

STATE OF NEW JERSEY
BEFORE THE BOARD OF PUBLIC UTILITIES

In the Matter of the Petition of Public)
Service Electric and Gas Company for)
Approval of A Solar Loan III Program) BPU Docket Number EO12080726
and Associated Cost Recovery)
Mechanism And For Changes in the)
Tariff for Electric Service, B.P.U.N.J. No.)
15 Electric Pursuant To N.J.S.A. 48:2-21)
And N.J.S.A. 48:2-21.1)

DIRECT TESTIMONY OF DAVID E. DISMUKES, PH.D.
ON BEHALF OF THE
NEW JERSEY DIVISION OF RATE COUNSEL

STEFANIE A. BRAND, ESQ.
DIRECTOR, DIVISION OF RATE COUNSEL

DIVISION OF RATE COUNSEL
31 CLINTON STREET, 11TH FLOOR
P.O. BOX 46005
NEWARK, NJ 07101
Email: njratepayer@rpa.state.nj.us

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DAVID E. DISMUKES, PH.D.
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NEW JERSEY DIVISION OF RATE COUNSEL
BPU DOCKET NO. EO12080726

I. Introduction

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is David E. Dismukes. My business address is 5800 One Perkins Place Drive, Suite 5-F, Baton Rouge, Louisiana, 70808.

Q. WOULD YOU PLEASE STATE YOUR OCCUPATION AND CURRENT PLACE OF EMPLOYMENT?

A. I am a Consulting Economist with the Acadian Consulting Group (“ACG”), a research and consulting firm that specializes in the analysis of regulatory, economic, financial, accounting, statistical, and public policy issues associated with regulated and energy industries. ACG is a Louisiana-registered partnership, formed in 1995, and is located in Baton Rouge, Louisiana with additional staff in Los Angeles, California.

Q. DO YOU HOLD ANY ACADEMIC POSITIONS?

A. Yes. I am a full Professor, Associate Executive Director, and Director of Policy Analysis at the Center for Energy Studies, Louisiana State University. I am also an Adjunct Professor in the E. J. Ourso College of Business Administration (Department of Economics), an Adjunct Professor in the School of the Coast and Environment (Department of Environmental Sciences), and a member of the graduate research faculty

1 at LSU. Attachment A provides my academic vita that includes a full listing of my
2 publications, presentations, pre-filed expert witness testimony, expert reports, expert
3 legislative testimony, and affidavits.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A. I have been retained by the New Jersey Division of Rate Counsel (“Rate
6 Counsel”) to provide an expert opinion to the Board of Public Utilities (“BPU” or
7 “Board”) on the different policy and program design issues associated with the Solar
8 Loan III (“SLIII”) proposal by Public Service Electric and Gas Company (“PSE&G” or
9 “the Company”). This proposal was filed by the Company pursuant to a May 23, 2012
10 Board Order in Docket No. EO11050311V (“May 2012 Order”).

11 **Q. ARE THERE ANY OTHER RATE COUNSEL WITNESSES**
12 **ADDRESSING THE COMPANY’S PROPOSAL?**

13 A. Yes, Ms. Andrea Crane is addressing cost recovery and other financial issues.

14 **Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?**

15 A. My testimony is organized into the following sections:

- 16 • Section II: Summary of Recommendations
- 17 • Section III: Overview of Company Proposal
- 18 • Section IV: SLIII Program is Unneeded
- 19 • Section V: SLIII Rate Impacts are Under-Estimated
- 20 • Section VI: Approval of SLIII Would Pre-Judge Pending Board Investigations
- 21 • Section VII: Conclusions and Recommendation

1 **II. Summary of Recommendations**

2 **Q. WOULD YOU PLEASE SUMMARIZE YOUR PRIMARY**
3 **RECOMMENDATIONS?**

4 A. I recommend that the Board reject the Company's SLIII proposal at the current
5 time since:

- 6 • The SLIII program is unneeded since the New Jersey solar market is already long
7 in both installations and SRECs and anticipated to be over-supplied, or at least
8 adequately-supplied for many years in the future.
- 9 • The Company's SLIII rate impacts are likely understated. The rate impacts
10 associated with the program are too high and unnecessary given current New
11 Jersey solar energy market conditions.
- 12 • Approval of the SLIII program at the current time is premature since the Board
13 has a number of pending investigations exploring other options for creating solar
14 energy market stability. While the original solar loan programs may have served
15 a useful purpose at the time of their original adoption, market and regulatory
16 conditions have changed, potentially necessitating a differing approach to future
17 solar energy market challenges.

18 **Q. DO YOU HAVE ANY ALTERNATIVE RECOMMENDATIONS?**

19 A. Yes. If the Board does decide to move forward with the SLIII proposal, I
20 recommend the following modifications to the Company's proposal be made:

- 21 • Market segment capacity allocations should be set at levels similar to the
22 SLI and SLII program and the capacity allocations for each segment
23 should be established as an aspiration goal and not a hard cap. The

1 Company should be allowed to move unused capacity to other market
2 segments in the third year of its program without explicit Board approval
3 provided such movements are less than 10 percent of the total program
4 capacity. Proposed movements greater than this threshold should require
5 stakeholder input and Board approval.

- 6 • The floor price determination process should be modified to include
7 market-based approaches for both residential and non-residential
8 programs. The Company's proposed competitive solicitation process
9 should also include the use of an independent solicitation evaluator. The
10 Company's proposed Program Rules, while referencing a "third party
11 vendor," lack any meaningful appreciation for the role of independence in
12 bidding processes of this nature. Treating independence as an optional
13 Program Rule is inconsistent with the competitive solicitation processes
14 used by the other electric distribution companies in their long-term SREC
15 contracting programs. Further, an independent evaluation process should
16 be mandatory for PSE&G given recent unproven allegations regarding the
17 management of some of their solar energy and clean energy programs.
18 There should also be a significantly modified set of program solicitation
19 rules that provide greater clarity and the use of an explicit rate impact cap.
- 20 • A hard rate impact cap should be established for the program at \$50.7
21 million (NPV), which is the estimated total dollar impact included in the
22 Company's filing. The Company should not be allowed to continue
23 making loans if the anticipated costs of completing these loans exceeds the

1 amount included in this filing. Ratepayers should not be required to bear
2 the risk associated with the Company's floor price or SREC revenue
3 forecasts.

4 **III. Overview of Company Proposal**

5 **Q. WILL YOU PLEASE GENERALLY DESCRIBE THE COMPANY'S**
6 **PROPOSAL?**

7 A. Yes. The Company proposes to create an additional, follow-up solar loan
8 program that continues along many of the same lines as its earlier approved Solar Loan I
9 ("SLI") program approved by the Board in Docket EO07040278 and the Solar Loan II
10 ("SLII") program approved by the Board in Docket EO09030249. This proposal is being
11 offered as a response to the May 2012 Order requiring the extension of current utility-
12 supported long-term solar energy programs, inclusive of loan-type programs.¹ The new
13 proposal ("SLIII") has many of the same characteristics of the original proposal. For
14 instance, the Company is proposing to use its own funds to assist in the development of
15 solar energy within its own service territory through a loan-based program. The
16 Company's program, like its two predecessors, will also be providing loans to eligible
17 solar energy projects within various different market segments or categories. As in the
18 SLI and SLII programs, borrowers will have the option of repaying loans in cash, or with
19 the SRECs generated by the solar projects.

¹ Forline Direct Testimony, 3: 8-9.

1 **Q. DID THE BOARD'S MAY 2012 ORDER REQUIRE THE COMPANY TO**
2 **FILE A SOLAR LOAN PROGRAM EXTENSION PROPOSAL?**

3 A. The Board's May 2012 Order agreed with Staff's recommendation to extend the
4 EDC SREC financing programs.² The total capacity to be allocated under the extended
5 EDC SREC programs would be 180 MW, and would be divided among the EDCs over
6 three years.³ The Board stated its belief that the OCE recommendations will benefit the
7 State, minimize ratepayer costs and move the RE program closer to a market-based
8 approach, thereby reducing ratepayer subsidies.⁴

9 **Q. HOW MUCH SOLAR CAPACITY IS THE COMPANY PROPOSING TO**
10 **SUPPORT UNDER THE PROGRAM?**

11 A. The program is designed to support the installation of solar capacity by offering
12 loans to those applications eligible under program guidelines.⁵ The Company is also
13 proposing to roll over the unused capacity from the SLI and SLII programs (estimated to
14 be 30 MW)⁶ into the new program. The total amount of the capacity supported by loans
15 under this proposed program will be 97.5 MW at a cost of \$193 million.⁷

16 **Q. ARE THESE CAPACITY GOALS DIVIDED INTO ANY MARKET**
17 **SEGMENT CATEGORIES?**

18 A. Yes, there are four primary categories that include: residential projects (9.8 MW);
19 non-residential projects less than or equal to 150 kW (14.63MW); non-residential

² Docket No. EO11050311V, Order, 28.

³ Ibid, 26.

⁴ Ibid, 28.

⁵ Forline Direct Testimony, 3:4.

⁶ Company Petition, ¶25.

⁷ Forline Direct Testimony, 3:3-6.

1 projects greater than 150 kW (68.13MW); and landfills/brownfields (5 MW).^{8,9} Projects
2 that participate in this program are expected to dedicate their solar renewable energy
3 certificates (“SRECs”), or proceeds from the sale of these SRECs to payment of loans
4 secured from the Company.

5 **Q. WHAT WILL THE COMPANY DO WITH THE SRECS IT RECEIVES IN**
6 **REPAYMENT OF LOANS?**

7 A. The Company is proposing to sell these SRECs under the SREC auction process
8 that was created as part of the settlement in the Solar Loan 1 proceeding.¹⁰ Auction
9 proceedings will be used to offset SREC-financing program costs.¹¹ Project costs and
10 rate impacts associated with the Company’s filing assume that all SRECs will be
11 auctioned at a rate of \$200 per SREC over the next 15 years.

12 **Q. CAN PROJECTS PAY CASH IN LIEU OF USING SRECS?**

13 A. Yes, loans may be repaid using SRECs or cash, depending on the borrower’s
14 preference.¹² The SLI and SLII programs have similar provisions allowing ratepayers the
15 option of paying in cash or through SRECs. The experience to date in the SLI and SLII
16 shows that about 0.6 percent of the loans were paid in cash as opposed to being offset
17 exclusively with SREC revenues.¹³ To date, some 89 percent of the loans under the SLI

⁸ The non-residential projects greater than 150 kW are capped at a maximum of 2 MW.

⁹ Company Petition, ¶5.

¹⁰ 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, BPU Docket No. EO07040278, March 24, 2008.

¹¹ Ibid.

¹² Company Petition, ¶6.

¹³ Response to RCR-P-12.

1 and SLII program have been paid off early, presumably through higher than expected
2 SREC revenue credits.¹⁴

3 **Q. CAN YOU PLEASE EXPLAIN THE PURPOSE OF A FLOOR PRICE**
4 **UNDER THE COMPANY’S PROPOSAL?**

5 A. Yes. The floor price under the Company’s proposal is a minimum financial
6 support level that the Company is prepared to defend, through potential ratepayer
7 surcharges, in order to ensure that program loans are paid off at a level that minimizes
8 downward SREC market exposure to participants. Loan repayment is based on the net
9 proceeds associated with the SRECs generated from the project. Thus, if the floor price
10 were set at \$400 per SREC, the Company would ensure that all projects receive a
11 minimum credit of \$400 per SREC to apply against their loan repayment. This
12 guarantees each installation participating in the program will receive a certain minimum
13 revenue stream. If SREC prices fall below \$400, ratepayers will pay the difference
14 between revenues collected at the going market price for SRECs (determined in the
15 Company’s auction process) and the \$400 floor price.

16 **Q. HOW IS THE COMPANY PROPOSING TO ESTABLISH A FLOOR**
17 **PRICE FOR THE SLIII LOANS?**

18 A. The Company is proposing to utilize what it refers to as a “market-based
19 solicitation process” for both non-residential and residential loans. The use of a market-
20 based approach for EDC financing programs is required per the Board’s May 2012 Order
21 which agreed with the Staff recommendation that: “the loan or solicitation process shall
22 be developed to provide for the lowest achievable and available cost within the market

¹⁴ Response to RCR-P-13.

1 segments on a ‘competitive’ basis that tracks the market rate and without a set floor
2 price.”¹⁵

3 **Q. HOW WERE FLOOR PRICES ESTABLISHED UNDER THE SLI AND**
4 **SLII PROGRAM?**

5 A. Floor prices for the SLII program were also set on an administrative basis, but at
6 levels that differed per market segment and decreased over time.¹⁶

7 **Q. CAN YOU PLEASE EXPLAIN THE COMPANY’S PROPOSED**
8 **SOLICITATION PROCESS FOR NON-RESIDENTIAL LOANS?**

9 A. The Company is proposing that non-residential projects requesting participation
10 in this program be required to bid individual floor prices with their loan applications
11 which will be evaluated through a competitive bidding process.¹⁷ All proposals will be
12 ranked within a segment or sub-segment based upon their SREC floor price from lowest
13 bid to highest bid.¹⁸ The Company proposes to have six solicitations for these
14 applications/bids during the course of its program.¹⁹ Winning bidders will be awarded
15 loans at the floor price they bid into the process.²⁰ The Company’s proposed Program
16 Rules, while referencing a “third party vendor,” lack any meaningful appreciation for the
17 role of independence in bidding processes of this nature. For instance, page 3 of the
18 Company’s proposed Program Rules (provided in Schedule JAF-SLIII-2) discusses how
19 oversubscriptions to any given solicitation process will be treated. The discussion
20 repeatedly references actions that “PSE&G” will take in such instances, not the actions

¹⁵ Docket No. EO11050311V, Order, 27.

¹⁶ Docket No. EO09030249, Order, 4-5.

¹⁷ Forline Direct Testimony, 5: 3-4.

¹⁸ Forline Direct Testimony, 5: 7-8.

¹⁹ Forline Direct Testimony, 5:11.

²⁰ Forline Direct Testimony, 5: 3-4.

1 that “PSE&G or a selected third party evaluator” will take to remedy the over-
2 subscription.

3 **Q. CAN YOU PLEASE EXPLAIN THE COMPANY’S PROPOSED**
4 **SOLICIATION PROCESS FOR RESIDENTIAL LOANS?**

5 A. Yes. The residential loan solicitation process works differently from the proposed
6 non-residential process discussed earlier. The Company proposes that an initial floor
7 price of \$310 per SREC be set for each residential segment solicitation. Residential
8 customers will be required to submit a completed application to the Company and these
9 will be selected on a first-come, first-served basis. If the total capacity of all residential
10 loan applications exactly equals the capacity allocated to any particular solicitation, all
11 loans will be amortized at this \$310 amount. If the total capacity of all residential loan
12 applications exceeds the capacity allocated to any particular solicitation, the floor price
13 for the subsequent solicitation will be decreased by \$25 per SREC. This SREC floor
14 price reduction will continue for all over-subscribed future solicitations. The initial
15 SREC solicitation floor price will be increased by \$25 per SREC if any given solicitation
16 is under-subscribed (less than 75 percent of the solicitation’s allocated capacity). The
17 floor price for the program, however, has a hard cap of \$310 per SREC.

18 **Q. DOES THE NON-RESIDENTIAL SOLICIATION PROCESS REFLECT A**
19 **COMPETITIVE PROCESS AS IDENTIFIED IN THE BOARD’S MAY 2012**
20 **ORDER?**

21 A. No. The Staff recommendation, adopted by the Board in its Order, clearly
22 requires a competitive process “within market segments” of any given loan or contracting
23 program. The Company’s proposed residential solicitation process is not consistent with

1 this requirement since individual residential loan applications do not “bid” or “offer” a
2 unique, individually-determined SREC floor price which, in turn, can be compared to
3 other bids. Further, the Company’s proposal effectively “sets” or “fixes” a uniform
4 SREC floor price per solicitation. Such an approach is clearly inconsistent with the Staff
5 recommendation and Board Order rejecting the use of any type of “set fixed price.”

6 **Q. HOW WILL THE ADMINISTRATIVE COSTS OF THIS PROGRAM BE**
7 **RECOVERED?**

8 A. The Company states that it is proposing to recover the administrative costs of this
9 program from program participants.²¹ This is a topic that will be addressed at length by
10 Rate Counsel’s other expert witness in this proceeding, Ms. Andrea Crane.

11 **Q. HOW WILL ANY OTHER PROGRAM COSTS BE RECOVERED?**

12 A. Any remaining, non-administrative costs will be recovered through a new
13 component of the Regional Greenhouse Gas Initiative Cost Recovery Charge (“RRC”).
14 These non-administrative program costs are essentially the costs associated with the
15 “floor price” financial support mechanism. In any given year, these costs will likely be
16 comprised of the difference between the value attributed to the SRECs used for loan
17 repayments in that year, most likely the floor price, and the amounts realized by PSE&G
18 from the sale of the SRECs. Unfortunately, both of the variables determining these non-
19 administrative costs (floor price levels and SREC market price levels) are unknown at the
20 current time. The Company has, for purposes of estimating revenue requirements for the
21 program, assumed a floor price of \$310 per SREC for all loans and has also assumed it
22 will receive \$200 per SREC from the sale of the SRECs it receives as loan repayments.

²¹ Forline Direct Testimony, 3:16-19.

1 This differential alone (\$310 per unit cost versus a \$200 per unit credit) results in a rate
2 impact of some \$50.7 million NPV²². However, I believe this differential, and its
3 corresponding rate impact, have been underestimated by the Company. I will discuss this
4 issue, and provide alternative rate impact estimates, in a later section of my testimony.

5 **Q. HAS THE COMPNAY MODIFIED ITS PROPOSAL SINCE THE TIME**
6 **OF ITS FILINGS?**

7 A. No, the Company has not submitted any formal amendments or revisions to its
8 filed petition and testimony. Settlement discussions were held but a resolution was not
9 reached. My testimony, therefore, addresses PSE&G's proposal as it was filed.

10 **Q. ARE THERE ANY OTHER FILINGS MADE BY THE COMPANY**
11 **WHICH INFLUENCE THE CURRENT SLIII PROPOSAL?**

12 A. Yes. The Company has also filed a petition before the Board for what it is
13 referring to as a Solar 4 All Extension ("SFAE") program. The Company is proposing to
14 extend its current Solar 4 All ("SFA") program across four different market segments that
15 include: (1) landfills and brownfields; (2) warehouses; (3) parking lots; and (4) pilots and
16 demonstrations. The goal of the program is to increase solar installations "in a manner
17 timed to coincide with the increase in New Jersey's [solar] Renewable Portfolio
18 Standards under recently enacted legislation."²³ The total program investment cost is
19 anticipated to be \$690 million²⁴ and result in the installation of 136 megawatts²⁵
20 ("MWs") of solar capacity.

²² Using the Company's discount rate of 11.852 percent.

²³ Company Petition, ¶ 1.

²⁴ Company Petition, ¶ 3.

²⁵ Company Petition, ¶ 1.

1 **IV. SLIII Program is Unneeded**

2 **a. The SLIII Proposal is Inconsistent with Current Market Conditions**

3 **Q. CAN YOU PLEASE DISCUSS THE ORIGINS OF THE COMPANY'S**
4 **ORIGINAL SOLAR LOAN PROGRAM?**

5 A. Yes. PSE&G filed its proposal for the SLI program in April 2007. At that time,
6 solar installations were being subsidized through rebates and funding levels were
7 insufficient to meet the RPS beyond the 2008 energy year.²⁶ The Board and market
8 participants realized it was necessary to move away from rebates and transition toward a
9 new, more sustainable, market structure. The PSE&G SLI proposal was offered in
10 support of this transition. A summary of the original program's structure, and changes
11 incurred over the course of that program's implementation, is provided in Schedule DED-
12 1.

13 **Q. CAN YOU DESCRIBE THE NATURE OF SOLAR MARKETS AT THE**
14 **TIME OF THE COMPANY'S ORIGINAL SLI AND SLII PROGRAMS WERE**
15 **APPROVED?**

16 A. The Company's original SLI and SLII programs were developed at a time when
17 New Jersey's solar energy markets were falling short of the Board's solar RPS
18 requirements. Schedule DED-2 provides a chart comparing the Board's annual solar
19 energy requirements versus actual solar generation. New Jersey was experiencing a
20 shortfall in the number of available Solar Energy Renewable Certificates ("SRECs")
21 leading up to Energy Year 2012, the first year in which the solar goals were met. The
22 shortfall between the Board's solar energy requirements and the actual SRECs

²⁶ Docket No. EO07040278, Company Petition, 68.

1 surrendered for compliance purposes during this time period were met with Solar
2 Alternative Compliance Payments (“SACPs”).

3 **Q. DID THESE MARKET CONDITIONS HAVE ANY NEGATIVE IMPACTS**
4 **ON RATEPAYERS?**

5 A. Yes. The market shortfall, coupled with the purchase of relatively higher cost
6 SACPs drove up the overall average price of solar energy compliance during this time
7 period: a cost borne by ratepayers in their monthly electricity bills. Market clearing
8 prices for SRECs, for example, increased to levels very close to their “capped” price as
9 reflected by the SACP. Schedule DED-3 provides a chart showing the historic trend
10 between SREC and SACP prices, including those seen during this time period. SREC
11 prices, reflecting market scarcity of the period, prices, and consistently traded within 20
12 percent of the SACP, and even reached a level some 95 percent of SACP from June, 2010
13 through August of 2010.

14 **Q. DID THE BOARD TAKE ANY POLICY ACTIONS DURING THIS TIME**
15 **PERIOD TO REMEDY THE SOLAR RPS SHORTFALL?**

16 A. Yes. The Board took a number of actions to address some of these challenges.
17 These changes, codified in the Board’s December 6, 2007 Order (BPU Docket No.
18 EO06100744), were the result of a proceeding that ultimately defined the “transition” by
19 which the Board’s prior rebate-based approach to stimulating solar energy development
20 would progress to one more reliant on competitive SREC markets. This new market
21 design included the establishment of a qualification life for solar energy projects,
22 increasing the trading life of an SREC from one to two years, increasing the SACP from

1 its prior-established levels, and the creation of an eight-year SACP pricing schedule that,
2 while decreasing over time, would not be modified once approved by a Board Order.

3 **Q. WHAT WAS THE PURPOSE OF THE BOARD'S ACTIONS IN THIS**
4 **DECEMBER 6, 2007 ORDER?**

5 A. To create greater regulatory certainty since solar energy shortfalls during this time
6 period were thought to be a function of regulatory uncertainty. The prior market
7 structure, based on administratively-determined refunds, and a commodity-based SREC
8 market, were the direct result of administrative action taken by the Board. As a result,
9 potential Board changes to RPS goals, or changes in the rules for selling or buying
10 SRECs, were perceived as a regulatory risk, increasing the costs for financing and
11 developing solar energy, which in turn could lead to unnecessary ratepayer impacts.
12 While many of the steps taken by the Board in its December 6, 2007 Order were thought
13 to enhance regulatory certainty, most parties at the time thought more could be done to
14 enhance regulatory certainty through some form of long term contracting.

15 **Q. WHY WAS LONG-TERM CONTRACTING THOUGHT TO BE**
16 **COMPLIMENTARY TO THE BOARD'S MARKET RE-DESIGN?**

17 A. At the time, long-term contracting (commonly referred to then as a form of
18 "securitization") was thought to be able to bring considerable benefits to ratepayers
19 depending upon its scope and structure, particularly for the development of those solar
20 projects with higher unit costs and relatively longer paybacks. The Board's December 6,
21 2007 Order directed stakeholders to reconvene to address specific means for
22 "securitizing" solar energy projects in New Jersey. Over the next several months,
23 stakeholders representing OCE, ratepayers, the solar industry, and the EDCs met to

1 discuss a framework for securitization based upon long term contracting. This
2 framework, memorialized in the Board’s August 7, 2008 Order (BPU Docket No.
3 EO06100744), required each of the EDCs to establish long-term contracting plans. These
4 plans are based upon competitive procurement processes whereby solar projects offer
5 bids for 10 or 15 year contracts, and EDCs guarantee winning bids a levelized price over
6 the offered time period. Winning bids are selected on a least-cost basis and each project
7 is paid its offered bid, not the market clearing bid price.

8 **Q. HOW DO THESE POLICY INITIATIVES RELATIVE TO**
9 **SECURITIZATION RELATE TO THE COMPANY’S SOLAR LOAN**
10 **PROGRAM?**

11 A. The Board’s August 7, 2008 Order allowed EDC flexibility in the type and form
12 of program that would be allowed for program “securitization.” While the Board
13 established a preference for the long term SREC contracting approach in its August
14 Order, it recognized other approaches that included the prior-approved stipulation
15 authorizing the Company’s SLI program.

16 **Q. WHAT WAS THE COMPANY’S BASIS FOR MAKING THE ORIGINAL**
17 **SLI PROPOSAL?**

18 A. The Company’s original program was based upon several considerations
19 including:

- 20 • The program will “assist the Board’s transition of its renewable energy
21 programs from a rebate-oriented approach to a market-based approach
22 based on tradable SRECs”²⁷

²⁷ Docket No. EO07040278, Company Petition, 64.

- 1 • “Because SRECs are a creation of the Board and only have value to the
2 extent that the Board continues to support the solar RPS, the market
3 heavily discounts the future value of SRECs. This means that hefty risk
4 premiums and short payback times are built into SREC prices. This is not
5 optimal for solar developers or ratepayers.”²⁸
- 6 • The program would provide stability, as PSE&G’s “willingness to deploy
7 significant capital” will signal that “long-term players” are in the market
8 “expect the solar RPS to continue well into the future.”²⁹ The program
9 would also benefit ratepayers who are “currently paying high risk
10 premiums associated with an SREC market that lacks a clear future.”³⁰

11 **Q. HAVE SOLAR MARKETS CHANGED SINCE THE TIME OF THE**
12 **COMPANY’S ORIGINAL SOLAR LOAN PROGRAM APPROVAL?**

13 A. Yes. New Jersey solar energy markets have undergone a number of changes over
14 the past two years that have reversed the solar underinvestment trends creating concerns
15 for the Board and other policy makers in the 2007 time period. While the Board’s actions
16 likely had some positive influence on reducing regulatory uncertainty and improving
17 solar installations relative to the solar RPS requirements, there were a number of other
18 rapidly changing market conditions that began in the 2008 that had an equal, if not more
19 important impact on New Jersey solar energy markets.

20 **Q. CAN YOU PLEASE EXPLAIN THOSE MARKET CHANGES?**

²⁸ Docket No. EO07040278, Company Petition, 72.

²⁹ Docket No. EO07040278, Company Petition, 88.

³⁰ Ibid.

1 A. Yes. There are a number of external market changes starting to occur in 2008 that
2 ultimately set up a supply-demand mismatch in solar markets not uncommon to many
3 other capital-intensive energy markets. The “demand” side of the market, comprised of
4 the demand for solar compliance (i.e., SRECs) is decreasing while the “supply” side of
5 the market, consisting of the provision of SRECs, from both existing and new solar
6 installations is increasing.

7 **Q. HOW HAS THE DEMAND FOR SRECS CHANGED OVER THE PAST**
8 **FEW YEARS?**

9 A. On the demand side, the recession of 2008 led to a significant reduction in
10 electricity demand as seen in Schedule DED-4. This resulted in a significant reduction in
11 the need for SRECs since most solar RPS requirements and other mandates, in New
12 Jersey as well as other places around the world, are driven primarily by formulae tied to
13 some percentage of electricity sales or generation. European solar markets also saw
14 significant cut-backs in solar energy demand as many government-supported subsidies,
15 primarily in the form of feed-in-tariffs, were reduced in the face of the European financial
16 crises and a recognition that in many countries, like Spain and Germany, these
17 administratively-determined incentives were likely too generous.

18 **Q. HOW HAS THE SUPPLY OF SRECS CHANGED OVER THE PAST FEW**
19 **YEARS?**

20 A. The supply side of the solar market has perhaps seen the more dramatic changes
21 over the past several years. Solar panel manufacturing sector has increased considerably
22 over the past several years fueled in large part by the growth in solar generation
23 mandates, set-asides, and financial incentives in the U.S. and abroad. This growth likely

1 put the solar panel manufacturing sector in a position to overshoot the market even absent
2 the recession-induced contractions in solar mandate requirements. The growth in solar
3 panel manufacturing, combined with the global economic contractions, has led to an
4 extreme situation of over-supply that some would argue was exacerbated by anti-
5 competitive Chinese solar production and trade practices that were occurring
6 concurrently with the global recession.

7 **Q. HOW DO MARKET OVER-SUPPLY CHALLENGES OF THIS NATURE**
8 **TEND TO SOLVE THEMSELVES?**

9 A. These types of excess supply situations are typically corrected by either a
10 significant reduction in supply (i.e., excess SRECs) or a significant increase in demand
11 (i.e., the solar RPS or mandate), or in some instances, a combination of both.

12 **Q. DID THE NEW JERSEY SOLAR ENERGY ACT ATTEMPT TO**
13 **CORRECT THIS EXCESS SUPPLY SITUATION?**

14 A. Yes. The Solar Energy Act (“SEA”), P.L. 2012, c.24, was passed this past
15 summer with the goal of “rebalancing” the excess supply in the New Jersey solar market.
16 The law attempts to accomplish this goal by increasing the solar RPS requirement from
17 its prior level (i.e., the demand for SRECs) in the years between 2013 and 2022
18 (representing Energy Years 2014 through 2023), with a corresponding reduction in the
19 solar RPS requirement in the years subsequent to EY 2023.³¹ Overall, the SEA increases
20 the net New Jersey SREC requirement by some 38 percent (3.9 million SRECs) over the
21 next 15 years. A comparison of the old and new solar RPS requirement is provided in
22 Schedule DED-5.

³¹ P.L. 2012, chapter 24 §38 subsection d(3), N.J.S.A. 48:3-87(d)(3).

1 **Q. HOW DID THE SEA ATTEMPT TO BALANCE RATEPAYER AND**
2 **SOLAR INDUSTRY INTERESTS IN THIS MARKET RECALIBRATION?**

3 A. The SEA attempts to balance the interests of ratepayers and the solar industry by
4 significantly reducing the SACP price (those subsequent to EY2014). For instance, the
5 Board's prior SACP schedule included an EY2014 SACP price of \$625, decreasing
6 moderately to end in EY2026 at an SACP level of \$377.³² The Board's prior SACP
7 schedule would reduce the maximum compliance price in New Jersey solar markets by
8 some 3 percent per year over this thirteen year period.³³ The new SEA sets the new
9 EY2014 SACP level at \$339, a full 45.8 percent reduction from the prior year level.
10 SACP prices are then required to decrease at an annual average rate of approximately 2.5
11 percent until EY2028 where the SACP will be set at \$239.³⁴

12 **Q. HAVE YOU ESTIMATED THE RATEPAYER IMPACT OF THE**
13 **CHANGING FINANCIAL LIABILITIES CREATED BY THE NEW SEA?**

14 A. Yes and these are provided in Schedule DED-6. While the SEA both accelerates
15 and increases the total net solar RPS requirement, it also provides for a substantial
16 reduction in future SACP levels that, in the past, have influenced market clearing SREC
17 prices, and ultimately set the maximum solar ratepayer financial liability. The calculation
18 of the maximum solar ratepayer financial liability included in the schedule simply
19 assumes the entire solar RPS obligation is paid for at the SACP level and is intended to
20 be a book-end measure of the maximum amount ratepayers could be expected to support
21 under a given SACP schedule and solar RPS requirement. Schedule DED-6 estimates the

³² Order, BPU Docket EO01190527V, pg. 3

³³ Order, BPU Docket EO01190527V

³⁴ P.L. 2012, chapter 24 §38 subsection j, N.J.S.A. 48:3-87(j).

1 difference between the maximum ratepayer liability under the old SACP schedule and
2 solar RPS requirements versus the new SACP price schedule and new solar RPS
3 requirements.³⁵ Overall, ratepayers should see a \$1.1 billion reduction in maximum solar
4 energy financial liabilities by the changes and trade-offs included in the new SEA.

5 **Q. DO THESE CHANGES IN LAW REPRESENT AN EQUAL BALANCING**
6 **OF INTERESTS BETWEEN RATEPAYERS AND THE SOLAR INDUSTRY?**

7 A. Not entirely since ratepayers have been called upon, once again, to provide
8 support and back-up for the New Jersey solar industry. This support is yet another
9 example, in a series of instances, where the rules and laws governing the solar industry
10 have been changed in order to correct perceived market deficiencies. Further, an
11 important prior Board-approved ratepayer protection, a freeze of any annual increases in
12 the solar RPS if rate impacts exceeded a threshold level was removed by this legislation.
13 Both concessions (ratepayer backstopping and the removal of the rate impact cap) need to
14 be kept in mind by the Board in the review of any new solar energy initiatives that would
15 lead to new solar programs funded directly through rates.

16 **b. Many Forecasts Anticipate an Adequately Supplied SREC Market**

17 **Q. IS THE NEW SEA LIKELY TO LEAD TO A DRAMATIC REDUCTION**
18 **IN THE EXCESS SREC SUPPLY SITUATION YOU DISCUSSED EARLIER?**

19 A. No. While the new SEA will likely assist in moderating the recent free-fall in
20 SREC prices, it will likely not change what some renewable energy market analysts are
21 referring to as the “new normal” in New Jersey solar energy markets. This “new normal”

³⁵ Assumptions used to make these various estimates are provided in the notes to Schedule DED-6.

1 consists of a New Jersey solar market that has relatively steady and strong solar
2 installation rates (“build rates”) with lower and more stable SREC prices.

3 **Q. DOES THE NEW JERSEY OFFICE OF CLEAN ENERGY (“OCE”)**
4 **ANTICIPATE A DRAMATIC NEAR-TERM DROP-OFF IN NEW JERSEY**
5 **SOLAR BUILD RATES?**

6 A. No. I have provided historic and forecast solar installation trends on Schedule
7 DED-7 based on OCE’s most recent information provided to stakeholders during a
8 December 11, 2012 Renewable Energy (“RE”) Meeting. The second page of the analysis
9 shows that OCE forecasts monthly build rates to continue to be significant, at between 18
10 MW per month to 48 MW per month, over the next five energy years. This represents a
11 strong build rate despite being lower than the recent high of between 48 MW per month
12 to 55 MW per month seen during the December 2011 to June 2012 time period.

13 **Q. DID OCE PROVIDE ANY SREC FORECASTS DURING THIS SAME RE**
14 **MEETING?**

15 A. Yes. Schedule DED-8 is comprised of two pages that provide the OCE SREC
16 availability forecast to EY2016. The first page of this schedule provides a chart of the
17 OCE forecast SREC trends while the second page provides this information in tabular
18 form. OCE estimates SREC availability to be above, it not significantly above the new
19 solar RPS requirement defined in the new SEA until EY2016. The one exception to this
20 above-requirement trend occurs in the “low” forecast scenario for EY2016 where SREC
21 availability is anticipated to be slightly below the solar RPS requirement in that year.
22 OCE’s median SREC availability forecast, however, ranges from a high of 231 percent of

1 the annual SREC requirement to a low of 134 percent of the annual SREC requirement in
2 EY2016.

3 **Q. ARE THERE ANY OTHER SOLAR ENERGY FORECASTS THAT**
4 **CORRBORATE THE CONCLUSIONS REACHED IN THE OCE FORECASTS?**

5 A. Yes. PSE&G provided, in a confidential response to RCR-P-19, several solar
6 energy market analyses, forecasts, and outlooks prepared by Bloomberg New Energy
7 Finance (“BNEF” or “Bloomberg”), a company providing subscription-based analysis,
8 data, and news on clean energy and clean air markets. The Company provided this
9 information in response to a Rate Counsel request for all internal SREC and solar
10 installation forecasts either prepared by the Company or some other third party. These
11 forecasts, to which the Company apparently subscribes, suggests #BEGIN

12 **CONFIDENTIAL** [REDACTED]
13 [REDACTED] **END CONFIDENTIAL#**

14 **Q. WHAT DID THE BLOOMBERG FORCAST SHOW?**

15 A. #BEGIN CONFIDENTIAL [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]

19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 **END CONFIDENTIAL#**

³⁶ Company’s response to RCR-P-19, Confidential Attachment 15, pg. 1
³⁷ Company’s response to RCR-P-19, Confidential Attachment 15, pg. 7

1 Q. DID BLOOMBERG PROVIDE ANY SPECIFIC FORECASTS FOR THIS
2 POTENTIAL EXCESS SUPPLY?

3 A. Yes and those estimates are provided in Schedule DED-9. The Bloomberg
4 analysis is based upon six different development scenarios, each of which are defined in
5 the notes of the Schedule. #BEGIN CONFIDENTIAL [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED] END CONFIDENTIAL#

16 Q. IS THIS SOLAR MARKET OUTLOOK UNIQUE TO NEW JERSEY?

17 A. #BEGIN CONFIDENTIAL [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED] END CONFIDENTIAL# This

22 forecast is provided in Schedule DED-10.

1 Q. DO YOU THINK THE EXPIRATION OF THE FEDERAL SOLAR
2 INVESTMENT TAX CREDIT (“ITC”) WILL HAVE A SIGNIFICANT IMPACT
3 ON THE VARIOUS SOLAR BUILD RATES AND SREC FORECASTS YOU
4 DISCUSSED EARLIER?

5 A. No, at least not given current market conditions. #BEGIN CONFIDENTIAL

6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED] END

12 CONFIDENTIAL# Bloomberg’s system price and SREC price forecast is provided in
13 Schedule DED-11.

14 Q. WILL LOW SREC PRICES, BY THEMSELVES, LEAD TO A
15 CONTRACTION IN SOLAR INSTALLATIONS?

16 A. Not necessarily and reaching such conclusions based upon low SREC prices alone
17 fails to recognize, and is contradictory, to a certain “feedback loop” that exists in New
18 Jersey solar energy markets where:

19 #BEGIN CONFIDENTIAL
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]

³⁸ Company response to RCR-P-19, Confidential Attachment 15, pg. 5

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9 **END CONFIDENTIAL#**

10 **Q. WHAT DOES THIS LIKELY OVER-SUPPLY SITUATION MEAN FOR**
11 **THE COMPANY’S SLIII PROPOSAL?**

12 A. The current New Jersey solar energy market outlook suggests that an extension of
13 the Company’s Solar Loan program is unnecessary to continue solar installation
14 development in the state. As noted earlier, development is anticipated to continue, at a
15 relatively healthy pace, for the foreseeable future. Further, as I will discuss in a later
16 section of my testimony, the benefits of continuation of this program are questionable
17 relative to the rate impacts, which are considerable larger than estimated by the
18 Company. Lastly, while the original Solar Loan program may have served a useful
19 purpose at the time of its original adoption, market and regulatory conditions have
20 changed, potentially necessitating a differing approach to future solar energy market
21 challenges.

22 **V. SLIII Rate Impacts are Under-Estimated**

23 **Q. CAN YOU EXPLAIN WHY YOU BELIEVE THE COMPANY’S RATE**
24 **IMPACTS ARE UNDERESTIMATED?**

³⁹ Company response to RCR-P-19, Confidential Attachment 15, pg. 6

1 A. Yes. The Company's rate impact analysis includes estimates of the proceeds of
2 the sales of SRECs that help to offset the overall cost of the SLIII program. As noted
3 earlier, the estimated non-administrative costs associated with the SLIII program are
4 based on an assumed SREC floor price of \$310 per SREC. Any differentials between the
5 costs of supporting the floor price, and the revenues generated by the sale of SRECs
6 received from borrowers, are recovered from ratepayers through the SLIII component of
7 RRC (i.e., rates). Over-estimated SREC revenue streams, therefore, will result in
8 underestimated cost differentials recovered in rates. The Company estimates total
9 proceeds from auctioning off SRECs of some \$91.8 million (NPV basis).

10 **Q. CAN YOU EXPLAIN HOW THE SREC PROCEEDS HAVE BEEN**
11 **OVERSTATED?**

12 A. Yes. The Company's rate impact analysis assumes a fixed market price of \$200
13 per SREC across the entire term of their loan program. This assumed SREC price is
14 multiplied by SLIII forecast SRECs in order to develop a total annual SREC-specific
15 revenue credit. This \$200/SREC price is unrealistically high and inconsistent with recent
16 SREC prices attained in the Company's currently ongoing SREC auctions, #BEGIN
17 **CONFIDENTIAL** [REDACTED]
18 [REDACTED] **END CONFIDENTIAL#**

19 **Q. CAN YOU COMPARE THIS \$200 PER SREC ASSUMPTION TO THE**
20 **RECENT SREC PRICING TRENDS IN THE COMPANY'S SREC AUCTION?**

21 A. Yes, and that comparison is provided in Schedule DED-12. SREC prices bid into
22 the Company's early SREC auctions were relatively high and, at the time, very close to
23 SACP values. For instance, EY2011 auctions saw prices in excess of \$450/SREC with

1 one instance in which SREC prices were as high as \$669/SREC (some 99 percent of the
2 then-prevailing SACP). SREC prices began falling in EY2012 auctions with SREC
3 prices ranging from a high of \$227/SREC to a low of \$135/SREC. This is much lower
4 than the \$200 per SREC assumed by the Company in its rate impact analysis.

5 **Q. DO YOU HAVE ANY RECOMMENDATIONS ON THE APPROPRIATE**
6 **SREC PRICE TO USE FOR RATE IMPACT ESTIMATION PURPOSES IN THIS**
7 **PROCEEDING?**

8 A. I recommend that the Company use the forecasted SREC prices developed by
9 Bloomberg that was discussed earlier in my testimony and provided in Schedule DED-
10 11. This forecast, however, ends in 2020 while the Company's rate impact analysis ends
11 in 2035. I recommend that these outlying years (2021 to 2035) be estimated by taking
12 the last known SREC price and reducing that each year by 2.5 percent until the year
13 2035. This annual SREC price reduction rate is consistent with the OCE SACP
14 recommendation offered to stakeholders back in 2007 prior to the passage of the SEA.
15 The reduced SREC prices will result in a reduction in the Company's proposed SREC
16 revenue credits by some \$50.1 million (NPV) or by some 120 percent.

17 **Q. HOW DOES THE SREC FORECAST ASSUMPTION CHANGE THE**
18 **SLIII RATE IMPACTS?**

19 A. The change in the SREC price forecast increases the estimated rate impact by
20 some 96 percent or by some \$121.8 million. In total, the SLIII rate impact is likely to
21 lead to a \$98.8 million increase in rates (NPV) relative to the Company's original
22 estimate of a \$50.7 (NPV) increase. The use of the Bloomberg SREC forecast results in
23 average annual rate increases of about \$3.05 compared to the Company's estimated

1 average annual rate increases of some \$1.55. The results of this revised rate impact
2 analysis are provided in Schedule DED-13.

3 **Q. IS THE ASSUMED \$310 SREC FLOOR PRICE OVERSTATED?**

4 A Possibly, since in theory a more competitive SREC market, while reducing
5 overall revenue credits used to offset the costs of the program, will also lead to an
6 opportunity to reduce the average SREC floor price bids in a competitive solicitation.
7 The question, however, is whether or not the decrease in the floor price level used to
8 capitalize the loans is proportional to the decrease in SREC prices realized when PSE&G
9 sells the SRECs. If the decreases are at or close to proportional, then the overall rate
10 impact will likely remain the same. So, if more competitive market dynamics leads to a
11 situation where SREC floor price levels decrease from \$310 to \$300, and the SREC
12 prices auctioned for use as revenue credits falls from \$200 to \$190, the differential used
13 to calculate rates is still \$110 per SREC (i.e., \$310 less \$200 is \$110 and \$300 less \$190
14 is \$110). This is why I believe an annually set rate cap, based upon the anticipated
15 differential between the costs of executing the loans, and the revenues used to offset the
16 cost of those loans, would be more useful than the hard \$310 per SREC cap offered by
17 the Company for the residential and non-residential loan floor prices.

18 **VI. Approval of SLIII Would Pre-Judge Pending Board Investigations**

19 **Q. DOESN'T THE SOLAR ENERGY ACT REQUIRE THE BOARD TO**
20 **OPEN A NUMBER OF SOLAR ENERGY POLICY INVESTIGATIONS?**

21 A. Yes. The SEA directs the Board to establish a procedure for a number of
22 investigations, several of which are pertinent to the Company's SLIII proposal. For
23 instance, the SEA directs the Board to consider the use of supplemental incentives, in

1 addition to SRECs, to cover the additional costs of construction and operating a solar
2 facility on landfills, a sub-segment of the non-residential component of the Company's
3 proposal.⁴⁰ The SEA also directs the Board to open an investigation to consider various
4 different means to create more stability in New Jersey's solar energy markets.
5 Approving the SLIII proposal at the current time, may result in putting the proverbial
6 policy "cart before the horse" since other alternatives to mitigating solar energy market
7 volatility, as well as the appropriate incentive structure for installations on landfills, has
8 not been determined. As I noted earlier, the original Solar Loan programs, and their
9 long-term SREC contracting program counterparts, were established during a period
10 when SREC markets were undersupplied, and there continued to be considerable policy
11 and regulatory uncertainty associated with solar market design. Today's solar energy
12 market challenges are simply not the same as they were during that period since the
13 market is very likely over-supplied, or adequately-supplied into the near future, and New
14 Jersey's policies supporting market-based solar energy development are readily
15 recognized and accepted.

16 **Q. SHOULDN'T THE BOARD ACT NOW TO ADOPT POLICIES THAT**
17 **REDUCE MARKET RISK?**

18 A. No. While the Board should consider policies that reduce, or mitigate, regulatory
19 risk, the same cannot be said of the reduction of market risk, especially if the party
20 assuming the risk (like ratepayers) is uncompensated in any known, measurable, and
21 appropriate fashion. While the Board establishes a number of market design policies for
22 increasingly competitive renewable energy markets, its antecedents, and many of its

⁴⁰ P.L. 2012, chapter 24 §38 subsection t(1), N.J.S.A. 48:3-87(t)(l).

1 ongoing responsibilities, are associated with utility regulation. Insulating utilities from
2 risk is antithetical to over 100 years of utility regulation and the Board should not move
3 away from such precedents by adopting policies insulating otherwise competitive solar
4 market participants from both the rewards and discipline created by market risk.

5 **VII. Conclusion and Recommendation**

6 **Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

7 A. I recommend that the Board reject the Company's SLIII proposal at the current
8 time since:

- 9 • The SLIII program is unneeded since the New Jersey solar market is already long
10 in both installations and SRECs and anticipated to be over-supplied, or at least
11 adequately-supplied for many years in the future.
- 12 • The Company's SLIII rate impacts are likely understated. The rate impacts
13 associated with the program are too high and unnecessary given current New
14 Jersey solar energy market conditions.
- 15 • Approval of the SLIII program at the current time is premature since the Board
16 has a number of pending investigations exploring other options for creating solar
17 energy market stability. While the original Solar Loan programs may have served
18 a useful purpose at the time of their original adoption, market and regulatory
19 conditions have changed, potentially necessitating a differing approach to future
20 solar energy market challenges.
- 21 • The residential component of the plan is based on a fixed floor price per
22 solicitation. The Board's order explicitly rejects the use of a fixed floor price.

1 **Q. DO YOU HAVE ANY ALTERNATIVE RECOMMENDATIONS?**

2 A. Yes. If the Board does decide to move forward with the SLIII proposal, I
3 recommend the following modifications to the Company's proposal be made:

- 4 • Market segment capacity allocations should be set at levels similar to the
5 SLI and SLII program and the capacity allocations for each segment
6 should be established as an aspiration goal and not a hard cap. The
7 Company should be allowed to move unused capacity to other market
8 segments in the third year of its program without explicit Board approval
9 provided such movements are less than 10 percent of the total program
10 capacity. Proposed movements greater than this threshold should require
11 stakeholder input and Board approval.
- 12 • The floor price determination process should be modified to include
13 market-based approaches for both residential and non-residential
14 programs.
- 15 • The proposed solicitation process should also include the use of an
16 independent solicitation evaluator, and a significantly modified set of
17 program solicitation rules that provide greater clarity and the use of an
18 explicit rate impact cap
- 19 • A hard rate impact cap should be established for the program at \$50.7
20 million (NPV), which is the estimated total dollar impact included in the
21 Company's filing. The Company should not be allowed to continue
22 making loans if the anticipated costs of completing these loans exceeds the
23 amount included in this filing. Ratepayers should not be required to bear

1 the risk associated with the Company's price floor or SREC revenue
2 forecasts.

3 **Q. WOULD YOU PLEASE ELABORATE ON THE RESPOSNE FOR YOUR**
4 **RECOMMEDNATION THAT THE COMPANY USE AN INDEPENDENT**
5 **SOLICITATION EVALUATOR?**

6 A. The lack of a clear requirement for an independent solicitation evaluator is a
7 serious flaw in the Company's proposal. The SREC long term financing programs
8 conducted by Atlantic City Electric Company, Jersey Central Power & Light Company,
9 and Rockland Electric Company use an independent Solicitation Manager to manage the
10 process, review bids, make objective recommendations about the rejection or acceptance
11 of particular offers, particularly in instances where conflicting goals, such as attempting
12 to minimize cost but reach certain market segment aspiration goals, are concerned. The
13 need for independence and transparency require that the Company, at the very least,
14 retain an independent evaluator to oversee its solicitation process. Independent oversight
15 is necessary to ensure the integrity of the process for PSE&G. The need for this
16 independence is particularly important given recent allegations, albeit unproven, of
17 failures to appropriately manage ratepayer-funded solar programs.

18 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY FILED ON**
19 **JANUARY 11, 2013?**

20 A. Yes it does. However, I reserve the right to revise ore amend my testimony based
21 on anew and/or updated information.