Agenda Date: 11/07/08
Agenda Item: 2D

STATE OF NEW JERSEY

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

ENERGY

IN THE MATTER OF THE PETITION OF PUBLIC SERVICE ELECTRIC AND GAS COMPANY FOR APPROVAL OF A SOLAR ENERGY PROGRAM AND AN ASSOCIATED COST RECOVERY MECHANISM-SREC AUCTION PROCESS	)))))	DECISION AND ORDER APPROVING STIPULATION ON SREC AUCTION PROCESS DOCKET NO. EO07040278

(SERVICE LIST ATTACHED)

BY THE BOARD:

By this Decision and Order, the New Jersey Board of Public Utilities ("Board" or "BPU") considers the October 10, 2008 Stipulation executed by Public Service Electric and Gas Company ("PSE&G" or "Company"), the Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel"), Board Staff, and the Mid Atlantic Solar Energy Industries Association ("MSEIA"), by which the parties to the Stipulation agreed to a mechanism for the periodic auction of the PSE&G Solar Program's Solar Renewable Energy Credits ("SRECs"), subject to Board approval.[1]

BACKGROUND AND PROCEDURAL HISTORY

On April 19, 2007, PSE&G filed with the Board a petition and exhibits requesting Board approval to implement a 30 MW solar photovoltaic (PV) development program within its electric service territory across all customer classes, with segments for residential, residential low-income, municipal/public entities, and commercial/industrial and not-for-profit customers.

After extensive discovery and settlement meetings, on March 24, 2008 a Settlement ("PSE&G Solar Loan Program Settlement") was executed by the Company, Board Staff, Rate Counsel, MSEIA, New Jersey Natural Gas ("NJNG"), and South Jersey Gas ("SJG").[2] Paragraph 45 of the PSE&G Solar Loan Program Settlement provided:

1 By letter dated October 29, 2008 from Gregory Eisenstark, Esq. PSE&G maintained that no Board approval of the SREC auction process proposed by the Stipulation was required. Paragraph 3 of the Stipulation expressly states that the filing is "subject to the BPU's review and approval."

2 Jersey Central Power and Light Company ("JCP&L"), Rockland Electric Company ("RECO"), and Retail Energy Supply Association ("RESA") submitted letters to the Board taking no position in support or

> 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 SPRC[3], 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. Attachment B to this Settlement provides initial process parameters for the Program's SREC auction process.

Subsequently, a working group was established to develop an auction mechanism for the periodic auction of PSE&G's Solar Program's Solar Renewable Energy credits ((the "Program SRECs"). The working group consisted of representatives from PSE&G, Rate Counsel, Board Staff, other New Jersey utilities, solar industry participants, and other interested parties and stakeholders.

PROPOSED STIPULATION

On October 10, 2008, a Stipulation was reached between PSE&G, Rate Counsel, Board Staff, and MSEIA.

The Stipulation provides:

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 through 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

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opposition of the Settlement. The New Jersey Large Energy Users Coalition ("NJLEUC") submitted its comments to the Board, and ultimately took no position, either in support of or opposition to the Stipulation.

[3]"SPRC" is the Solar Pilot Recovery Charge which was explained in paragraph 75 of the Settlement.

loans by providing PSE&G with SRECs or with cash.[4] For purposes of loan repayment,[5] 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.

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.

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).[6]

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.

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.

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[4] 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.

[5] 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.

[6] 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.

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 (s).

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.

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.

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.

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.

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.

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.

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.[7] 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).

[7] The Stipulation also provides in footnote 5 to the Stipulation that 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. The Board notes that it construes "Energy Year" as used in the Stipulation as referring to the Reporting Year, as defined by N.J.A.C. 14:8-2.2.

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.

DISCUSSION AND FINDINGS

The Board has carefully reviewed the record in this matter, including the Stipulation. As discussed below, the Board finds that the Stipulation represents a fair and reasonable resolution of this matter and is in the public interest.

The process as set forth in the Stipulation enables PSE&G to receive the market value of the program SRECs, which will be credited against the SPRC. PSE&G ratepayers will receive this benefit, as the net proceeds of the auction will be used to directly offset any revenue requirement associated with the loan program.

The Board **FINDS** that the auction process described in the Stipulation provides a transparent process for the disposition of Program SRECs. The SREC auction will be open to all SREC market participants, including SREC traders, aggregators, as well as Basic Generation Service Suppliers and third party suppliers. Information and documents related to the auction will be posted on a public website.

In addition, the Board **FINDS** that the SREC auction will not disrupt the functioning of the existing SREC market. In fact, in its August 7, 2008 Order in Docket No. EO06100744[8], the Board found that selling SRECs procured by the electric distribution companies through the competitive long term contract program through the same auction process being used for SRECs obtained through the PSE&G solar loan program is administratively efficient and will not disrupt the functioning of the existing SREC market.

Paragraph 2.5 and 2.6 of the Stipulation detail some of the responsibilities of the SREC auction manager. The Board would like to clarify that the initial procurement of the SREC auction manager is the responsibility of PSE&G, not the Board. Currently, two of the other EDCs (JCP&L and Atlantic City Electric Company) have SREC contract proposals before the Board for review and approval. If those proposals are approved and should it be determined in those proceedings that the same auction process should be used by all EDCs, the Board will, at that time, examine any modifications needed from the addition of the other EDCs' programs. In addition, the Board notes that PSE&G used NERA Economic Consulting ("NERA") to assist in the development of the auction process. PSE&G has notified the parties that NERA will initially manage the SREC auction. In the event that the Board approves the inclusion of additional EDCs in the SREC Auction established by the Stipulation, or after four SREC Auctions, whichever comes first, the Board shall conduct a review process to evaluate the manner for selecting the SREC Auction Manager. Approval of this Stipulation shall not preclude any rulings by the Board concerning the SREC Auction Manager selection process as may be determined to be appropriate at that time.

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[8] In the Matter of the Renewable Energy Portfolio Standards- Order Amending 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, BPU Docket No. EO06100744. Order dated August 7, 2008.

The Board also notes that the Stipulation provides for information to be posted on the auction website regarding SRECs sold during particular auctions. The Board believes this information will be useful in evaluating the effectiveness of the auctions. Accordingly, the Board **HEREBY DIRECTS** PSE&G to file quarterly reports with Board Staff with copies to Rate Counsel, of information regarding the preceding auction. PSE&G is **FURTHER DIRECTED** to work with Board Staff and Rate Counsel to determine what information should be filed regarding the SREC auctions.

Accordingly, the Board **HEREBY ADOPTS** the attached Stipulation in its entirety and **HEREBY INCORPORATES** its terms and conditions as though fully set forth herein.

DATED: 11/7/08

BOARD OF PUBLIC UTILITIES
BY:

JEANNE M. FOX
PRESIDENT

FREDERICK F. BUTLER
COMMISSIONER

JOSEPH L. FIORDALISO
COMMISSIONER

NICHOLAS ASSELTA
COMMISSIONER

ELIZABETH RANDALL
COMMISSIONER

ATTEST:

KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities

PSEG Services Corporation
80 Park Plaza – T5G, Newark, New Jersey 07102-4194
973-430-6281 fax: 973-430-5983
Gregory.Eisenstark@pseg.com

PSEG
Services Corporation

October 15, 2008

In The Matter Of the Petition Of
Public Service Electric and Gas Company
For Approval of a Solar Energy Program
And Associated Cost Recovery Mechanism

Docket No. EO07040278

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

Dear Secretary Izzo:

Pursuant to the Board's April 16, 2008 Order in the above-referenced matter, Public Service Electric and Gas Company hereby files a Stipulation on SREC Auction Process. This Stipulation satisfies the compliance filing required by Paragraph 45 of the Settlement in this matter.

Very truly yours,

Greg Eisenstark

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
SOLAR ENERGY PROGRAM
BPU DOCKET NO. EO07040278

BPU

Alice Bator, Bureau Chief
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
PHONE: (973) 648-2448
FAX: (973) 648-7420
alice.bator@bpu.state.nj.us

Mark Beyer, Chief Economist
New Jersey Board of Public Utilities
Office of the Economist
Two Gateway Center
Newark, NJ 07102
PHONE: (973) 648-3414
FAX: (973) 648-4410
mark.beyer@bpu.state.nj.us

Victor Fortkiewicz, Executive Director
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
PHONE: (973) 648-4852
FAX: (973) 648-2409
victor.fortkiewicz@bpu.state.nj.us

Noreen Giblin, Chief of Staff
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
PHONE: (___) ___-____
FAX: (___) ___-____

Benjamin Hunter
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
PHONE: (___) ___-____
FAX: (___) ___-____
Benjamin.Hunter@bpu.state.nj.us

Kristi Izzo, Secretary
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
PHONE: (973) 648-3426
FAX: (973) 638-2409
kristi.izzo@bpu.state.nj.us

Christine Lin
New Jersey Board of Public Utilities
Office of the Economist
Two Gateway Center
Newark, NJ 07102
PHONE: (973) 648-3407
FAX: (___) ___-____
christine.lin@bpu.state.nj.us

Jerome May
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
PHONE: (973) 648-4950
FAX: (973) 648-2467
Jerome.may@bpu.state.nj.us

Lance Miller, Chief of Staff
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
PHONE: (973) 648-3175
FAX: (973) 648-4195
lance.miller@bpu.state.nj.us

Jacqueline O'Grady
New Jersey Board of Public Utilities
Office of The Economist
Two Gateway Center
Newark, NJ 07102
PHONE: (973) 648-3451
FAX: (973) 648-4410
jackie.ogrady@bpu.state.nj.us

Suzanne Patnaude, Chief Counsel
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
PHONE: (973) 648-3858
FAX: (973) 648-2467
suzanne.patnaude@bpu.state.nj.us

Stacy Peterson
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
PHONE: (973) 648-2143
FAX: (___) ___-____
stacy.peterson@bpu.state.nj.us

Nnajindu Ugoji
New Jersey Board of Public Utilities
Division of Energy
Two Gateway Center
Newark, NJ 07102
PHONE: (973) 648-2219
FAX: (973) 648-7420
nnajindu.ugoji@bpu.state.nj.us

Michael Winka, Manager
New Jersey 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

Samuel Wolfe, Chief Counsel
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
PHONE: (973) 648-2016
FAX: (___) ___-____
samuel.wolfe@bpu.state.nj.us

Nusha Wyner, Director
New Jersey Board of Public Utilities
Division of Energy
Two Gateway Center
Newark, NJ 07102
PHONE: (973) 648-3621
FAX: (973) 648-2467
nusha.wyner@bpu.state.nj.us

DAG

Elise Goldblat, DAG
Assistant Section Chief
Division of Law
Dept. of Law & Public Safety
124 Halsey Street
P.O. Box 45029
Newark, NJ 07102
PHONE: (973) 648-3441
FAX: (973) 648-7156
elise.goldblat@dol.lps.state.nj.us

Jenique Jones
Division of Law & Public Safety
124 Halsey St.
PO Box 45029
Newark, NJ 07102
PHONE: (973) 648-3441
FAX: (973) 648-3879
jenique.jones@dol.lps.state.nj.us

Suzana Loncar, DAG
Division of Law
124 Halsey Street
P. O. Box 45029
Newark, NJ 07102
PHONE: (973) 648-3124
FAX: (973) 648-7156
suzana.loncar@law.dol.lps.state.nj.us

Alex Moreau, Deputy Attorney General
Dept. of Law & Public Safety
Division of Law
124 Halsey Street, 5th Fl.
P. O. Box 45029
Newark, NJ 07102
PHONE: (973) 648-3762
FAX: (973) 648-3555/3879
Alex.Moreau@dol.lps.state.nj.us

ADVOCATE

Judith Appel, Esq.
Department of the Public Advocate
31 Clinton St., 11th Floor
P. O. Box 46005
Newark, NJ 07102
PHONE: (973) 648-2690
FAX: (973) 624-1047
jappel@rpa.state.nj.us

Stefanie Brand, Esq.
Director
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
sbrand@rpa.state.nj.us

Paul Flanagan, Litigation Manager
Department of the Public Advocate
31 Clinton Street, 11th Floor
P.O. Box 46005
Newark, NJ 07102
PHONE: (973) 648-2690
FAX: (973) 642-1047
pflanagan@rpa.state.nj.us

Lisa Gurkas
Department of the Public Advoca
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

Kimberly K. Holmes, Acting Dir
Division of Rate Counsel
31 Clinton Street
11th Floor
PO Box 46005
Newark, NJ 07102
PHONE: (973) 648-2690
FAX: (973) 624-1047
kholmes@rpa.state.nj.us

Kurt Lewandowski, Esq.
Department of the Public Advoca
31 Clinton Street, 11th Floor
P.O. Box 46005
Newark, NJ 07102
PHONE: (973) 648-2690
FAX: (973) 624-1047
klewando@rpa.state.nj.us

Susan McClure, Esq.
Division of the Ratepayer Advoc
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

Ami Morita, Esq.
Department of the Public Advoca
31 Clinton Street, 11th Floor
P.O. Box 46005
Newark, NJ 07102
PHONE: (973) 648-2690
FAX: (973) 624-1047
amorita@rpa.state.nj.us

Diane Schulze, Esq.
Division of the Rate Counsel
31 Clinton Street, 11th Floor
P. O. Box 46005
Newark, NJ 07102
PHONE: (973) 648-2690
FAX: (973) 648-2193
dschulze@rpa.state.nj.us

Felicia Thomas-Friel, Managing
Attorney - Gas
Department of the Public Advoca
31 Clinton Street, 11th Floor
P.O. Box 46005
Newark, NJ 07102
PHONE: (973) 648-2690
FAX: (973) 624-1047
fthomas@rpa.state.nj.us

ADVOCATE CONSULTANTS

Andrea Crane
The Columbia Group
P.O. Box 810
Georgetown, CT 06829
PHONE: (__) ___-____
FAX: (__) ___-____
ctcolumbia@aol.com

David Dismukes
Acadian Consulting Group
6455 Overton Street
Baton Rouge, LA 70808
PHONE: (__) ___-____
FAX: (__) ___-____
dismukes@lsu.edu

Matthew I. Kahal, Economic Consultant
c/o Exeter Associates, Inc.
5565 Sterret Place, Suite 310
Columbia, MD 21044
PHONE: (410) 992-7500
FAX: (410) 992-3445
Mkahal@exeterassociates.com

Brian Kalcic
Excel Consulting
225 S. Meramee Ave
Suite 720T
St. Louis, MO 63105
PHONE: (__) ___-____
FAX: (__) ___-____
bkalcic@mindspring.com

Michael J. McFadden, President
McFadden Consulting Group, Inc.
625 S. York Street, Suite 107
Denver, CO 80209-4164
PHONE: (__) ___-____
FAX: (__) ___-____
mmcfadden@mcfaddenconsulting.com

David Nichols, PhD.
787 Willett Avenue
Riverside, RI 02915-2660
PHONE: (401) 433-1230
FAX: (401) 433-2229
davidnichols@verizon.net

JCP&L

Marc B. Lasky, Esq.
Thelen Reid Brown Raysman & Steiner LLP
200 Campus Drive
Suite 210
Florham Park, NJ 07932
PHONE: (973) 660-4402
FAX: (973) 660-4401
mlasky@thelenreid.com

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

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, Esq.
Fox Rothschild LLP
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.
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'Conner
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
101 Poor Farm Road
Princeton, NJ 08540
PHONE: (609) 252-1300
FAX: (__) ___-____
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 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

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

SOLAR ALLIANCE

Susan P. LeGros
Stevens & Lee
620 Freedom Business Center
Suite 200
P.O. Box 62330
King of Prussia, PA 19406
PHONE: (610) 205-6006
FAX: (610) 988-0862
spl@stevenslee.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 ENERGY PROGRAM AND AN ASSOCIATED COST RECOVERY MECHANISM	)))))	**STIPULATION ON SREC AUCTION PROCESS** BPU Docket No. EO07040278

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 SPRC[1], 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.

   With full implementation of the PSE&G solar loan program, it is estimated tha there will be 30,000 Program SRECs available for sale at the auctions annually.

   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 s 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.

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.

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]

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.

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[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.

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.

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.

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.

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.

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.

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).

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.

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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.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

By: Gregory Eisenstark

Gregory Eisenstark
Assistant General Corporate Rate Counsel

DATED: 10-10-08

ANNE MILGRAM
ATTORNEY GENERAL OF NEW JERSEY
Attorney for the Staff of the
Board of Public Utilities

By: Alex Moreau

Alex Moreau
Deputy Attorney General

DATED: 10/10/08

RONALD K. CHEN
PUBLIC ADVOCATE OF NEW JERSEY
STEFANIE A. BRAND, DIRECTOR
DIVISION OF RATE COUNSEL

By: ______________________
Felicia Thomas-Friel, Esq.
Deputy Public Advocate

DATED: 10/10/08

MID-ATLANTIC SOLAR ENERGY INDUSTRIES ASSOCIATION

____

DATED: ______________________

SOUTH JERSEY GAS COMPANY

By: ______________________

DATED: ______________________

JERSEY CENTRAL POWER & LIGHT COMPANY

By: ______________________

DATED: ______________________

RONALD K. CHEN
PUBLIC ADVOCATE OF NEW JERSEY
STEFANIE A. BRAND, DIRECTOR
DIVISION OF RATE COUNSEL

By: ____________________________

Felicia Thomas-Friel, Esq.

Deputy Public Advocate

DATED: ____________________________

MID-ATLANTIC SOLAR ENERGY INDUSTRIES ASSOCIATION

Richard Burke, Pres

DATED: 8-22-08

SOUTH JERSEY GAS COMPANY

By: ____________________________

DATED: ____________________________

JERSEY CENTRAL POWER & LIGHT COMPANY

By: ____________________________

DATED: ____________________________

I/M/O the Petition of PSE&G for Approval of a Solar Energy Program and an Associated Cost Recovery Mechanism
BPU DOCKET NO. EO070402078

Felicia Thomas-Friel, Esq.
Division of Rate Counsel
31 Clinton Street- 11th Floor
P.O. Box 46005
Newark, NJ 07101

Ami Morita, Esq.
Division of Rate Counsel
31 Clinton Street- 11th Floor
P.O. Box 46005
Newark, NJ 07101

Judith Appel, Esq.
Division of Rate Counsel
31 Clinton Street- 11th Floor
P.O. Box 46005
Newark, NJ 07101

Kurt S. Lewandowski, Esq.
Division of Rate Counsel
31 Clinton Street- 11th Floor
P.O. Box 46005
Newark, NJ 07101

Susan McClure, Esq.
Division of Rate Counsel
31 Clinton Street- 11th Floor
P.O. Box 46005
Newark, NJ 07101

Diane Schulze, Esq.
Division of Rate Counsel
31 Clinton Street- 11th Floor
P.O. Box 46005
Newark, NJ 07101

David Dismukes
Acadian Consulting Group
6455 Overton Street
Baton Rouge, LA 70808

Andrea Crane
The Columbia Group
199 Ethan Allen Highway, 2nd Floor
Ridgefield, CT 06877

Matthew I. Kahal
c/o Exeter Associates
5655 Sterrett Place, Suite 510
Columbia, MD 21044

David Nichols
787 Willet Avenue
Riverside, RI 02915

Michael McFadden
McFadden Consulting Group, Inc.
625 S. York Street, Suite 107
Denver, CO 80209-4643

Brian Kalcic
Excel Consulting
225 S. Meramee Avenue
Suite 720T
St. Louis, MO 63105

Tracey Thayer, Esq.
New Jersey Natural Gas Company
1415 Wycoff Road
P.O. Box 1464
Wall, NJ 07719

Anne-Marie Perrachio
New Jersey Natural Gas Company
1415 Wycoff Road
P.O. Box 1464
Wall, NJ 07719

Suzanne P. LeGros, Esq.
Stevens & Lee
600 College Road East
Suite 4400
Princeton, NJ 08540

James C. Meyer, Esq.
Riker Danzig Scherer Hyland
Perretti LLP
Headquarters Plaza
One Speedwell Avenue
Morristown, NJ 07962

John L. Carley, Esq.
Consolidated Edison Company of NY, Inc.
4 Irving Place
New York, NY 10003

Mark B. Laskey, Esq.
Thelen Reid Brown Raysman &
Steiner LLP
200 Campus Drive, Suite 210
Florham Park, NJ 07932

Lawrence E. Sweeney
Jersey Central Power & Light Company
300 Madison Avenue
Morristown, NJ 07962

Christopher W. Seibens
First Energy- Rates Department
2800 Pottsville Pike
P.O. Box 16001
Reading, PA 19640

Arthur E. Korkosz, Esq.
FirstEnergy Corp.
76 S. Main Street, 15th Floor
Akron, OH 44308

Ira G. Megdal, Esq.
Cozen O'Connor
457 Haddonfield Road, Suite 300
Cherry Hill, NJ 08002

Douglas W. Frankethaler, Esq.
Cozen O'Connor
457 Haddonfield Road, Suite 300
Cherry Hill, NJ 08002

Samuel Pignatelli, Vice President
Rates & Regulatory Affairs
South Jersey Gas Co.
One South Jersey Plaza
Rt. 54
Folsom, NJ 08037

Roger M. Schwartz, Esq.
Issues Management LLC
101 Poor Farm Road
Princeton, NJ 08540

I/M/O the Petition of PSE&G for Approval of a Solar Energy Program and an Associated Cost Recovery Mechanism
BPU DOCKET NO. EO070402078

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

Michael Winka, Director
Office of Clean Energy
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Samuel Wolfe, Chief Counsel
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Nnajindu Ugoji
Division of Energy
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Benjamin Hunter
Office of Clean Energy
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Suzanne Patnaude
Counsel's Office
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Alex Moreau, DAG
Dept. of Law and Public Safety
Division of Law
124 Halsey Street, 5th Floor
Newark, NJ 07101

Gregory Eisenstark, Esq.
Public Service Electric & Gas Co.
80 Park Plaza- T8C
Newark, NJ 07101

Victor A. Fortkiewicz
Executive Director
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Lance Miller, Chief
Policy and Planning
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Alice Bator, Chief Bureau of Rates & Tariffs
Division of Energy
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Michael McFadden
Division of Energy
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Mark Beyer, Chief Economist
Office of the Economist
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Dr. Son Lin Lai
Office of the Economist
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Caroline Vachier, DAG
Dept. of Law and Public Safety
Division of Law
124 Halsey Street, 5th Floor
Newark, NJ 07101

Stefanie Brand, Director
Division of Rate Counsel
31 Clinton Street- 11th Floor
P.O. Box 46005
Newark, NJ 07101

Nusha Wyner, Director
Division of Energy
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Noreen Giblin, Chief of Staff
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Stacy Peterson
Division of Energy
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Jerome May
Division of Energy
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Christine Lin
Office of the Economist
NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Elise Goldblat, DAG
Dept. of Law and Public Safety
Division of Law
124 Halsey Street, 5th Floor
Newark, NJ 07101

Frances I. Sundheim, Esq.
Public Service Electric & Gas Co.
80 Park Plaza- T8C
Newark, NJ 07101

Paul E. Flanagan, Esq.
Division of Rate Counsel
31 Clinton Street- 11th Floor
P.O. Box 46005
Newark, NJ 07101