SREC Securitization Straw Proposal
June 13, 2008

As part of the overall Solar Transition and as set forth in the September 12, 2007 Order Docket number EO06100744, the Board directed staff to initiate a proceeding to explore whether additional securitization is warranted, and if so, to provide specific recommendations regarding the methods and costs of providing such securitization. Securitization of SRECs is intended to facilitate long term contracts for the purchase of SRECs which will enable project financing.

On January 13, 2008 Governor Corzine signed into law P.L. 2007, c 340 (RGGI Act N.J.S.A 48:3-98). The RGGI Act at N.J.S.A. 48:3-98.13(a)1 and 2 authorizes electric and gas public utilities to provide energy efficiency, conservation, and Class I renewable energy programs in their service territory on a regulated basis and to invest in Class I renewable energy resources on a regulated basis. The RGGI Act further authorized the Board to direct electric and gas public utilities to undertake energy efficiency, conservation and renewable energy improvements as defined in the RGGI Act and that the facilities or resources involved in these programs and investment may be located on the customer's side or utility side of the point of interconnection.

The Board at its May 8, 2008 meeting approved the minimum RGGI filing requirements and procedures.

The RGGI Act has to a large degree impacted on the Board directed securitization proceeding in a positive manner. While compliance with the Solar RPS regulations are the responsibilities of the LSEs, the RGGI Act provides a vehicle for the EDCs to help provide a transition to a more open and competitive market for solar consistent with the findings and directives as set forth in the Electric Discount and Energy Competition Act (EDECA) at N.J.S.A 48:3-49 et seq including the following:

1. Place greater reliance on competitive markets;
2. Maintain adequate regulatory authority over non-competitive public utility services;
3. Provide alternate forms of regulation in order to address changes in technology and structure of the utilities;
4. Transforming energy efficiency and Class I renewable energy markets taking into consideration the environmental benefits and the market barriers;
5. Making energy services more affordable for low and moderate income customers; and
6. Eliminating subsidies for programs that can be delivered in the marketplace without electric and gas funding.

The RPS and the Solar Transition including the 8 year rolling Solar Alternate Compliance Payment (SACP) and the proposals for securitization provides for a reasonable joining of regulated services and competitive market consistent with the Legislative directives.

The Board directed staff to commence the solar securitization proceeding on or about November 1, 2007 and to report to the Board by February 1, 2008 and May 1, 2008 with a final recommendation to the Board by October 1, 2008. Given the shortfall in the EY

2008 SREC and the delays in greater movement for longer term contracts with the LSEs, the Board requested that the schedule for a final recommendation on securitization be accelerated. Attached is staff's analysis of the current solar SREC market for EY 2008 and 2009 through 2012.

The overall objectives established for the securitization work group are a combination of the following:

1. Assist in achieving compliance with the Solar RPS requirements
2. Aid in delivering the Solar RPS at the lowest cost to the rate payer; and
3. Ensure that all market segments can participate fairly.

Over the past several weeks Commissioner Fiordaliso chaired three small working group meetings where representatives of the solar industry presented various proposals for securitizing SRECs. Representatives from Rate Council, Board staff, Electric Distribution Companies (EDCs), Load Serving Entities (LSEs), solar installers and project developers reviewed the proposals and provided feedback regarding a proposed method for securitizing SRECs for consideration by the Board.

To date there have been three proposals/models submitted for securitizing SREC financing. The proposals include the following:

1 A renewable energy traunch within the overall BGS auction which was discussed at the initial securitization work group and Jim Torpey "volunteered" to develop the proposal. This model was discussed with the smaller securitization work group and, while determined to be viable, was considered overly complicated to add to the BGS auction. The Rate Counsel and Division of Energy recommended that the proposal not proceed.

2 MSEIA model proposed by Lyle Rawlings would have utilities as required by the NJBPU offer both long term contracts for SRECs to PV projects or offer a PSEG-style loan programs beginning in EY 09. This model is a fixed pricing system with rates set by the Board for projects under 400kW with gradual transition in RPS responsibility to the EDCs from the LSEs. This proposal was presented to the small working group at its May 14, 2008 meeting. This proposal was not recommended by staff for two reasons:
   a. It is an alternative form of a feed in tariff and the Board's Solar Transition Order specifically does not support a feed in tariff model since it is not consistent with the competitive market model and directives in EDECA; and
   b. It is in direct contravention with the RPS provisions in EDECA which directs the suppliers as the responsible party for compliance with the RPS and the solar RPS.

3 Competitive Long Term Contract for the NJ SREC Market model proposed by Mark Warner was initially discussed at the second securitization meeting on April 1, 2008. It was furthered discussed at the small work group meeting on May 14, 2008.   Under this model the LSE would continue to purchase SRECs to meet their RPS Solar requirement. The LSE could enter into a

long term contract for part of the market. For the other part of the market the EDC as authorized by the Board would serve as regulated aggregators by providing long term contracts. The EDC's SRECs would be sold to the LSE for their compliance. It was determined that the model has potential and the participates in the meeting were requested to review and submit comments/concerns on the model.

At the May 28, 2008 meeting the three EDCs that attended the meetings, Public Service Electric and Gas (PSE&G), Jersey Central Power and Light (JCP&L), and Atlantic City Electric (ACE), each indicated support for a different approach to securitization. At this point because of the RGGI Act and Order the main focus of these meetings shifted from the solar industry proposals/models to the EDC proposals/models.

PSE&G indicated a willingness to expand its recently approved solar loan program and ACE indicated that it intended to submit a proposed solar loan program to the Board in June. JCP&L indicated its willingness to embrace, in concept, the competitive long term contract model provided that certain components where changed from the initial proposal. While no consensus was reached regarding any of the EDC proposals put forth, the majority of the non-utility attendees felt that the competitive long term contract model represented a workable approach subject to resolution of issues related to some of the specific components of the proposal. It was requested that the final comments and suggested components of the EDC proposals be submitted by the June 4th meeting.

The small working group meetings provided an excellent opportunity for discussing issues related to securitization and for narrowing the areas where further discussion is required. Given the positions taken by the three EDCs, and based upon the discussion at the working group meetings, the following approach, which varies for each utility, is staff's recommended approach:

JCP&L

JCP&L proposed a plan that embraces the main components of the competitive long term contact proposal and identified certain changes it would support. Rather than continuing discussions on all issues related to this proposal, JCP&L should be directed to commence discussions with Board Staff, Rate Counsel, the solar industry, LSEs and other EDCs, as it deems appropriate, to develop a proposed securitization plan to be submitted to the Board for consideration by September 2008. This plan should be submitted as a RGGI filing. The plan should embrace the components of the competitive long term contact proposal were there was a general consensus and JCP&L should work with the other parties to develop a proposal on issues where no consensus was reached. In addition, the competitive long term contract model would need to be developed based on the Board's policy direction for key components of the proposal. Staff's proposed recommendations for these policies that will be presented to the Board for its consideration are presented below. This guidance will be made a part of the minimum filing requirements as a component of the RGGI Order.

PSE&G

The Board recently approved PSE&G's solar loan program. PSE&G indicated that to date the initial response to the program has been positive.

PSE&G's solar loan program will assist in the development of solar projects needed to meet the RPS. However, the solar loan program, as currently designed, does not go far enough in facilitating a transition to a more competitive and market based approach to financing solar projects that relies solely on SRECs without other ratepayer subsidies.

PSE&G should be directed to initiate discussions to develop a comprehensive plan for supporting the transition to a more market based approach to achieving the RPS goals. While the current loan program should move forward and be promoted by PSE&G, a simple expansion of the current solar loan program, as proposed by PSE&G, does not meet this objective. The plan should be based on the competitive long term contract concepts and policy goals that are discussed herein. Given that there are issues that need to be addressed concerning the implementation of the PSE&G solar loan program and a competitive long term contract program, PSE&G should be directed to meet with BPU Staff immediately to discuss these issues, with the expectation that PSE&G will submit a proposal by January 2009 for review by the Board.

ACE:
ACE indicated it is developing a solar loan program that it anticipates filing with the Board for consideration in June. Based on a summary of the program provided by ACE, there is concern that the plan will not go far enough in supporting the transition to a more market based approach. ACE should be directed to work with Board staff and other stakeholders and submit a competitive long term contract proposal as discussed herein by September 2008 for review by the Board.

Rockland Electric Company (RECo):
RECo should be directed to review the various programs being considered by the other three EDCs, identify which of the programs that it would join with to manage its SREC program and submit a proposal for consideration by the Board on or before January 2009. Staff believes that given the size of the SREC requirements for the RECo service territory that it would be inefficient for them to develop their own competitive long term contract program.

Staff further recommends that the EDCs:

1. work together to ensure that the various EDC programs complement each other and, to the extent feasible, are consistent across the State;
2. utilize existing NJCEP program policies and procedures to the extent practicable; and
3. coordinate with each other to the extent practicable to reduce administration costs, for example, by jointly managing any auctions to sell SRECs to LSEs.

STAFF'S COMPETITIVE LONG TERM CONTRACTING RECOMMENDATIONS
The following sets out OCE's initial position regarding key components of the competitive long term contract proposal. OCE's position on these issues is intended to solicit further input prior to making a final recommendation to the Board. OCE welcomes further input and discussion regarding these issues at the June 18th solar securitization stakeholder meeting and the June 23rd solar securitization public hearing.

1. **SREC Contract Term**
   10 years to facilitate the transition to longer term contracts provided by the LSEs.

2. **EDC Contracting Percentage of the Total Annual Incremental SREC Market**

In the first year this percentage is 60% of the EDC's new incremental SREC allocation and would decline to 50% and 40% in years two and three. This would not include the current TPS market SREC requirements. It is anticipated that LSEs would enter into longer term contracts for larger projects, the size of which is adjusted each year as described in #3.

3. **Market Segments**

There would be only two market segments to reduce administrative costs and improve competitiveness. One segment (small segment) would be for projects less than or equal to 20 kW to coincide with staff's straw proposal for new 2009 through 2012 rebates. The other segment (large segment) would be for projects greater than 20 kW and less than or equal to 500 kW. This upper limit would decline to 400 kW and 300 kW in years 2 and 3, respectively.

4. **Developer Caps**

No one entity, as defined as the holding company, can get more than 20% of the EDC's long term contracts (calculated based on kW) in any one year. In addition, no one entity, as defined as the holding company, can get more than 10% of the EDC's long term contracts (calculated based on kW) in any one year in any of the above two market segments. This amount would be subject to annual review by the Board and maybe changed during the program timeframe. The intent of this recommendation is to provide for more diversity in participation by solar companies.

5. **Program Timeframe**

The EDC Program will have a 3 year timeframe for the large segment and 4 years for the small segment. The longer timeframe for the small segment matches with the next four year funding cycle.

6. **Legacy Project**

This program is strictly for new projects defined as operational in EY 09 and those served in the SREC pilot. No system that received a rebate from the CORE program in 2001 through 2008 will be eligible for the program. Small systems that receive a rebate from the new solar rebate program to be developed as approved by the Board in 2009 will be eligible for the EDC Contract program.

7. **Sale of SREC by the EDC to the LSE**

SREC procured by the EDC through the competitive long term contract program will be sold to any LSE and Third Party Suppliers through the auction process.

8. **Existing Systems**

To the extent it is cost effective the competitive long term contract program will use existing administrative system either through the OCE or joint utility systems

Solar Capacity and Energy Projection for EY 2009 - 2012

	Capacity	In Service Date	Available Energy for EY
	MW		MWh
CORE			
Currently Installed	54	6/1/08	54,000
Approved through 2007 Budget	20	Current - 12/31/08	15,000
Approved through 2008 Budget	18	7/01/08 - 5/01/09	4,500
Potential Supplemental 2008 Budget *	13	9/1/08 – 5/1/09	3,250
CORE Sub	105		76,750
SREC			
SREC Installed	2	6/1/08	2,000
PS Solar	20	9/01/08 – 5/1/09	7,500
SREC Pilot with Financing	15	Current - 5/01/09	7,500
SREC Pilot Potential Financing through JCPL/ACE/RECo	34	1/1/09 – 5/1/09	4,250
SREC Sub	71		19,250
Total	176		96,000
SREC needed for EY 09			137,327**
Potential shortfall			41,327
Start of EY 2010	176		176,000
PS Solar	10	6/1/09 – 12/31/09	7,500
SREC Pilot Potential Financing through JCPL/ACE/RECo	9		9,000
Total	195		192,500
SREC needed for EY'10**			192,529
Potential Shortfall			29

Start of EY 2011	195		195,000
SREC Pilot Potential Financing through JCPL/ACE/RECo/PS	75		74,700
Total	270		269,700
SREC needed for EY'11**			269,692
Potential Surplus			8
Start of EY 2012	270		270,000
SREC Pilot Potential Financing through JCPL/ACE/RECo/PS	84		83,600
Total	354		353,600
SREC needed for EY'12**			353,615
Potential Surplus			15

* Needs Board review and approval
** Decreased demand may reduce the solar RPS requirement