

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

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

By a Decision and Order Approving Settlement dated April 16, 2008 (“April 16, 2008 Order”), the Board of Public Utilities (“Board” or “BPU”) approved Public Service Electric and Gas Company’s (“PSE&G” or “Company”) request to implement a solar energy program and associated cost recovery mechanism. The Board’s April 16, 2008 Order approved a Settlement that was reached by certain parties to this matter (“Settlement”).

Paragraph 45 of the Settlement provides:

Instead of PSE&G allocating all SRECs it receives pursuant to the Program to Load Serving Entities (LSEs) as proposed in the Petition, the Parties agree that there should be periodic auctions of the Program’s SRECs. Thus, the Program’s SRECs will be sold in the open market by a third-party auction expert at least annually. PSE&G will credit the net proceeds of all Program SRECs sold to the SPRC¹, to offset the revenue requirements of the Program. For the purpose of this paragraph, “net proceeds” of the Program SRECs sold means the value realized from the sale less all transaction costs. If the SREC is acquired through exercising the call option, the cost to purchase the SREC is a component of the transaction cost. The Parties further agree to form a group, which began meeting in February 2008, to develop the auction details by working with the auction experts to develop an auction mechanism. A compliance filing detailing this process will be filed with the Board Secretary upon completion of this process. Please see the Attachment B to this Settlement, which provides initial process parameters for the Program’s SREC auction process.

¹ The “SPRC” is the Solar Pilot Recovery Charge, which is further explained in Paragraph 75 of the Settlement.

In accord with Paragraph 45 of the Settlement, PSE&G formed a working group (“SREC Auction Working Group”) to develop an auction mechanism for the periodic auction of the PSE&G Solar Program’s SRECs (“Program SRECs”). The SREC Auction Working Group has consisted of representatives of PSE&G, BPU Staff, the Division of Rate Counsel, other New Jersey utilities, solar industry participants, and other interested parties and stakeholders.

PSE&G has hosted several meetings of the SREC Auction Working Group. During these meetings, the SREC Auction Working Group has reviewed, commented on, and jointly developed a proposed auction mechanism and related procedures.

NOW, THEREFORE, THE UNDERSIGNED PARTIES (“PARTIES”) AGREE AS FOLLOWS:

1. The periodic auctions of Program SRECs shall be conducted pursuant to the following mechanism, processes, and procedures.
2. The proposed auction mechanism and related procedures jointly developed by the SREC Auction Working Group are described in paragraphs 2.1 to 2.21.
 - 2.1. With full implementation of the PSE&G solar loan program, it is estimated that there will be 30,000 Program SRECs available for sale at the auctions annually.
 - 2.2. An SREC is issued once 1 MWh of solar energy is generated through a solar photovoltaic system. A borrower in the PSE&G solar loan program will fully repay the loans over a period of 10 years for residential loans, or 15 years for consumer loans by providing PSE&G with SRECs or with cash.² For purposes of

² The borrower may elect to sell SRECs to a third party rather than using them to repay the loan, and if so, the borrower must provide notification of the quantity of SRECs to be sold and the price of such quantity of SRECs. The entire sale proceeds from the sale by borrower to a third party will be used towards the payment of interest and principal. For purposes of discussion in this document, SRECs refers to those SRECs transferred from borrower to PSE&G.

loan repayment,³ each Program SREC transferred to PSE&G's account will be valued at the higher of a floor price of \$475, or the Market Value of the SREC. The "Market Value" is the average monthly cumulative weighted price of SRECs as published on the New Jersey Clean Energy Program web site bulletin board (or a successor site authorized by the BPU for the posting of SREC prices) during the preceding calendar month. If no price is published, the Market Value is the average of quotes received from two independent brokers.

- 2.3. Auctions will be held quarterly in October, January, April and July to sell Program SRECs transferred to PSE&G's account from borrowers under this program. Information would be provided to prospective bidders and the opportunity would be promoted so as to attract as many market participants as possible. The auctions would harness the competition among these market participants to yield a price that is consistent with the market.
- 2.4. The SREC auctions will be open to all SREC market participants, including SREC traders, aggregators, as well as BGS Suppliers and third party suppliers that would have an obligation to acquire SRECs for purposes of satisfying the requirements of the New Jersey Renewable Energy Portfolio Standards ("RPS"). Program SRECs will be transferred to winning bidders' accounts established and currently maintained by the New Jersey Clean Energy Program (or any accounts succeeding it).⁴
- 2.5. The manager of the SREC auctions (the "SREC manager") will establish a public web site that is the main source of information for the SREC auctions. Prospective bidders and other stakeholders can visit this web site to obtain information and documents related to the SREC auctions. The web site will provide information on the number of systems currently in operation, the estimate of the number of SRECs for sale and links to information about market pricing. After each auction, the web site will also post information about the price and quantity of SRECs sold at that auction. Additional information, for example regarding the amount purchased by specific bidders, would also be released upon receiving consent from the bidders.

³ If loans are paid off early, PSE&G retains the right to purchase SRECs through a call option. The call option price is 75% of the then current Market Value of SRECs. If the call option is used, the SRECs purchased via the call option will be disposed of in the same manner as other SRECs transferred to PSE&G's account under the program.

⁴ There is currently a proposal filed with the BPU to have the PJM Environmental Information Services ("EIS") Generation Attributes Tracking System ("GATS") take over the accounts currently maintained by the New Jersey Clean Energy Program.

- 2.6. The SREC manager will develop a list of prospective bidders. Promotional efforts would include direct marketing via phone and emails to prospective bidders as well as holding virtual meetings or bidder information sessions to present the qualification, bidding and purchase and sale process.
- 2.7. Qualification standards would be established so as not to be overly burdensome but yet to ensure the participation from serious bidders. Prospective bidders would provide contact information. Prospective bidders would be asked to demonstrate that they hold an account established and currently maintained with the New Jersey Clean Energy Program for SRECs (or any account succeeding it). Prospective bidders would be asked to agree to the rules of the auction and to agree that their bids are binding. Prospective bidders would be asked to certify that they are bidding independently.
- 2.8. Prospective bidders would be asked to submit an indicative offer, which is the number of SRECs that a bidder intends to buy at the starting price of the auction. Prospective bidders would post pre-bid security shortly before the auction. The amount of the pre-bid security would depend on the prospective bidder's indicative offer and the starting price of the auction so as to provide assurance that the bidder will pay for the SRECs that it wins.
- 2.9. The auction format that is proposed is an ascending clock auction. The auction proceeds in rounds. In the first round, the price proposed for the SRECs is the starting price. Bidders state the number of SRECs that they want to purchase (that they "demand") at the starting price. If the number of SRECs demanded by bidders falls short of the number of SRECs available to be sold, the auction ends. The bidders that bid at the starting price each purchase the amount of their bids at the starting price. The starting price is further defined in Paragraph 2.19.
- 2.10. If there are more SRECs bid than there are available to be sold at the starting price, the auction proceeds to a second round. In the second round a new, higher price is proposed for the SRECs. Bidders state the number of SRECs that they want to purchase at the price of the second round. If there are still more SRECs bid than there are available to be sold, the auction proceeds to the next round. The price in the next round will rise again and bidders will be asked to state the number of SRECs that they wish to purchase at the new price. The process continues until a price is reached at which the number of SRECs bid is just equal to the number of SRECs to be sold.
- 2.11. The amount of the price increase from one round to the next is called the "increment". The increment is related to the excess of the demand in that round

over the amount available to be sold. In general, there will be greater price increases at the beginning of the auction when there is a greater amount of excess demand, and smaller price increases as the auction continues and the amount of excess demand decreases.

- 2.12. The number of SRECs that a bidder can bid during the auction cannot increase. In round 1 of the auction, the bidder would be able to bid on a maximum number of SRECs up to its indicative offer (i.e., the amount guaranteed by its pre-bid security). In round 2 of the auction, the bidder can bid on either the same number of SRECs as in round 1 or the bidder can bid on fewer SRECs than in round 1. In general, in a round, the maximum number of SRECs that a bidder can bid is the number of SRECs bid in the previous round.
- 2.13. If a bidder in a round bids on fewer SRECs than in the preceding round, the bidder is withdrawing bids from the auction. The bidder can, for the SRECs it is withdrawing, name a best and final offer, called an "exit price". An exit price is lower than the current round going price and higher or equal to the price in the previous round.
- 2.14. The auction ends when there is no longer an excess of SRECs demanded by bidders over the number of SRECs available for sale. A single price is established for all SRECs sold through the auction. If, in the last round, the number of SRECs bid is equal to the number of SRECs available, the bidders bidding in the last round win the SRECs at the going price of the last round. The going price in the last round is the final auction price. If, in the last round, the number of SRECs bid falls short of the number of SRECs available, the winners are those that did not withdraw SRECs in the last round and those bidders that withdrew SRECs at the highest exit price. The final auction price is the price at which the number of SRECs sold equals the number of SRECs available.
- 2.15. The winners at the auction pay PSE&G the final auction price and PSE&G transfers the SRECs to the winners' account. The cost of conducting the auction will be subtracted from proceeds of the auction.
- 2.16. PSE&G plans to hold quarterly auctions for the sale of SRECs beginning July 2009. This auction will sell all SRECs transferred to PSE&G's account up to and including May 2009. The next four auctions, from October 2009 to July 2010 will sell all SRECs transferred to PSE&G's account up to and including May 2010.
- 2.17. An auction would proceed as long as it is expected that there would be at least 2,000 SRECs available for sale. The final announcement of whether a particular

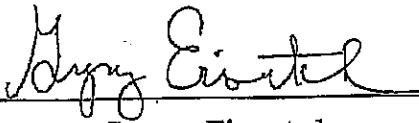
auction will proceed occurs before prospective bidders are required to submit their qualifications. The exact number of SRECs in a given auction would be announced to all qualified bidders before the auction takes place.

- 2.18. BGS Suppliers and third party suppliers that are winning bidders at the auctions in a year ending in July can use the SRECs to satisfy the RPS in September for the preceding Energy Year. For example, winning bidders at the July 2009 auction can use the SRECs to satisfy the RPS in September 2009 for the 2009 Energy Year.⁵ There are no reporting requirements by bidders regarding end use of SRECs purchased through the auction.
 - 2.19. The starting price of the auctions will be calculated based on the lower of the minimum amount to be charged to the SPRC for each SREC or current broker quotes.
 - 2.20. Any unsold SRECs in an auction will be distributed across remaining auction(s) at the discretion of the SREC manager, depending upon factors such as the total unsold SRECs and the level of interest in the auction(s).
 - 2.21. If, at the end of any given energy year, the accumulated balance of expiring SRECs that are unsold exceeds 20% of those available in that energy year, PSE&G and the SREC manager will reconvene the SREC Auction Working Group to discuss the potential reasons for these accumulated balances and to decide on potential additional actions that may be taken to maximize the value of the unsold SRECs.
3. The Parties agree that this Stipulation fully satisfies the requirements set forth in Paragraph 45 of the Settlement and the April 16, 2008 Order. The Parties further agree that this Stipulation shall be filed with the BPU Secretary as the compliance filing mandated by the April 16, 2008 Order and shall be subject to the BPU's review and approval.
 4. The Parties agree that this Stipulation is being entered into exclusively for the purpose of resolving the issues set forth in Paragraph 45 of the Settlement.

⁵ There is currently a BPU rule proposal to extend the trading life of an SREC from one reporting year to two reporting years. To the extent the Board approves the proposal, SRECs purchased at the first auction will be able to satisfy the RPS for the 2010 Energy Year as well.

5. The Parties agree that this Stipulation was negotiated and agreed to in its entirety with each section being mutually dependent on approval of all other sections. Therefore, if the Board modifies any of the terms of this Stipulation, each Party is given the option, before implementation of any different terms in this matter, to accept the change or to resume the SREC Auction Working Group process as if no Stipulation had been reached.
6. The Parties hereby agree that this Stipulation has been made exclusively for the purpose of this proceeding and that this Stipulation, in total or by specific item, is in no way binding upon them in any other proceeding, except to enforce the terms of this Stipulation.

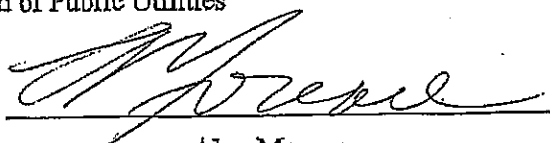
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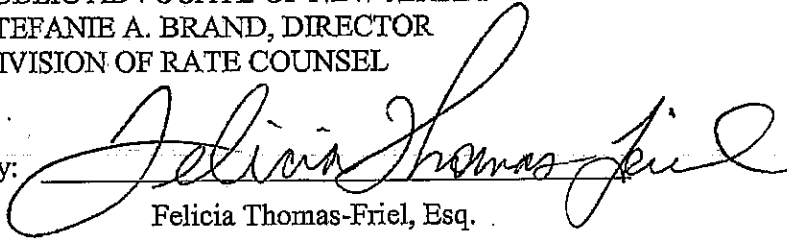
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SOUTH JERSEY GAS COMPANY

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DATED: 8-22-08

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JERSEY CENTRAL POWER & LIGHT COMPANY

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DATED: _____