



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

OFFICE OF CLEAN ENERGY &
DIVISION OF ENERGY

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

Gregory Eisenstark on behalf of petitioner, Public Service Electric and Gas Company
80 Park Plaza –T5, Newark, New Jersey 07102-4194

BY THE BOARD:

By Order¹ dated August 7, 2008 ("August Order"), the New Jersey Board of Public Utilities ("Board") directed Public Service Electric and Gas Company ("PSE&G" or "Company") to file with the Board a solar renewable energy certificate ("SREC") based financing program by March 31, 2009. Pursuant to the August Order, PSE&G's proposed SREC-based financing program could be structured as a modification of the solar loan program² approved by the Board on April 16, 2008 ("Solar Loan I Program") provided that the modifications are sufficient to enable the SREC-based financing program to support the transition to a market-based approach to delivering incentives for solar electric generation.

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

²I/M/O the Petition of Public Service Electric and Gas Company for Approval of a Solar Energy Program and an Associated Cost Recovery Mechanism – Decision and Order Approving Settlement, Docket No. EO07040278, April 16, 2008

Pursuant to N.J.S.A. 48:3-98.1 *et seq* ("the RGGI Act") and the directives in the Board's Order³ dated May 12, 2008 ("May Order"), on February 25, 2009, PSE&G, the Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel") and Board's staff ("Staff") held a pre-filing meeting to discuss the nature of and cost recovery mechanism for PSE&G's proposed SREC-based financing program. On March 31, 2009, PSE&G filed its program ("Solar Loan II Program" or "Program"). PSE&G supplemented this filing on April 13, 2009, and Staff sent a letter stating that the filing was administratively complete on April 30, 2009⁴.

As a result of settlement discussions, PSE&G, Staff, Rate Counsel, and the intervenors, the Mid Atlantic Solar Energy Industries Association ("MSEIA") and the Solar Alliance ("SA") (jointly, the "Signatory Parties") signed a stipulation on November 4, 2009 ("Stipulation") establishing the Program's features including a set of Program rules ("Program Rules"). By Order dated November 10, 2009, ("November Order") the Board approved the Stipulation and all its exhibits.

On April 6, 2010, PSE&G notified the Board and the Signatory Parties of its intention to amend certain Program Rules pursuant to paragraph 30 of the Stipulation which allows the Company to modify Program Rules on ten days' notice if no Signatory Party objects. On April 8, 2010, Rate Counsel notified the Board and the Signatory Parties that it did not object to the proposed amendments. On April 19, 2010, Staff filed a letter opposing PSE&G's proposed amendments to the Program Rules because they affected policy decisions made by the Board under the August Order and the November Order. In particular, it was Staff's position that the proposed amendments required Board review of policy considerations regarding the type of solar projects that need the extra financial assistance provided under the Program, and the mechanisms put in place to ensure diversity of participation that could be affected by inclusion of these larger projects.

On April 21, 2010, PSE&G filed a letter request seeking the Board's approval of the proposed amendments to paragraphs 5, 10, 11, 12, and 15 of the Program Rules. The request included a sworn certification by Alfredo Matos, Vice President of Renewables and Energy Solutions at PSE&G in support of the proposed changes. The SA and MSEIA notified the Board and the Signatory Parties of their support for the PSE&G's amendments by letters dated April 23, 2010.

As stated in the June 7, 2010 amended request by PSE&G, after additional discussions, the Signatory Parties agreed to establish a revised Floor Price Schedule and an Accelerated Reductions Schedule for projects in the 500 kW to 2 MW size range ("Very Large Non-Residential Segment"). On June 9, 2010, the SA notified the Board and Signatory Parties that it supports the proposed changes to the Program Rules. By letter dated June 14, 2010, MSEIA notified the Board that it supports PSE&G's amended request.

³I/M/O Electric Public Utilities and Gas Public Utilities Offering Energy Efficiency and Conservation Programs, Investing in Class I Renewable Energy and Offering Class I Renewable Energy Programs in their Respective Service Territories on a Regulated Basis Pursuant to N.J.S.A. 48:3-98.1, Docket No. EO08030164, May 12, 2008.

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

PROPOSED AMENDMENTS TO THE PROGRAM RULES

PSE&G proposes to amend the Program Rules as follows:

1. Increasing the maximum solar system size from 500 kW to 2,000 kW (dc)

According to the Matos certification, the first quarterly application period of the Program was substantially undersubscribed with only 3.2 MW of applications out of the 9.5 MW of available capacity received. PSE&G received numerous inquiries from solar projects larger than 500 kW and held discussions with solar industry representatives. PSE&G claims that projects in the 500 kW to 2 MW size fit well with New Jersey businesses both from an economic and physical size standpoint and that projects under 2 MW may not be of a scale that can attract debt financing from large financial institutions or commercial lenders. For this reason, PSE&G believes that projects larger than 500 kW and up to 2 MW size need the SREC price certainty offered under the Solar Loan II Program and proposes adding a Very Large Non-Residential Segment for these projects.

To establish the new Very Large Non-Residential Segment, PSE&G proposes several adjustments to the Capacity Allocation Schedule and the establishment of a new floor price that will be determined under a revised Floor Price Schedule and an Accelerated Reductions Schedule. PSE&G will allocate 50% of the quarterly capacity available in the Large Non-Residential Segment (>150kW ≤500kW) and any unused capacity from the prior quarterly application period or from the Solar Loan I Program to the Very Large Non-Residential Segment as illustrated in the tables below.

CURRENT CAPACITY ALLOCATION SCHEDULE									
Application Period/Capacity Schedule		Available (MW)							
Class	Total MW	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Residential									
	9	0.4	0.6	0.8	1.20	1.50	1.50	1.50	1.50
Non-Residential									
≤150kW	17	1.0	1.5	2.0	2.8	2.5	2.5	2.5	2.2
>150kW ≤500kW	25	8.1	7.4	4.6	3.4	0.5	0.5	0.5	0
Totals	51	9.5	9.5	7.4	7.4	4.5	4.5	4.5	3.7

REVISED CAPACITY ALLOCATION SCHEDULE									
Application Period/Capacity Schedule		Available (MW)							
Class	Total MW	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Residential									
	9	0.4	0.6	0.8	1.20	1.50	1.50	1.50	1.50
Non-Residential									
≤150kW	17	1.0	1.5	2.0	2.8	2.5	2.5	2.5	2.2
>150kW ≤500kW	16.6	8.1	3.7	2.3	1.7	0.25	0.25	0.25	0
>500kW ≤ 2,000 kW	8.5		3.7	2.3	1.7	0.25	0.25	0.25	0
Total	51	9.5	9.5	7.4	7.4	4.5	4.5	4.5	3.7

PSE&G will revise the Floor Price Schedule and establish a new Accelerated Reductions Schedule for the Very Large Non-Residential Segment⁵ as illustrated in the tables below. A 20% oversubscription in the Very Large Non-Residential segment at the close of a given application quarter will trigger an acceleration of the floor price reduction in the SREC floor price for the following quarter. The 20% oversubscription shall be calculated after Program capacity allocation rules are applied. This reduced SREC Floor Price will remain in effect for two consecutive quarters unless an accelerated SREC Floor Price reduction is triggered again. For example, if at the end of Q3 the Very Large Non-Residential Segment is oversubscribed by 20% or more at an SREC floor price of \$350, the floor price for Q4 and Q5 will be \$340. If the segment is oversubscribed again at the end of Q4, the floor price for Q5 and Q6 will be \$325.

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

⁵The floor prices include the administrative fee that PSE&G will retain at closing from each loan issued to cover a portion of the Program's administrative costs. The administrative fee for the Residential Segment is 6% of the loan amount; Small Non-Residential 2.5%; Large Non-Residential 1.5%; and Very Large Non-Residential Segment 1.5%.

REVISED FLOOR PRICE SCHEDULE (\$/SREC)				
	Q1&2	Q3&4	Q5&6	Q7&8
Residential				
	450	435	420	400
Non- Residential				
≤150 kW	410	395	380	360
>150 kW to 500 kW	380	365	350	330
>500kW ≤ 2,000 kW	N/A	350	340	325

ACCELERATED REDUCTIONS SCHEDULE (\$/SREC)						
Very Large Non-Residential (>500 - 2,000 kW)	Q3	Q4	Q5	Q6	Q7	Q8
Acceleration Triggered in Q4:	\$350	\$340	\$340	\$325	\$325	\$300
Acceleration Triggered in Q5:	\$350	\$340	\$325	\$325	\$300	\$300
Acceleration Triggered in Q6:	\$350	\$340	\$325	\$300	\$300	\$288
Acceleration Triggered in Q7:	\$350	\$340	\$325	\$300	\$288	\$288
Acceleration Triggered in Q8:	\$350	\$340	\$325	\$300	\$288	\$276

2. Reallocating Capacity from the Small Non-Residential Segment (≤150 kW) to the Large Non-Residential Segment

PSE&G proposes to allocate 25% of any unused capacity in the Small Non-Residential Segment to the Large Non-Residential Segment beginning in the third quarterly application period.

The Stipulation allows moving unused capacity between segments within the same quarter but not in subsequent quarters. PSE&G asserts that the reallocation of capacity is needed to respond to current and expected levels of participation across Program segments. In addition, this reallocation mechanism would allow capacity to be restored to the Large Non- Residential Segment from the new Very Large Non-Residential Segments if it becomes available.

FINDINGS AND DISCUSSION

The Board established the framework for the SREC-based solar financing programs in its August Order to transition from a rebate based approach to a market based approach to providing incentives for the development of solar electric generation. In setting the segments and system size eligibility requirements, the Board looked at the capacity of solar projects to access private financing, among other factors, and found at that time that a 500 kW upper limit on the size of eligible projects represented an appropriate balance in achieving the State's goals.

The economic downturn has changed the investment climate, and apparently has reduced the capacity of certain projects to access private financing on terms conducive to increased investment in solar generation. According to the Matos certification, projects between 500 kW and 2 MW are not large enough to attract private financing and cannot obtain financing from PSE&G because they are not eligible under the Program Rules. PSE&G further asserts that in the first quarterly application period the Program was undersubscribed, and that if the Board does not allow an increase in the maximum eligible project size, the Program may continue to be undersubscribed and the State may consequently lag behind in achieving its Renewable Portfolio Standards ("RPS") requirements for solar. In view of these circumstances, the Board **FINDS** that under current market conditions, allowing projects larger than 500 kW and up to 2 MW to participate in the Solar Loan II Program is reasonable and may help the State meet its solar RPS requirements in a cost-efficient manner. The Board **THEREFORE APPROVES** PSE&G's proposal to establish a Very Large Non-Residential Segment for solar systems larger than 500 kW and up to 2 MW under the Solar Loan II Program. The Board is mindful of its obligation to ensure the availability of financial incentives for solar investments in a manner that promotes market diversity, competition and appropriate coverage across ratepayer segments and **HEREBY DIRECTS** Staff to monitor the implementation of these changes to the Program to assure compliance with the Board's obligations. The Board **FURTHER APPROVES** PSE&G's proposed changes to the Capacity Allocation Schedule for the purpose of establishing the Very Large Non-Residential Segment, and reallocating unused capacity from the Small Non-Residential Segment to the Large Non-Residential Segment.

The Signatory Parties held extensive discussions to identify the appropriate floor price for the Very Large Non-Residential Segment. The floor price sets the minimum SREC price that PSE&G will credit towards loan repayment and the level of extra protection that solar projects will receive if the SREC market price drops dramatically within the 10 or 15 years of the loan contract term. Ratepayers assume the commercial risk by paying the difference between the floor price and the SREC market price that PSE&G can obtain in the SREC auction. A floor price not linked to the reality of solar project costs could, therefore, pose an unfair level of risk on ratepayers and could establish a market wide indicator that the Board, utilities and developers are expecting SREC prices to remain near the Solar Alternative Compliance Payment.

The costs of solar projects are dynamic and change over time driven by many factors including regional, national and international indicators. Therefore, the Board **FINDS** that PSE&G's proposed market-based approach to determine the adequate floor price level properly addresses the Board's concerns that incentives be market based. However, some additional clarification is needed on the mechanism for determining when an application will trigger the Accelerated Reductions Schedule that will help maintain the link to market conditions.

In view of these considerations, the Board **APPROVES** PSE&G's proposed changes to the Floor Price Schedule and the establishment of an Accelerated Reduction Schedule as described above. However, to clarify the process, the Board **HEREBY DIRECTS** PSE&G to work with the Signatory Parties in establishing additional Program Rules necessary to properly implement the process for determining an over subscription that will trigger the accelerated floor price reductions, using the procedures established under paragraph 30 of the Stipulation.

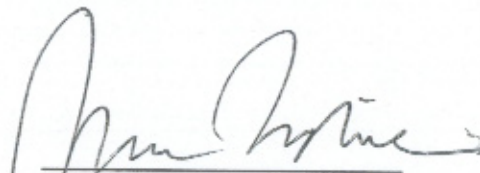
In order to promote transparency, the Board **FURTHER DIRECTS** PSE&G to promptly post on its website the quarterly status reports the Company is required to provide to the Signatory Parties under paragraph 44 of the Stipulation.

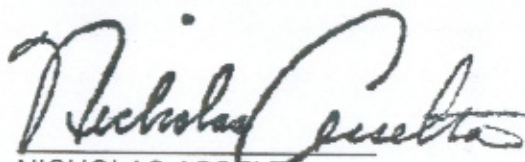
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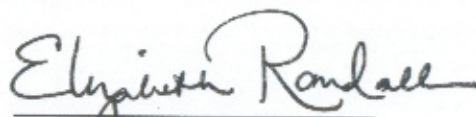
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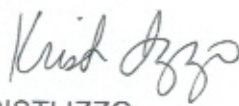

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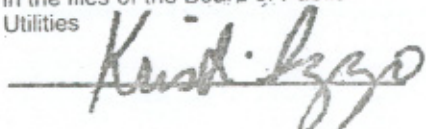

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