BEFORE THE STATE OF NEW JERSEY

BOARD OF PUBLIC UTILITIES

I/M/O THE PETITION OF PUBLIC SERVICE	)	
ELECTRIC AND GAS COMPANY FOR	)	
APPROVAL OF A SOLAR ENERGY PROGRAM	)	**BPU DKT. NO. EO07040278**
AND AN ASSOCIATED COST RECOVERY	)	
MECHANISM	)	

SURREBUTTAL TESTIMONY OF ANDREA CRANE ON BEHALF OF THE NEW JERSEY DEPARTMENT OF THE PUBLIC ADVOCATE, DIVISION OF RATE COUNSEL

RONALD K. CHEN
PUBLIC ADVOCATE OF NEW JERSEY

STEFANIE A. BRAND
DIRECTOR, DIVISION OF RATE COUNSEL

Division of Rate Counsel
31 Clinton Street, 11th Floor
P. O. Box 46005
Newark, New Jersey 07101

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Q. Please state your name and business address.

A. My name is Andrea C. Crane and my business address is 199 Ethan Allen Highway, 2nd Floor, Ridgefield, CT 06877. (Mailing address: PO Box 810, Georgetown, Connecticut 06829.)

Q. Did you previously file testimony in this case?

A. Yes, on September 21, 2007, I filed testimony on behalf of the State of New Jersey, Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel"). In that testimony, I provided recommendations to the Board of Public Utilities ("BPU" or "Board") regarding cost recovery mechanisms relating to the solar energy program submitted to the Board by Public Service Electric and Gas Company ("PSE&G" or "Company") on April 19, 2007.

Q. What is the purpose of your Surrebuttal Testimony?

A. The purpose of my Surrebuttal Testimony is to address the Rebuttal Testimony submitted by Company witness Gerald W. Schirra on October 26, 2007. I will also briefly address points raised in the Rebuttal Testimony of PSE&G witness Morton A. Plawner and in the Direct Testimony filed by Thomas Leyden on behalf of the Mid Atlantic Solar Energy Industries Association ("MSEIA").

Q. Based upon your review of the Rebuttal Testimony submitted by PSE&G and your review of the MSEIA Direct Testimony, are you proposing any changes to the recommendations contained in your Direct Testimony?

A. No, I am not. The Rebuttal Testimony submitted by PSE&G and the Direct Testimony submitted by MSEIA simply reinforce the recommendations contained in my Direct Testimony filed on September 21, 2007.

Q. Please comment on Mr. Schirra's statement on page 2, lines 11-12 of his Rebuttal Testimony where he addresses the cost of subsidies relating to solar equipment, stating that "[t]he inevitable result is that the public will pay for these public benefits."

A. I do not disagree with Mr. Schirra's conclusion that the public will pay for public benefits associated with renewable energy sources, including solar programs. However, the real questions, which are not addressed by Mr. Schirra, are 1) how much should the public pay for these programs and 2) should shareholders earn excess profits as a result of these programs?

I recognize that the public, in one way or another, is ultimately going to pay for renewable energy resources. However, renewable energy resources, including solar, should be not be promoted at any price. Instead, one must ask whether the amounts being charged to ratepayers are reasonable. A related question is whether shareholders should be enriched at the expense of ratepayers, especially when the associated risk to shareholders is far less than the risk they incur with other, traditional utility investments. The BPU should ensure that ratepayers don't pay more than they have to, and that shareholders are not permitted to take advantage of ratepayers by earning excessive returns.

Q. Please comment on Mr. Schirra's discussion on pages 2-3 of his Rebuttal Testimony about the Company's desire to be a good corporate citizen and to support the State's energy policy goals.

A. If the Company is truly concerned about being a good corporate citizen and embracing the solar energy policy of the State, then it should be willing to offer these solar energy programs without demanding an excessive and unjustified premium return for its shareholders.

Mr. Schirra goes on to state that "it makes business sense for the Company to invest shareholder capital in the electric business, especially where that investment is consistent with State energy policy. In turn, the Company's investors require the Company to recover all of its costs from the revenue stream generated, such that they can earn an adequate return on their investment." As discussed in my Direct Testimony, if the Company's proposed solar energy program is adopted, the Company will be incurring less risk than it incurs in its traditional distribution business. Therefore, there is no justification for awarding a premium equity return on this investment. PSE&G's desire to be a "good corporate citizen" and to embrace the State's energy policy appears to be linked to its demand that its shareholders receive a premium return. In my opinion, a good corporate citizen would not seek undue enrichment, at the expense of ratepayers, who all parties acknowledge will ultimately bear the costs of any solar energy program. Instead, a good corporate citizen would serve to partner with ratepayers and to bear some of that financial burden itself, if necessary. As currently structured, it is clear that the Company's solar energy program is motivated primarily by the desire for increased shareholder profit at a reduced risk.

Q. Please comment on Mr. Schirra's statement on page 3, lines 10-12 of his Rebuttal Testimony that "ratepayers' costs are offset by the lower BGS costs to ratepayers that are expected to result from the provision of SRECs to electric suppliers at no cost."

A. PSE&G has no assurance that any such cost reductions will be passed through to ratepayers. The Company has no mechanism in place to determine if such savings are ultimately reflected in lower costs for electric generation within the State. Mr. Schirra goes on to state in his Rebuttal Testimony that I have ignored another possibility, i.e., that the electric suppliers will pass on <u>more</u> than the value of the SRECs to customers. While anything is possible, it would certainly not represent rational economic behavior on the part of suppliers.

Moreover, since the Company has no way of measuring the impact of the SREC allocation on the ultimate price of electric generation, it will be impossible to determine whether ratepayers received <u>any</u> benefit from the proposed allocation. In response to RCR-RR-70, PSE&G stated that "...the Company is not privy to the pricing methodology of Load Serving Entities (LSEs); therefore tracking cost reductions related to the provision of no-cost SRECs to LSEs is impracticable."

Furthermore, if ratepayers do not receive benefits from the SREC allocations, or do not receive benefits that are proportional to the value of the SRECs, there is no remedy in PSE&G's proposal to compensate ratepayers for the increased costs that they will bear. As stated by PSE&G in its response to RCR-RR-71, "[s]ince tracking the cost reductions of the provision of SRECs to Load Serving Entities (LSEs) at no cost is impracticable...the Company does not propose any 'remedy'....". Thus, under the Company's proposal, ratepayers will be at risk for any differences between the value of the SRECs and any cost reduction that may flow through the retail price of generation.

Q. Please comment on Mr. Schirra's claim on page 4, lines 12-14 of his Rebuttal Testimony that its affiliate will likely lose earnings due to the electric sales that will be displaced by the 30 MWs of solar installations envisioned by the PSE&G program.

A. Rate Counsel asked the Company to provide an estimate of the impact on its affiliate of these lost revenues and earnings in RCR-RR-73. In response, PSE&G indicated that, "It is not practicable for PSE&G to quantify the estimated lost revenue and earnings of PSEG ER&T. The conclusion ...is based on the fact that PSEG ER&T is a BGS supplier and, therefore, it will realize its proportionate share of any reduction in BGS load due to the installation of the solar equipment. Since this analysis is qualitative in nature, no quantitative data exists. There was no communication with PSEG ER&T employees on specific quantities of solar generation and lost revenue and/or earnings."

It is interesting to note that if the Company's proposal for a return on equity premium is adopted, the consolidated corporate entity may not suffer any impact from the solar program, for two reasons. First, PSEG ER&T may not pass on to ratepayers the full value of the SRECs that it will be receiving at no cost from PSE&G. This will result in cost savings to PSEG ER&T relative to the costs that it would have to incur for SRECs in the absence of the allocation. To the extent that some or all of these cost savings were retained by the PSEG ER&T, instead of being passed through to retail customers, the consolidated corporate entity would actually be better off from a financial perspective. Second, if PSE&G is successful in convincing the BPU to award it a premium return on equity, this premium would also mitigate (or eliminate) PSEG ER&T's lost revenue and/or earnings resulting from the solar program. From a consolidated corporate perspective, the premium return collected from ratepayers could directly subsidize the unregulated generation affiliate, providing an additional reason to deny the Company's request for this premium.

Q. On page 4, lines 16-21 of his Rebuttal Testimony, Mr. Schirra criticizes you for stating that the solar energy program provides a competitive advantage to existing suppliers. Please comment.

A. Mr. Schirra points out that "[a]ll suppliers will share in the SRECs based on their actual market served." However, Mr. Schirra ignores the fact that the allocation of the SRECs provides a significant barrier to entry for new suppliers. While all suppliers will share the SRECs under PSE&G's allocation proposal <u>once they are</u>

serving load, there will be an inherent advantage to the suppliers already serving load, and a larger advantage to the suppliers serving the largest load, such as PSEG ER&T. This is the traditional chicken and egg problem. A supplier will not receive the benefit of any SREC allocation until that supplier is actually serving load. According to the response to RCR-RR-74, the distribution of SRECs would occur quarterly. Therefore, a supplier needs to provide service for at least three months before they will receive the benefit of any SREC allocation. In addition, since the allocation of SRECs is based on the load served during the previous quarter, it will be difficult for a new supplier that is gradually building its load to compete on a level playing field with a competitive supplier that is already well-established and being allocated a significant portion of the SRECs. Therefore, the Company's proposal provides a significant competitive advantage to suppliers that are already serving a significant share of the market and who receive a significant share of the SRECs on a quarterly basis.

Q. In his Rebuttal Testimony, does Mr. Schirra provide any additional information about advertising costs, administrative costs, or other program costs?

A. Mr. Schirra provides some clarification in his Rebuttal Testimony by stating that the meters to measure the solar system output will be reimbursed by the owner/developer of the solar installations and therefore will not be a direct program cost. However, he did not provide any details about the associated accounting treatment and what steps the Company will take to ensure that these costs are not passed onto ratepayers. Moreover, while he also states that the Company will not seek to recover from ratepayers any regulatory costs associated with the solar energy proposal, there are still many cost issues that are unresolved.

For example, on page 5 lines 12-13 of his Rebuttal Testimony, in discussing advertising costs and loan origination costs, Mr. Schirra states that "until the Company knows exactly what the Board will approve for the program, it is difficult to define these costs with precision." Similarly, Mr. Schirra acknowledges that the amount of administrative costs associated with the program will depend upon the specifics of the program actually approved by the BPU. However, the BPU is being asked to approve a program without knowing some important details about the program. For example, we do not yet know if loans will be initiated by the New Jersey Housing and Mortgage Financing Authority ("HMFA") or by some other entity. The manner in which loans are originated will certainly impact upon the ultimate costs of the program. Mr. Schirra states on page 5 at lines 16-18 of his Rebuttal Testimony that "without Board approval of a specific program it is impossible for the Company and HMFA to finalize an agreement and establish related costs." However, the involvement or lack thereof of HMFA will be a significant component of the program. It is difficult to see how the BPU can approve a solar energy loan program when these and other important details remain unresolved.

Q. Please address Mr. Schirra's comment that your Direct Testimony stating that the Company's program will result in $48 million of additional PSE&G earnings is "crude".

A. I am not sure why Mr. Schirra terms my testimony as "crude" but I am happy to see that he does not dispute my quantification of PSE&G's earnings under the program. Moreover, Mr. Schirra does not state why he believes that the Company's investment in the solar energy program should be subject to a greater return on equity than the hundreds of millions that PSE&G will spend on other capital improvements. As recently stated by PSE&G in Docket No. EF07080621, PSE&G expects to spend approximately $1.5 billion over the next two years, only a small portion of which relates to the solar energy program. PSE&G has not provided any reasonable explanation for why ratepayers should have to bear a premium return on the investment related to the solar energy program, especially since the Company acknowledges that the solar energy program is not more risky than its traditional business. As stated on page 6 of Mr. Plawner's Rebuttal Testimony, the "Company has not suggested that it is undertaking increase [sic] risks in the proposed Solar Program, nor has it linked risk to its proposed incentive return." Thus, the return on equity premium being requested in this case is contrary to the well-established risk/return relationship upon which this Board and other regulatory commissions have long relied.

Q. Please comment on Mr. Schirra's argument on page 10, lines 1-2 of his Rebuttal Testimony that the BPU has not addressed the issue of lost revenues for solar programs.

A. While the BPU has not specifically addressed the issue of lost revenues for solar energy programs, it has addressed the issue with regard to other types of energy programs, and it has determined that lost revenues related to those programs should not be recovered from ratepayers. PSE&G has not provided any reason why lost revenues related to the solar energy program should be treated differently from lost revenues associated with other types of programs. Permitting the Company to recover lost revenues from this solar energy program would provide PSE&G with an incentive to promote this program more aggressively than other programs for which it is not eligible to receive lost revenues. Moreover, there is no reason to distinguish lost revenues related to solar energy programs funded by PSE&G and solar energy programs funded by other entities. If the Company's proposal is adopted, PSE&G would be permitted to recover lost revenues associated with its solar energy program, but would not receive lost revenues resulting from other solar energy programs, even though the impact of these other programs on PSE&G is the same as the impact on PSE&G of the Company's own solar energy program. This is an irrational result of PSE&G's proposal.

Q. Please comment on Mr. Schirra's statement on page 10, lines 20-21 that the cost of rebates for Board-approved programs are already being recovered through the SBC.

A. While it is true that the cost of the rebates administered by the BPU is currently recovered through the SBC, PSE&G's proposal would require ratepayers to pay the actual construction costs of up to $100 million for solar energy installations. In addition, it would treat solar energy installations funded by PSE&G differently from solar energy installations funded by other entities, such as banks, private investors, etc. This would represent a fundamental change in the costs subject to recovery through the SBC.

Q. Finally, please comment on the Direct Testimony submitted by MSEIA.

A. MSEIA concludes that the proposed solar energy program is innovative, consistent with BPU's policy, and could serve as a role model for other programs. Unfortunately, MSEIA fails to address whether the costs of the program are reasonable and, if so, how such costs should be recovered from ratepayers.

In response to a discovery request (RCR-MSEIA-10), MSEIA stated that,

> Neither Mr. Leyden nor MSEIA has opined as to the reasonableness of PSE&G's proposed rate of return or as to the bonus incentive return component associated with the proposed solar program. MSEIA believes the cost of this program is reasonable and a good test of one method of providing long term, lower cost SREC contracts-saving money for ratepayers relative to a non securitized market.

When asked to provide its understanding of the interest rate approved by the BPU in other securitization proceedings involving New Jersey electric utilities, MSEIA responded that "Mr. Leyden is not aware of other securitization proceedings involving other New Jersey electric utilities."[1]

Since neither Mr. Leyden nor MSEIA has formed any opinion about the reasonableness of PSE&G's proposed rate of return, MSEIA could not possibly know whether the overall costs of the PSE&G solar energy proposal are "reasonable". Moreover, in response to RCR-MSEIA-14, MSEIA indicated that "[n]either Mr. Leyden nor MSEIA performed rate impact analyses." MSEIA has also stated that it "has not taken a position as to whether recovery of lost revenues is appropriate or not.[2]" Thus, it is clear that MSEIA has not undertaken the financial analysis necessary to determine if the solar energy program as proposed by PSE&G is reasonable or not.

Finally, when asked about the need for incentive returns, MSEIA stated that "[t]he current costs of purchasing and installing solar photovoltaic systems is still at a level that such systems will not be widely deployed unless some type of incentive is available to defray initial expense." MSEIA appears to be confusing incentives to actual solar customers, such as rebates, with the incentive proposed by PSE&G to reward shareholders with larger returns on equity. The incentive return proposed by PSE&G has no impact on the costs to the end-use solar customer, except to increase that customer's SBC rates along with the SBC rates of other ratepayers in the service territory. No incentive for installing solar

[1] Response to RCR-MSEIA-9.
[2] Response to RCR-MSEIA-21.

equipment is therefore being provided as a result of this premium equity award, which should be rejected by the BPU.

Q. Does this complete your testimony?

A. Yes, it does.

ATTACHMENTS

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

BGS COSTS

QUESTION:
Regarding the "lower BGS costs to ratepayers that are expected to result from the provision of SRECs to electricity suppliers at no cost", referenced on page 3, lines 11-12 of Mr. Schirra's Rebuttal Testimony, how does the Company plan to track cost reductions over time to determine whether or not the projected cost reductions have materialized? In your response, please describe how the Company plans to track cost reductions to BGS customers as well as cost reductions to third-party supplier customers, if applicable.

ANSWER:
As indicated in our Response RCR-RR-29, the Company is not privy to the pricing methodology of Load Serving Entities (LSEs); therefore tracking cost reductions related to the provision of no-cost SRECs to LSEs is impracticable.

RESPONSE TO RATE COUNSEL
REQUEST: RCR-RR-71
WITNESS(S): SCHIRRA

SOLAR ENERGY PROGRAM

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

BGS COSTS

QUESTION:
Regarding the "lower BGS costs to ratepayers that are expected to result from the provision of SRECs to electricity suppliers at no cost", referenced on page 3, lines 11-12 of Mr. Schirra's Rebuttal Testimony, what, if any, remedy does the Company propose in order to compensate ratepayers in the event that that anticipated cost reductions are not realized?

ANSWER:
Since tracking the cost reductions of the provision of SRECs to Load Serving Entities (LSEs) at no cost is impracticable as indicated in our response to RCR-RR-70, the Company does not propose any "remedy" similar to that posed in this question.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

ER&T LOST REVENUE

QUESTION:
Regarding page 4, lines 12-13 of Mr. Schirra's Rebuttal Testimony:

(a) Please provide a quantitative estimate of the annual revenues and earnings that PSEG ER&T is expected to lose each year during the fifteen-year life of the proposed program. Please include all supporting assumptions, workpapers and calculations with your response. Please provide the workpapers and calculations in both a searchable electronic and hard copy format. For any Excel or spreadsheet files, please provide electronic files with all cells, formulae and links intact (please provide formulae if they are not contained within the spreadsheet).

(b) Please provide copies of all documents, presentations, reports, proposals, correspondence and emails between PSEG Power and PSE&G regarding

(1) PSE&G's proposed solar energy program,
(2) Forecast lost sales and lost revenues of PSEG Power from PSE&G's proposed solar energy program,
(3) expected SREC benefits to PSEG Power from PSE&G's proposed solar energy program and (4) actual and forecast lost sales and revenues from the Renewable Portfolio Standards' requirements. Also, please provide a narrative description of all discussions held between PSEG Power and PSE&G concerning PSE&G's proposed solar energy program and lost sales and revenues of PSEG Power from the proposed program.

ANSWER:
It is not practicable for PSE&G to quantify the estimated lost revenue and earnings of PSEG ER&T. The conclusion stated in Mr. Schirra's Rebuttal Testimony that, "ER&T will likely lose revenue and earnings due to the electric sales that will be displaced by the 30 MW of solar installations envisioned by the PSE&G Program" is based on the fact that PSEG ER&T is a BGS supplier and, therefore, it will realize its proportionate share of any reduction in BGS load due to the installation of the solar equipment. Since this analysis is qualitative in nature, no quantitative data exists. There was no communication with PSEG ER&T employees on specific quantities of solar generation and lost revenue and/or earnings.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

SREC ALLOCATION

QUESTION:
Regarding page 4, lines 16-21 of Mr. Schirra's Rebuttal Testimony, please provide a) the frequency with which SRECs will be allocated under the Company's proposal (monthly, quarterly, etc.) and b) how long a supplier must serve load in PSE&G's service territory before they will be eligible to receive SRECs.

ANSWER:
As indicated on page 11, paragraph 29 of the Petition filed on April 19, 2007, SRECs obtained by PSE&G in this Program would be distributed proportionately to each Load Serving Entity each quarter, based upon its load served during the period.

[redacted]

RCR-MSEIA-9. *What is Mr. Leyden's understanding of the interest rate approved by the BPU in other securitization proceedings involving New Jersey electric utilities?*

Mr. Leyden is not aware of other securitization proceedings involving other New Jersey electric utilities.

RCR-MSEIA-10. *Ref: Pages 4-5 of Mr. Leyden's testimony. Mr. Leyden discusses the "lower cost" aspect of PSE&G's solar financing program.*

a. *Is it Mr. Leyden's or MSEIA's opinion that "securitization" of solar assets such as contemplated through PSE&G's proposed program merits a financing structure at costs higher than the weighted average cost of capital for PSE&G? Please explain your opinion fully in terms of the risks faced by PSE&G and provide all documentation, reports, analysis and other information in support of your response.*

Mr. Leyden is of the opinion that if publicly-owned utilities are going to adopt and support solar energy as a source of power, they will need to have incentives, including financial incentives, to do so. Mr. Leyden is not opining on the weighted average cost of capital for PSE&G.

b. *Does Mr. Leyden or MSEIA have an opinion as to the reasonableness of PSE&G's specific proposed rate of return and bonus incentive return component associated with the proposed solar program? Please provide all documentation, reports, analysis and other information in support of your response.*

Neither Mr. Leyden nor MSEIA has opined as to the reasonableness of PSE&G's proposed rate of return or as to the bonus incentive return component associated with the proposed solar program. MSEIA believes the cost of this program is reasonable and a good test of one method of providing long term, lower cost SREC contracts- saving money for ratepayers relative to a non securitized market.

[redacted]

RCR-MSEIA-14. *Please provide in electronic spreadsheet format, all rate impact analysis that were performed by Mr. Leyden or the solar industry (and/or MSEIA) during the course of this proceeding or its advisory work with PSE&G. This information should be provided in electronic format, with all original calculations and links. Please identify all assumptions and sources that support these assumptions.*

Neither Mr. Leyden nor MSEIA performed rate impact analyses. MSEIA objects to this request insofar as the term "solar industry" is undefined and includes literally hundreds of discrete companies and entities. MSEIA further objects to this request as overbroad and burdensome and outside the scope of Mr. Leyden's testimony.

[redacted]

[redacted]

RCR-MSEIA-21. *Is it the solar industry's (and/or MSEIA's) position that the recovery of lost revenues associated with solar energy is appropriate? Please explain the reasons for your response. If affirmative:*

a. Please explain whether this policy should be extended to other New Jersey electric distribution companies and under what terms and conditions such a policy should be allowed.
b. Please explain that industry's understanding of the ratepayer benefits that would accrue from such a policy.
c. Please identify past BPU policies that would support the recovery of lost revenues from solar energy and provide all documentation, reports, analysis and other information in support of this response including copies of BPU orders.
d. Please identify policies in New Jersey and provide all documentation, reports, analysis and other information in support of this response.

MSEIA objects to this request insofar as the term "solar industry" is undefined and includes literally hundreds of discrete companies and entities and the term "appropriate" is undefined. MSEIA's primary goal in discussions with PSE&G has been to encourage sources of funding for solar projects in all market segments and sizes other than through the Board of Public Utilities' Customer On-Site Renewable Energy Rebates Program. To the extent that PSE&G has identified recovery of lost revenues associated with solar energy as an element of an overall program to support solar energy, MSEIA does not object to it. MSEIA has not taken a position as to whether recovery of lost revenues is appropriate or not. MSEIA objects to the remaining portions of this request as outside the scope of Mr. Leyden's testimony.