

PSE&G's Solar Initiative Discussion Points (4/13/07)

Overview and Benefits

- PSE&G is collaborating with New Jersey and the solar industry to accomplish the aggressive goals for renewable energy set forth in the state's Energy Master Plan (EMP) and the Board of Public Utilities' (BPU) renewable portfolio standard (RPS) requirements. Both call for the ability to meet 20 percent of the state's energy needs with renewable energy by the year 2020.
- The bold new program reflects PSE&G's commitment to provide heightened leadership in environmental responsibility.
- The solar initiative also reflects PSE&G's strong support and active involvement in the EMP process launched by Gov. Corzine to address climate change and other important energy and environmental challenges.
- The PSE&G program – unveiled in a filing with the state's Board of Public Utilities (BPU) on April 19 as part of the company's Earth Day celebration – is designed to spur additional investment in solar energy in New Jersey.
- The proposal calls for an investment by PSE&G of approximately \$100 million during the next two years to facilitate the installation of solar systems at homes, businesses and municipal buildings throughout its service territory.
- Participation would be open to all customer groups – residential, low-income, commercial and industrial, and municipal.
- If approved by the BPU, the PSE&G program would lower the overall cost of developing, installing and financing solar energy systems.
- The program would help fund installation of 30 megawatts of solar power, which is about one half of the RPS requirements in PSE&G's service territory in the years 2008 through 2010.
- If the program proves successful, PSE&G will evaluate opportunities to expand it.

PSE&G's Role

- PSE&G would provide a source of stable, secure capital to spur additional investment in solar energy.
- The utility would make loans to solar photovoltaic developers or customers, equal to about 40 to 50 percent of a project's cost.
- The loans would look a lot like a mortgage: The utility would be repaid the principal plus interest over 15 years, a considerably longer investment timeframe than traditional lenders are willing to provide for solar installations.
- An equity partner, such as a bank or investor, would fund the rest of the project, and be eligible to collect the federal investment tax credit. (Utilities are currently prohibited from collecting this tax incentive directly.)
- Borrowers would repay the loans with credits called Solar Renewable Energy Certificates or SRECs, which have value in the energy marketplace.
- An SREC is a New Jersey tradable product that represents the clean energy benefits of electricity generated from a solar system.
- Solar panels would be owned by the developer or the host customer.
- Where the developer owns solar panels, the customer would buy the electricity from the developer at an agreed-upon rate under a contract.

- Energy supply costs to customers should be lower. First, the SRECs would be provided to Load Serving Entities, which are companies that provide power for utilities to deliver to their customers, at no charge. Second, developers will benefit from long-term contracts. These two features of the program will lower the regulatory and financial risks. They would also support the move to a more market-based approach.
- If approved as filed, there would be no impact on customers' electric delivery rates. That's because PSE&G's overall funding levels for renewable energy programs will not increase because a portion of the current funding for solar energy rebates, collected through the Societal Benefits Charge on customer bills, would go toward this new program instead. (Note: this program will help the BPU transition away from the rebate program; however, we anticipate there will still be some level of rebates, particularly for residential customers.)
- Details about participation would be publicized to customers by the company and developers.
- Applications for projects would be accepted on a first-come, first-served basis.
- The process is expected to begin by the end of the 2007, assuming timely BPU approval.
- Once the program is launched, PSE&G would earn a return to compensate the company for its full cost of capital, plus an incentive for spurring the development of the solar market.

Summary

- Gov. Corzine's mandate to increase energy efficiency and the availability of renewable energy will require a fundamental change in how we think about energy and how we invest in infrastructure. It will also require that we redefine the role of the state's utilities and energy companies.
- PSE&G's Solar initiative is an innovative regulatory approach that will enable the further development of the solar market.
- Utilities like PSE&G have the unique expertise and experience to manage such a program, to reach and support customers and to make the long-term investments needed to support aggressive public policy goals for more renewable energy.