Hedges | 515 |
| | Total Current and Accrued Assets | 1,815,305 |

Deferred Debits

| | | |
|-----|--|---------------------|
| 181 | Unamortized Debt Expense | 16,147 |
| 182 | Unrec'd Plt and Reg Costs and Other Reg Assets | 4,847,429 |
| 183 | Preliminary Survey and Investigation Charges | 434 |
| 184 | Clearing Accounts | 0 |
| 185 | Temporary Facilities | |
| 186 | Miscellaneous Deferred Debits | 17,921 |
| 188 | Research and Development Expenditures | |
| 189 | Unamortized Loss on Reacquired Debt | 110,866 |
| 190 | Accumulated Deferred Income Taxes | <u>537,895</u> |
| | Total Deferred Debits | <u>5,530,692</u> |
| | Total Assets and Other Debits | <u>\$15,551,466</u> |

Balance Sheet

February 28, 2009

(THOUSANDS)

Liabilities and Other Credits

Proprietary Capital

| | | |
|-----|---|-------------|
| 201 | Common Stock Issued | (892,260) |
| 204 | Preferred Stock Issued | (79,523) |
| 207 | Premium on Capital Stock | (132) |
| 208 | Donations from Stockholders | (1,155,937) |
| 210 | Gain on Resale or Cancellation of Reacquired Capital Stock | |
| 211 | Miscellaneous Paid-In Capital | |
| 215 | Appropriated Retained Earnings | |
| 216 | Unappropriated Retained Earnings | (1,695,779) |
| 219 | Other Comprehensive Income | (2,414) |
| | Total Proprietary Capital | (3,826,046) |

Long-Term Debt

| | | |
|-----|--|-------------|
| 221 | Bonds | (3,530,726) |
| 223 | Advances from Assoc. Co. | |
| 225 | Unamortized Premium on Long-Term Debt | |
| 226 | Unamortized Discount on Long-Term Debt | 6,911 |
| | Total Long-Term Debt | (3,523,815) |

Other Non-Current Liabilities

| | | |
|-------|--|-------------|
| 227-9 | Other Non-current Liabilities | (1,414,426) |
| | Long-Term Portion of Derivative Instrument Liabilities-Hedges | (40,938) |
| 230 | Asset Retirement Obligation | (242,882) |
| | Total Other Non-Current Liabilities | (1,698,246) |

Current and Accrued Liabilities

| | | |
|-------|--|-------------|
| 231 | Notes Payable | (19,993) |
| 232 | Accounts Payable | (306,332) |
| 233-4 | Payables to Associated Companies | (891,130) |
| 235 | Customer Deposits | (86,912) |
| 236 | Taxes Accrued | (36,742) |
| 237 | Interest Accrued | (69,708) |
| 238 | Dividends Declared | (997) |
| 239 | Matured Long-Term Debt | 0 |
| 241 | Tax Collections Payable | (65,993) |
| 242 | Miscellaneous Current and Accrued Liabilities | (306,576) |
| 243 | Obligations Under Capital leases | |
| 245 | Derivative Instrument Liabilities - Hedges | (60,233) |
| | Long-Term Portion of Derivative Instrument Liabilities-Hedges | 40,938 |
| | Total Current and Accrued Liabilities | (1,803,678) |

Deferred Credits

| | | |
|-------|---|----------------|
| 252 | Customer Advances for Construction | (9,375) |
| 253 | Other Deferred Credits | (1,335,069) |
| 254 | Other Regulatory Liabilities | (366,381) |
| 255 | Accumulated Deferred Investment Tax Credits | (38,487) |
| 281-3 | Accumulated Deferred Income Taxes | (2,950,369) |
| | Total Deferred Credits | (4,699,681) |
| | Total Liabilities and Other Credits | (\$15,551,466) |

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

**ELECTRIC REVENUE BY CLASS OF BUSINESS
12 MONTHS ENDING DECEMBER 31, 2008**

(Thousands)

| | |
|--|--------------|
| Residential | \$2,084,966 |
| Commercial | 2,613,166 |
| Industrial | 310,672 |
| Public Street & Highway Lighting | 74,885 |
| Interdepartmental Revenues | 1,918 |
| Sales for Resale | 345,391 |
| Forfeited Discounts | 4,837 |
| Miscellaneous Service Revenues | 1,859 |
| Rent from Electric Property | 3,705 |
| Other Electric Revenues | <u>5,504</u> |
| Total Revenue from Electric Distribution Sales | 5,446,903 |

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

**GAS REVENUE BY CLASS OF BUSINESS
12 MONTHS ENDING DECEMBER 31, 2008**

(Thousands)

| | |
|---|--------------|
| Residential | \$1,971,671 |
| Commercial | 835,161 |
| Industrial | 117,438 |
| Street & Yard Light Service | 1,054 |
| Cogeneration | 179,454 |
| Interdepartmental Revenues | 1,157 |
| Forfeited Discounts | 853 |
| Miscellaneous Service Revenues | 33,889 |
| Other Gas Revenues | <u>3,860</u> |
| Total Revenue from Gas Distribution Sales | \$3,144,537 |

Public Service Electric & Gas Company
Total Utility Payments or Accruals to Affiliates

(\$ THOUSANDS) Net Billing

| | 2008 | 2007 | 2006 |
|------------------------------|---------------------|---------------------|---------------------|
| PSEG Services | \$544,565 | \$477,726 | \$433,544 |
| PSEG Power | \$3,752,880 | \$3,344,032 | \$2,758,103 |
| PSEG Energy Holdings | -\$574 | -\$342 | -\$359 |
| PSEG Enterprise | -\$40,578 | -\$51,746 | -\$63,597 |
| | | | |
| Total Payments to Affiliates | <u>\$ 4,256,293</u> | <u>\$ 3,769,670</u> | <u>\$ 3,127,691</u> |

| 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 | |
|--|--|
| MIMIMUM FILING REQUIREMENTS FOR PETITIONS UNDER <u>N.J.S.A. 48:3-98.1</u> | LOCATION IN FILING |
| I. General Filing Requirements | |
| a. The utility shall provide with all filings, information and data pertaining to the specific program proposed, as set forth in applicable sections of <u>N.J.A.C. 14:1-5.11</u> and <u>N.J.A.C. 14:1-5.12</u> . | Information and data pertaining to the specific program proposed, as set forth in the applicable sections of <u>N.J.A.C. 14:1-5.11</u> and <u>N.J.A.C. 14:1-5.12</u> , is included in the schedules to the Testimony of Stephen Swetz (Attachment B to the Petition) and Testimony of Daniel M. Furlong (Attachment D to the Petition). Other information required by these regulations will be provided in Attachments E, F, G and H. |
| b. All filings shall contain information and financial statements for the proposed program in accordance with the applicable Uniform System of Accounts that is set forth in <u>N.J.A.C. 14:1-5.12</u> . The utility shall provide the Accounts and Account numbers that will be utilized in booking the revenues, costs, expenses and assets pertaining to each proposed program so that they can be properly separated and allocated from other regulated and/or other programs. | Attachment D (Testimony and Schedules of Daniel M. Furlong). |
| c. The utility shall provide supporting explanations, assumptions, calculations, and work papers for each proposed program and cost recovery mechanism petition filed under <u>N.J.S.A. 48:3-98.1</u> and for all qualitative and quantitative analyses therein. The utility shall provide electronic copies of all materials and supporting schedules, with all inputs and formulae intact. | PSE&G provides such data in its Petition, Attachment A (Testimony of Alfredo Z. Matos), Attachment B (Testimony of Stephen Swetz) and their supporting schedules and work papers. PSE&G is providing copies of its Petition, supporting schedules and work papers in both hard copy and electronic format, where applicable. |
| d. The utility shall file testimony supporting its petition. | Please refer to the testimony filed in support of PSE&G's Petition. |
| e. For any small scale or pilot program, the utility shall only be subject to the requirements in this Section and Sections II, III, and IV. The utility | This filing qualifies as a small scale program based upon the projected rate impacts; however, PSE&G is providing the |

| 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 | |
|--|---|
| MIMIMUM FILING REQUIREMENTS FOR PETITIONS UNDER N.J.S.A. 48:3-98.1 | LOCATION IN FILING |
| <p>shall, however, provide its estimate of costs and a list of data it intends to collect in a subsequent review of the benefits of the program. Information in Section V may be required for pilot and small programs if such programs are particularly large or complex. A “small scale” project is defined as one that would result in either a rate increase of less than a half of one percent of the average residential customer’s bill or an additional annual total revenue requirement of less than \$5 million. A pilot program shall be no longer than three years, but can be extended under appropriate circumstances.</p> | <p>information required in the applicable parts of Section V.</p> |
| <p>f. If the utility is filing for an increase in rates, charges etc., or for approval of a program which may increase rates/charges to ratepayers in the future, the utility shall include a draft public notice with the petition and proposed publication dates.</p> | <p>PSE&G will hold three (3) public hearings in its service territory; North, Central and Southern regions; a draft public notice will be provided as Attachment E to the Petition.</p> |
| II. Program Description | |
| <p>a. The utility shall provide a detailed description of each proposed program for which the utility seeks approval.</p> | <p>Petition, pp. 12-16; Attachment A (Matos Testimony), pp. 7-12 and Schedule AZM-2.</p> |
| <p>b. The utility shall provide a detailed explanation of the differences and similarities between each proposed program and existing and/or prior programs offered by the New Jersey Clean Energy Program, or the utility.</p> | <p>Petition, pp. 17-18; Attachment A (Matos Testimony), pp. 6-7.</p> |
| <p>c. The utility shall provide a description of how the proposed program will complement, and impact existing programs being offered by the utility and the New Jersey Clean Energy Program with all supporting documentation.</p> | <p>Petition, pp. 17-18; Attachment A (Matos Testimony), pp. 2-7.</p> |
| <p>d. The utility shall provide a detailed description of how the proposed program is consistent with and/or different from other utility programs or pilots in place or proposed with all supporting documentation.</p> | <p>Petition, pp. 17-18; Attachment A (Matos Testimony), pp. 2-7.</p> |
| <p>e. The utility shall provide a detailed description of how the proposed</p> | <p>Petition, pp. 17-18; Attachment A (Matos Testimony), pp. 2-</p> |

| 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 | |
|--|--|
| MIMIMUM FILING REQUIREMENTS FOR PETITIONS UNDER N.J.S.A. 48:3-98.1 | LOCATION IN FILING |
| program comports with New Jersey State policy as reflected in reports, including the New Jersey Energy Master Plan, or, pending issuance of the final Energy Master Plan, the draft Energy Master Plan, and the greenhouse gas emissions reports to be issued by the New Jersey Department of Environmental Protection pursuant to N.J.S.A. 26:2C-42(b) and (c) and N.J.S.A. 26:2C-43 of the Global Warming Response Act, N.J.S.A. 26:2C-37 et seq. | 7. |
| f. The utility shall provide the features and benefits for each proposed program including the following: <ul style="list-style-type: none"> i. the target market and customer eligibility if incentives are to be offered; ii. the program offering and customer incentives; iii. the quality control method including inspection; iv. program administration; and v. program delivery mechanisms. | Petition, pp. 12-14; Attachment A (Matos Testimony), pp. 11-12. |
| g. The utility shall provide the criteria upon which it chose the program. | The BPU ordered PSE&G to file this Petition -- see Solar Securitization Order, August 7, 2008, in Docket No. EOO6100744. In addition, see Petition, pp. 8-11; Attachment A (Matos Testimony), pp. 2-5. |
| h. The utility shall provide the estimated program costs by the following categories: administrative (all utility costs), marketing/sales, training, rebates/incentives including inspections and quality control, program implementation (all contract costs) and evaluation and other. | Attachment B (Swetz Testimony), pp. 2-4 and (Schedules SS-2 through SS-4); Workpaper WP_AZM 1.xls. |
| i. The utility shall provide the extent to which the utility intends to utilize employees, contractors or both to deliver the program and, to the extent applicable, the criteria the utility will use for contractor selection. | Attachment A (Matos Testimony), pp. 12-13. |
| j. In the event the program contemplates an agreement between the utility and its contractors and/or the utility and its ratepayers, copies of | Attachment A (Matos Testimony), Schedule AZM-3. |

| 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 | |
|---|---|
| MINIMUM FILING REQUIREMENTS FOR PETITIONS UNDER N.J.S.A. 48:3-98.1 | LOCATION IN FILING |
| the proposed standard contract or agreement between the ratepayer and the utility, the contractor and the utility, and/or the contractor and the ratepayer shall be provided. | |
| k. The utility shall provide a detailed description of the process for resolving any customer complaints related to these programs. | Petition, p. 19; Attachment A (Matos testimony), pp. 15-16, and Schedule AZM-4. |
| l. The utility shall describe the program goals including number of participants on an annual basis and the energy savings, renewable energy generation and resource savings, both projected annually and over the life of the measures. | Petition, pp. 12-14 and Attachment A (Matos testimony), pp. 6-8 and 10-12. |
| m. Marketing – The utility shall provide the following: a description of where and how the proposed program/project will be marketed or promoted throughout the demographic segments of the utility’s customer base including an explanation of how prices and the service for each proposed program/project will be conveyed to customers. | Attachment A (Matos testimony), pp. 12-13. |

| 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 | |
|--|---|
| MIMIMUM FILING REQUIREMENTS FOR PETITIONS UNDER N.J.S.A. 48:3-98.1 | LOCATION IN FILING |
| III. Additional Required Information | |
| <p>a. The utility shall describe whether the proposed programs will generate incremental activity in the energy efficiency/conservation/renewable energy marketplace and what, if any, impact on competition may be created, including any impact on employment, economic development and the development of new business with all supporting documentation. This shall include a breakdown of the impact on the employment within this marketplace as follows: marketing/sales, training, program implementation, installation, equipment, manufacturing and evaluation and other applicable markets. With respect to the impact on competition the analysis should include the competition between utilities and other entities already currently delivering the service in the market or new markets that may be created.</p> | <p>The BPU ordered PSE&G to file this Petition – see Solar Securitization Order, August 7, 2008, in Docket No. EOO6100744. See also, Attachment A, pp. 13-14.</p> |
| <p>b. The utility shall provide a description of any known market barriers that may impact the program and address the potential impact on such known market barriers for each proposed program with all supporting documentation. This analysis shall include barriers across the various markets including residential (both single and multi-family), commercial and industrial (both privately owned and leased buildings), as well as between small, medium and large commercial and industrial markets. This should include both new development and retrofit or replacement upgrades across the market sectors.</p> | <p>The BPU ordered PSE&G to file this Petition – see Solar Securitization Order, August 7, 2008, in Docket No. EOO6100744. See also, Attachment A, pp. 13-14.</p> |
| <p>c. The utility shall provide a qualitative/quantitative description of any anticipated environmental benefits associated with the proposed program and a quantitative estimate of such benefits for the program overall and for each participant in the program with all supporting documentation. This shall include an estimate of the energy saved in</p> | <p>Petition, p. 17 and Attachment A (Matos testimony), p. 7.</p> |

| 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 | |
|---|--|
| MIMIMUM FILING REQUIREMENTS FOR PETITIONS UNDER N.J.S.A. 48:3-98.1 | LOCATION IN FILING |
| kWh and/or therms and the avoided air emissions, wastewater discharges, waste generation and water use or other saved or avoided resources. | |
| d. To the extent known, the utility shall identify whether there are similar programs available in the existing marketplace and provide supporting documentation if applicable. This shall include those programs that provide other societal benefits to other under-served markets. This should include an analysis of the services already provided in the market place, and the level of competition. | The BPU ordered PSE&G to file this Petition – see Solar Securitization Order, August 7, 2008, in Docket No. EOO6100744. See also, Petition, pp. 17-18, and Attachment A (Matos testimony), pp. 5-7. |
| e. The utility shall provide an analysis of the benefits or impacts in regard to Smart Growth. | The BPU ordered PSE&G to file this Petition – see Solar Securitization Order, August 7, 2008, in Docket No. EOO6100744. PSE&G does not believe this program will have a significant impact in regard to Smart Growth. |
| f. The utility shall propose the method for treatment of Renewable Energy Certificates (“REC”) including solar RECs or any other certificate developed by the Board of Public Utilities, including Greenhouse Gas Emissions Portfolio and Energy Efficiency Portfolio Standards including ownership, and use of the certificate revenue stream(s). | The BPU ordered PSE&G to file this Petition – see Solar Securitization Order, August 7, 2008, in Docket No. EOO6100744. See also, Petition, pp. 2; 9-11; 17-18, and Attachment A (Matos testimony), pp. 2-10 and Schedule AZM-2. |
| g. The utility shall propose the method for treatment of any air emission credits and offsets, including Regional Greenhouse Gas Initiative carbon dioxide allowances and offsets including ownership, and use of the certificate revenue stream(s). | Petition, p. 17. |
| h. The utility shall analyze the proposed quantity and expected prices for any REC, solar REC, air emission credits, offsets or allowances or other certificates to the extent possible. | The BPU ordered PSE&G to file this Petition – see Solar Securitization Order, August 7, 2008, in Docket No. EOO6100744. See also, Attachment B (Swetz testimony) Schedules SS-2 through SS-3 and workpapers. |
| IV. Cost Recovery Mechanism | |

| 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 | |
|---|---|
| MIMIMUM FILING REQUIREMENTS FOR PETITIONS UNDER N.J.S.A. 48:3-98.1 | LOCATION IN FILING |
| <p>a. The utility shall provide appropriate financial data for the proposed program, including estimated revenues, expenses and capitalized investments, for each of the first three years of operations and at the beginning and end of each year of said three-year period. The utility shall include pro forma income statements for the proposed program, for each of the first three years of operations and actual or estimated balance sheets as at the beginning and end of each years of said three year period.</p> | <p>PSE&G provides appropriate financial data for the proposed program in the Testimony and Schedules of Mr. Swetz (Attachment B) and the Testimony and Schedules of Mr. Furlong (Attachment D). The specified pro forma income statements and balance sheets will be provided in Schedule SS-6.</p> |
| <p>b. The utility shall provide detailed spreadsheets of the accounting treatment of the cost recovery including describing how costs will be amortized, which accounts will be debited or credited each month, and how the costs will flow through the proposed method of recovery of program costs.</p> | <p>Attachment B (Swetz testimony), Schedules SS-2 – SS-4 and workpapers; and Attachment D (Furlong Testimony), including Schedule DMF-2.</p> |
| <p>c. The utility shall provide a detailed explanation, with all supporting documentation, of the recovery mechanism it proposes to utilize for cost recovery of the proposed program, including proposed recovery through the Societal Benefits Charge, a separate clause established for these programs, base rate revenue requirements, government funding reimbursement, retail margin, and/or other.</p> | <p>Petition, pp. 19-21 and Attachment B (Swetz testimony and schedules).</p> |
| <p>d. The utility’s petition for approval, including proposed tariff sheets and other required information, shall be verified as to its accuracy and shall be accompanied by a certification of service demonstrating that the petition was served on the Department of the Public Advocate, Division of Rate Counsel simultaneous to its submission to the Board.</p> | <p>PSE&G’s Petition is verified as to its accuracy, and PSE&G will serve a copy of the filing on the Department of Public Advocate, Division of Rate Counsel.</p> |
| <p>e. The utility shall provide an annual rate impact summary by year for the proposed program, and an annual cumulative rate impact summary for all approved and proposed programs showing the impact of individual programs as well as the cumulative impact of all programs upon each</p> | <p>Attachment B (Swetz testimony and schedules) and Attachments E, F, and G to the Petition (to be provided).</p> |

| 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 | |
|---|---|
| MIMIMUM FILING REQUIREMENTS FOR PETITIONS UNDER N.J.S.A. 48:3-98.1 | LOCATION IN FILING |
| customer class of implementing each program and all approved and proposed programs based upon a revenue requirement analysis that identifies all estimated program costs and revenues for each proposed program on an annual basis. The utility shall also provide an annual bill impact summary by year for each program, and an annual cumulative bill impact summary by year for all approved and proposed programs showing bill impacts on a typical customer for each class. | |
| f. The utility shall provide, with supporting documentation, a detailed breakdown of the total costs for the proposed program, identified by cost segment (capitalized costs, operating expense, administrative expense, etc.). This shall also include a detailed analysis and breakdown and separation of the embedded and incremental costs that will be incurred to provide the services under the proposed program with all supporting documentation. | Attachment B, Schedules SS-2 to SS-3 and workpapers. |
| g. The utility shall provide a detailed revenue requirement analysis that clearly identifies all estimated program costs and revenues for the proposed program on an annual basis, including effects upon rate base and pro forma income calculations. | Attachment B, Schedules SS-2 to SS-6 and workpapers. |
| h. The utility shall provide, with supporting documentation: (i) a calculation of its current capital structure as well as its calculation of the capital structure approved by the Board in its most recent electric and/or gas base rate cases, and (ii) a statement as to its allowed overall rate of return approved by the Board in its most recent electric and/or gas base rate cases. | Attachment C (Testimony and Schedules of Mark G. Kahrer). |
| i. If the utility is seeking carrying costs for a proposed program, the filing shall include a description of the methodology, capital structure, and capital cost rates used by the utility. | Attachment C (Testimony and Schedules of Mark G. Kahrer). |
| j. A utility seeking incentives or rate mechanism that decouples utility | Not applicable. |

| 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 | |
|---|---|
| MIMIMUM FILING REQUIREMENTS FOR PETITIONS UNDER N.J.S.A. 48:3-98.1 | LOCATION IN FILING |
| revenues from sales, shall provide all supporting justification, and rationale for incentives, along with supporting documentation, assumptions and calculations. | |
| <u>V. Cost/Benefit Analysis</u> | |
| a. The utility shall provide a detailed analysis with supporting documentation of the net benefits associated with the proposed program, including, if appropriate, a comprehensive and detailed avoided cost savings study with supporting documentation. The value of the avoided environmental impacts and the environmental benefits and the value of any avoided or deferred energy infrastructure should be stated separately. | Waiver requested. See parts (c) and (d) below. |
| b. The utility shall calculate a cost/benefit analysis utilizing the Total Resource Cost (“TRC”) test that assesses all program costs and benefits from a societal perspective. The utility may also provide any cost benefit analysis that it believes appropriate with supporting rationales and documentation. | Waiver requested. See parts (c) and (d) below. |
| c. The utility shall quantify all direct and indirect benefits as well as provide projected costs resulting from a proposed program that is subject to a cost/benefit test. | Not applicable. Renewable energy programs are not subject to a cost/benefit test. See part V(d) below. |
| d. Renewable energy programs shall not be subject to a cost/benefit test but the utility must quantify all direct and indirect benefits resulting from such a proposed program as well as provide the projected costs. The utility must also demonstrate how such a proposed program will support energy and environmental statewide planning objectives, such as attainment of the Renewable Portfolio Standard and any emission requirements. | Refer to part (c) above. See also Attachment A (Matos testimony), pp. 2-7 and Workpaper WP_AZM 1.xls; Attachment B, Schedules SS-2 – SS-3 and workpapers; |
| e. The utility must demonstrate for the proposed program that it results in a positive benefit/cost ratio, or, if the utility cannot make such a | Not applicable. |

| 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 | |
|--|-------------------------------|
| MIMIMUM FILING REQUIREMENTS FOR PETITIONS UNDER N.J.S.A. 48:3-98.1 | LOCATION IN FILING |
| demonstration, it must provide the rationale for why the proposed program should be approved. | |
| f. The level of energy and capacity savings utilized in these calculations shall be based upon the most recent protocols approved by the Board of Public Utilities to measure energy savings for the New Jersey Clean Energy Program. In the event no such protocols exist, or to the extent that a protocol does not exist for a filed program, the utility must submit a measurement protocol for the program or contemplated measure for approval by the Board. | Not applicable. |
| g. The utility shall also quantify and deduct from the energy and capacity savings any free rider effects and the business as usual benefits from homeowners and businesses installing Energy Efficiency or Renewable Energy without the N.J.S.A. 48:3-98.1 benefits or incentives. | Not applicable. |