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December 5, 2007

In the Matter of the Petition of  
Public Service Electric and Gas Company  
for Expedited Approval of a Carbon Abatement Pilot Program  
And Associated Rate Recovery Mechanism

BPU Docket No. \_\_\_\_\_

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

Dear Secretary Izzo:

Enclosed for filing are the original and ten copies of the Petition and accompanying Exhibits of Public Service Electric and Gas Company (PSE&G, the Company, Petitioner) in the above-entitled matter.

PSE&G respectfully requests that the Board address the issues in this proceeding on an expedited basis so as to allow Public Service to begin infrastructure equipment installation in the first quarter of 2008. The pilot must be in place with customers enrolled and actively participating, before the summer peak season of 2008 begins, otherwise Public Service will not be able to collect and assess valuable information concerning the effectiveness of the pilot in a time frame that will be most helpful to the Company, the Board and other interested stakeholders.

Public Service also respectfully requests that the Board retain jurisdiction of this matter and not transfer the filing to the Office of Administrative Law. PSE&G believes evidentiary hearings are not necessary for the Board to approve this pilot program. The Company will work diligently with all parties in the proceeding in as timely and equitable a manner as is possible.

Copies of the Petition will be served upon all entities legally required to be noticed. Copies of the Petition and accompanying Exhibits have been served on those on the attached service list.

Respectfully submitted,

*Original Signed by*  
*Frances I. Sundheim, Esq.*

C Attached Service List

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STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF )  
PUBLIC SERVICE ELECTRIC AND GAS )  
COMPANY FOR EXPEDITED APPROVAL )  
OF A CARBON ABATEMENT PILOT )  
PROGRAM AND ASSOCIATED )  
RATE RECOVERY MECHANISM )

**P E T I T I O N**  
BPU Docket No. \_\_\_\_\_

Public Service Electric and Gas Company (Public Service, PSE&G, the Company, Petitioner), a corporation of the State of New Jersey, having its principal offices at 80 Park Plaza, Newark, New Jersey, respectfully petitions the New Jersey Board of Public Utilities (Board or BPU) pursuant to *N.J.S.A. 48:2-21, et seq.*, as follows:

**INTRODUCTION**

1. Petitioner is a public utility engaged in the distribution of electricity and the provision of electric Basic Generation Service (BGS), and distribution of gas and the provision of Basic Gas Supply Service (BGSS), for residential, commercial and industrial purposes within the State of New Jersey. PSE&G provides service to approximately 2.1 million electric and 1.7 million gas customers in an area having a population in excess of 5.5 million persons, and which extends from the Hudson River opposite New York City, southwest to the Delaware River at Trenton and south to Camden, New Jersey.

2. Petitioner is subject to regulation by the Board for the purposes of setting its retail distribution rates and to assure safe, adequate and reliable electric distribution and natural gas distribution service pursuant to *N.J.S.A. 48:2-21 et seq.*

3. Climate change is the single biggest environmental threat we face today as a global society. Whenever consumers use electronic devices at home or at work, drive vehicles or travel by plane, carbon dioxide (CO<sub>2</sub>) is released into the atmosphere. CO<sub>2</sub> is believed to be the principal greenhouse gas (GHG) associated with global warming and is a by-product of burning fossil fuels. GHGs are believed to act like a blanket around the earth, effectively overheating it thereby causing irreversible and catastrophic changes to the climate. New Jersey as well as the rest of the world, is currently faced with addressing the problem of global warming. Global warming was not a topic raised during the introduction and passage of the Electric Discount and Energy Competition Act (EDECA). The primary focus of attention of the legislature was to address the issue of increasing energy costs. Therefore, there is currently no regulatory structure supporting the implementation of carbon abatement measures.

4. During the Fall of 2006, the Board commenced its review of the State's Energy Master Plan (EMP). Since that time, PSE&G, as well as other New Jersey energy utilities and interested stakeholders have worked diligently to attempt to formulate policies that will promote and foster the State's energy needs in the coming years. During this time, Governor Corzine issued Executive Order #54 which established greenhouse gas emissions

reduction targets, specifically stabilization of greenhouse gas emissions at 1990 levels by 2020; and reduction of greenhouse gas emissions to 80% below 2006 levels by 2050. PSE&G is actively participating in the EMP process. In addition, Public Service is proposing this pilot to demonstrate ways in which utilities, such as PSE&G, are best suited to contribute to the State's efforts to reduce energy usage and thereby reduce carbon emissions. The environmental initiatives undertaken by Governor Corzine and the State Legislature, including the goals set forth in the EMP and the greenhouse gas reduction targets established in Executive Order #54 and codified in the Global Warming Response Act of 2007, provide the framework for addressing these significant challenges.

5. An approach to reducing CO<sub>2</sub> emissions is to lower energy consumption levels and consume less fossil fuel that generates carbon dioxide emissions. Carbon abatement programs aimed at reducing energy usage are viable solutions to reduce carbon emissions. To help address climate change and to assist the State in achieving its aggressive energy reduction goals, the carbon abatement initiatives as proposed by Public Service, described herein, are a vehicle to reduce emissions and help to achieve these aggressive goals. Carbon abatement measures, such as these proposed herein, require the support of all stakeholders, utilities, government, consumer advocates, environmentalists and the private sector, in order that the goals of such measures are achieved. Public Service believes that the carbon abatement programs proposed herein will facilitate and spur consumer action to change their behaviors.

6. It is undisputed that utilities can reach all customers, from residents of urban centers, low-income customers, and renters to large industrial and commercial customers, and have relationships with customers based on quality of service and trust. Utilities engage in millions of customer contacts annually and have a dedicated and highly capable union workforce that can be enlisted to promote energy conservation and thereby reduce carbon emissions. Utilities also work in partnership with builders, developers, and trade allies that provide a variety of energy services. Utilities have brand recognition. As indicated by a market research study conducted in 2006 by the New Jersey Clean Energy Program, customers view their utilities as the primary vehicles for providing programs to help them save energy.

7. Utilities have established partnerships with builders, developers, and trade allies that provide a variety of energy services. In the pilot program proposed herein, PSE&G will build upon such partnerships with other companies, non-profit organizations and cities to bring carbon abatement services and benefits to customers. Utilities have been supporting economic development for many years and PSE&G believes that providing energy reduction services should be an integral part of this activity.

8. Utilities can deploy capital over the long term and this can help enable all ratepayers to participate in, and benefit from, carbon abatement programs.

9. PSE&G seeks Board approval to implement a carbon abatement pilot program to target projects across specific customer segments to demonstrate the concept of how future regulated utility administrated carbon abatement programs could work. Public Service believes that through the direct involvement of utility companies, customers will be more willing and able to embrace, commit to, and select and implement carbon abatement measures. Public Service proposes through this regulated service to target various customer classes in this pilot program, specifically the residential segment; a small commercial segment and a large commercial and hospital segment. The focus for the residential and small commercial segments will be on the underserved inner-city markets in Newark and Trenton. A detailed description of each of these pilot program segments is attached hereto as Exhibit A.

10. PSE&G believes that there are substantial carbon abatement opportunities at economic levels, but an additional stimulus is needed to overcome the implicitly high cost of capital applied by customers towards such investments. Businesses are faced with the ongoing dilemma of having competing uses for their capital. They typically choose to invest their capital in assets associated with making and selling their product. Public Service believes that engaging and utilizing the utility company to provide this regulated service is the best solution to enable customers to aggressively implement carbon abatement measures. Allowing the utility to administer the programs allows the BPU to focus on oversight of the programs.

### **PILOT OBJECTIVES**

11. The objectives of the pilot are as follows:
  - a. Demonstrate the utility's ability to access hard to reach inner-city market segments;
  - b. Demonstrate that the utility, through use of customers' bills, can provide a convenient and easy method for participating customers to make any required payments related to the cost of the carbon abatement measures;
  - c. Demonstrate the unique capabilities of PSE&G – customer relationships, billing, energy usage, customer contacts;
  - d. Demonstrate the potential to utilize PSE&G's existing unionized workforce;
  - e. Test the effectiveness of new approaches to reaching underserved inner-city residential and small business markets and encouraging adoption of new carbon abatement technologies in hospitals and warehouses.

### **COST RECOVERY PROPOSAL**

12. PSE&G is requesting, for purposes of this pilot, that the Board grant approval of recovery of all pilot program costs. Recovery would be part of a separate clause mechanism to be filed independently, but contemporaneously with PSE&G's Remediation

Adjustment Clause (RAC) each year. Further, the Company is requesting that the carrying charge on its deferred balances for this pilot program be set based upon PSE&G's overall weighted average cost of capital (WACC) authorized by the Board in the most recent base rate case, together with the income tax effects. See Exhibit B, which describes the proposed rate recovery mechanism.

13. The rate treatment proposed herein is for purposes of this pilot only. Should the utility's expanded role for future carbon abatement programs be deemed appropriate by the Board, then other alternative rate recovery mechanisms for recovery of all associated carbon abatement investments should be considered.

14. PSE&G's request that the carrying charge on its deferred balances for this pilot program be set based upon PSE&G's overall weighted average cost of capital is also appropriate. PSE&G will be committing up to \$5M to provide environmental, health, and economic benefits to the State and the Company's customers through this carbon abatement pilot program. These are benefits the Board and the State have endorsed. These benefits are also in accord with a utility's statutory duty to "furnish safe, adequate and proper service, including furnishing and performance of service in a manner that tends to conserve and preserve the quality of the environment." *N.J.S.A. 48:2-23*. Accordingly, PSE&G should earn a return at its WACC on its unrecovered balance in the pilot program, just as it would on any utility capital investment.

15. Energy savings are determined based on deemed savings protocols from “New Jersey’s Clean Energy Program Protocols to Measure Resource Savings,” adopted by Order on December 22, 2004 in Docket No. EO04080894 or subsequent updates approved by the BPU. For energy savings measures that are not covered by such protocols, savings will be calculated based on a methodology that will be determined by PSE&G and approved by the BPU. Energy savings will be translated into an estimate of avoided pollutants including CO<sub>2</sub>.

16. PSE&G is also committed to working with the BPU and other applicable State agencies to enable the development of a workforce for new jobs in delivering carbon abatement measures. Workforce development initiatives, including the development of a curriculum for carbon abatement training, will be pursued and developed in parallel with the implementation of these pilot programs. Such workforce development initiatives will provide new job opportunities and a pool of trained workers at a time when they are needed as the carbon abatement programs are ramped up to a large scale.

17. In the event there are new policies or issues contained in the EMP that are not currently contemplated herein that may have an impact on any aspect of this Petition as currently filed, Public Service reserves its right to supplement and/or modify any terms and/or conditions contained herein in the Company’s sole discretion.

Should any new legislation be adopted and signed into law that that may have an impact on any aspect of this Petition as currently filed, Public Service reserves its right to supplement and/or modify any terms and/or conditions contained herein in the Company's sole discretion.

**SUMMARY**

18. This pilot will help Public Service as well as other stakeholders (State regulators, consumer advocates, vendors, and customers) to not only collect and share valuable data but also to test new approaches to carbon abatement measures and assess customer satisfaction and acceptance. The result of this pilot will assist the utility and the Board in determining how new approaches can be used in assisting the State in reaching its aggressive carbon reduction goals. Without such a pilot program, the utility could spend valuable time, money and resources preparing long-term initiatives that would lack customer buy-in and thus not result in the carbon reductions anticipated. Moreover, such a pilot program would enable the State to begin its work on meeting its aggressive goals while continuing to develop its long-term strategic plan.

19. PSE&G believes that utilities have a critical role to play in reducing carbon emissions across New Jersey. Utilities can serve as an organizing force to engage participation from a range of suppliers, developers, and consumers. It is undeniable that the State's utilities have the knowledge, skills, resources, and dedicated employees to take on this role quickly and effectively.

**REQUEST FOR EXPEDITED REVIEW AND APPROVAL**

20. Public Service requests expedited review and approval of this Petition and pilot program to allow the necessary pilot selection, communication, and enrollment, as well as any equipment and infrastructure equipment installation, to begin in the first quarter of

2008. The pilot must be in place, with customers enrolled and actively participating, before the summer peak season of 2008 begins, otherwise Public Service will not be able to collect and assess valuable information concerning the effectiveness of the pilot and any potential for future implementation in a time frame that will be most helpful to the Company, the Board and other stakeholders interested in achieving the State's energy reduction goals.

21. In order to achieve this timeline, Public Service respectfully requests that the BPU retain jurisdiction of this matter and not transfer the filing to the Office of Administrative Law. PSE&G believes evidentiary hearings are not necessary or even required for the Board to approve this pilot program and related authorizations. Depending on whether the New Jersey Public Advocate, Division of Rate Counsel, or any other intervening party raise any issues, Public Service is confident that these potential issues can be resolved through settlement or through written comments to the Board for decision.

### **CONCLUSION AND REQUESTS FOR APPROVAL**

For all the foregoing reasons, PSE&G respectfully requests that the Board retain jurisdiction of this matter and review and expeditiously issue an Order approving this Petition specifically finding that:

1. The carbon abatement pilot program is in the public interest and that PSE&G is authorized to implement and administer the regulated utility services under the terms set forth in this Petition and accompanying Exhibits;

2. PSE&G is authorized to recover all costs requested herein associated with the pilot, which will be filed in a separate rate adjustment clause mechanism that will be filed contemporaneously with PSE&G's RAC;

3. The carrying charge on its deferred balances for this pilot program be set based upon PSE&G's overall weighted average cost of capital authorized by the Board in the most recent base rate case, together with the income tax effects;

4. Energy savings are determined based on deemed savings protocols from "New Jersey's Clean Energy Program Protocols to Measure Resource Savings," adopted by Order on December 22, 2004 in Docket No. EO04080894 or subsequent updates approved by the BPU. For energy savings measures that are not covered by such protocols, savings will be calculated based on a methodology that will be determined by PSE&G and approved by the BPU. Energy savings will be translated into an estimate of avoided pollutants including CO<sub>2</sub>;

5. PSE&G will assist the Board and other applicable State agencies to advance carbon reduction related workforce development initiatives in parallel with this pilot program.

**COMMUNICATIONS**

Communications and correspondence related to the Petition should be sent as

follows:

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Respectfully submitted,

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**

By Original Signed by  
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DATED: December 5, 2007  
Newark, New Jersey



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## Residential Home Energy Tune-Up Program

### ***Description***

The **Residential Home Energy Tune-Up Program** is designed to reduce carbon emissions by lowering the energy consumption of residential customers living in one to four family homes. The program will achieve this goal through:

- Direct installation of cost effective energy savings measures, as recommended by an energy audit and blower door test
- Comprehensive, personalized customer energy education and counseling

### ***Target Market and Eligibility***

The Program is targeted at residential customers living in one to four-family homes in Trenton and Newark. A participant must be a customer of record with a separately metered electric or gas account.

### ***Offerings and Customer Incentives***

PSE&G will offer to eligible customers an energy audit / blower door test, and provide a report of recommended energy savings improvements. If caulking, weather-stripping, replacement of incandescent light bulbs with compact fluorescent lighting products (e.g., CFL) or a programmable thermostat are recommended, they will be provided during that initial customer visit. The customer will also be provided with educational information about the various types of CFLs available in the retail marketplace as well as their energy savings and carbon reduction effects. If attic insulation, duct sealing or duct insulation are recommended, arrangements will be made for an installation date. For other recommended measures, bid ready documents will be provided along with information on financing options available to customers in New Jersey.

This effort will be coordinated with the NJ Clean Energy Program. All participating customers will receive information on the Home Performance with Energy Star program. Customers with central air conditioning will be referred to the PSE&G Cool Customer program, if open to new participants at the time of pilot implementation. Low income customers who participate in this program will be referred to the New Jersey Comfort Partners program for additional assistance with energy savings measures.

### ***Incentives***

The energy audit/blower door test will be provided at no charge to all program participants. If recommended by the audit/blower door test, caulking, weather-stripping, CFLs and a programmable thermostat will also be provided free of charge to all program participants.

If recommended by the audit/blower door test, attic insulation, duct sealing and/or duct insulation will be provided according to the following conditions:

**Low income owned & occupied** – PSE&G provides 100% of the cost for the installation of attic insulation, duct sealing and/or duct insulation. If additional cost-effective measures are identified during the audit, the customer will be referred to the Comfort Partners Program for additional work to be completed.

**Public housing, Low income occupied** - PSE&G provides 100% of the cost for the installation of attic insulation, duct sealing and/or duct insulation.

**Low income occupied, landlord owned** – PSE&G initially provides 100% of the cost for the installation of attic insulation, duct sealing and/or duct insulation. The landlord must repay 20% of the total cost to PSE&G over 2 years, interest free.

**All Other PSE&G customers** – PSE&G initially provides 100% of the cost for the installation of attic insulation, duct sealing and/or duct insulation. The customer must repay 20% of the total cost to PSE&G over 2 years, interest free.

***Delivery Methods***

Selection of program delivery personnel will be determined by PSE&G.

For the purposes of this pilot program, for those programs that qualify as a "public work" as defined by statute, the service provider will adhere to all aspects of the New Jersey State Prevailing Wage Act, N.J.S.A. 34:11-56.25 et seq., and will require the same of all subcontractors. For those projects that do not qualify as public works, service providers will be required to pay the equivalent of the prevailing wages for the county in which the work is to be performed, unless the work is performed by union employees, in which case the employees will be paid in accordance with the union contract.

***Quality Assurance Provisions***

A minimum of 10% of randomly selected treated dwelling units will be subject to verification and inspection by an independent contractor(s) hired by the utility.

***Effectiveness Measures***

Energy savings are determined based on deemed savings protocols from "New Jersey's Clean Energy Program Protocols to Measure Resource Savings," adopted by Order on December 22, 2004 in Docket No. EO04080894 or subsequent updates approved by the BPU. For energy savings measures that are not covered by such protocols, savings will be calculated based on a methodology that will be determined by PSE&G and approved by the BPU. Energy savings will be translated into an estimate of avoided pollutants including CO<sub>2</sub>.

Additional Measures will include: customer participation rate and customer satisfaction survey results

***Budget***

PSE&G will commit up to \$775,000 to this program segment in Trenton and Newark.

## Programmable Thermostat Installation Program

### ***Description***

The **Programmable Thermostat Installation Program** is designed to reduce carbon emissions by lowering the energy consumption of residential customers. The program will accomplish this goal by having PSE&G Appliance Service Technicians replace existing standard thermostats with programmable thermostats during routine utility related service calls. Thermostats containing mercury will be properly disposed of by PSE&G. The Service Technicians will also provide the customer with an energy savings kit, consisting of 5 compact fluorescent light bulbs (CFLs). PSE&G will offer additional CFLs for sale to customers, with payment available through the PSE&G monthly bill.

### ***Target Market and Eligibility***

The program is targeted at homeowners living in the cities of Trenton and Newark. A participant must be a customer of record with a separately metered electric or gas account.

### ***Offerings and Customer Incentives***

During a routine utility gas service call, PSE&G will replace an existing standard thermostat with a programmable thermostat at no cost to the customer. The incentive for the customer is to reduce energy consumption and save money on their heating and/or cooling bills. The programmable thermostat also provides the customer with increased comfort by matching the customer's variable schedule with the temperature of the dwelling unit. The service technician will also educate the customer on the proper operation and programming of the thermostat. The customer will also be provided with five compact fluorescent light bulbs and educational material about the various types of CFLs available and the associated energy savings, as well as educational information on additional savings measures and related programs.

### ***Delivery Method***

PSE&G Appliance Service Technicians will replace an existing standard thermostat with a programmable thermostat at no cost to customers residing in the cities of Trenton or Newark during routine utility service calls. The service technician will also educate the customer on the proper operation and programming of the thermostat and provide a pack of five compact fluorescent light bulbs, along with educational material about the various types of CFLs available and the associated energy savings. If the customer wishes to purchase additional CFLs, she/he may do so. The customer will be charged for these additional CFLs through their PSE&G monthly bill.

This effort will be coordinated with the NJ Clean Energy Program.

### ***Quality Assurance Provisions***

A minimum of 10% of randomly selected treated dwelling units will be subject to verification by an independent contractor(s) hired by the utility.

***Effectiveness Measures***

Energy savings are determined based on deemed savings protocols from “New Jerseys’ Clean Energy Program Protocols to Measure Resource Savings,” adopted by Order on December 22, 2004 in Docket No. EO04080894 or subsequent updates approved by the BPU. For energy savings measures that are not covered by such protocols, savings will be calculated based on a methodology that will be determined by PSE&G and approved by the BPU. Energy savings will be translated into an estimate of avoided pollutants including CO<sub>2</sub>.

Additional Measures will include: customer participation rate and customer satisfaction survey results

***Budget***

PSE&G will commit up to \$225,000 to this program segment in Trenton and Newark.

## Small Business Direct Install Program

### ***Description***

The **Small Business Direct Install Program** is designed to reduce carbon emissions by lowering the energy consumption of small businesses. The program will achieve this goal through:

- An energy assessment of the facility
- Direct installation of basic energy savings measures, as recommended by the energy assessment
- PSE&G will pay for 80% of the installation and equipment costs
- The customer will be responsible for paying the remaining 20% through her/his monthly PSE&G bill.

### ***Target Market and Eligibility***

The Program is targeted at small businesses located in Trenton and Newark, with an average electric demand of 200 kilowatts or less, or 40,300 kilowatt-hours or less, per month. Customers participating in this program are not eligible for additional incentives on the same investment under the NJ Clean Energy Program.

### ***Offerings and Customer Incentives***

PSE&G will offer to eligible businesses a walk-through energy evaluation, and provide a report of recommended energy savings improvements.

PSE&G will initially provide 100% of the cost to install the recommended energy savings improvements.

The customer must repay 20% of the total cost to PSE&G, interest free, over 24 months through the PSE&G bill.

Typical energy savings improvements available through this program include:

- Lighting upgrades
- Insulation
- Refrigeration upgrades
- HVAC upgrades

This effort will be coordinated with the NJ Clean Energy Program.

***Delivery Methods***

Selection of program delivery personnel will be determined by PSE&G.

For the purposes of this pilot program, for those programs that qualify as a "public work" as defined by statute, the service provider will adhere to all aspects of the New Jersey State Prevailing Wage Act, N.J.S.A. 34:11-56.25 et seq., and will require the same of all subcontractors. For those projects that do not qualify as public works, service providers will be required to pay the equivalent of the prevailing wages for the county in which the work is to be performed, unless the work is performed by union employees, in which case the employees will be paid in accordance with the union contract.

***Quality Assurance Provisions***

A minimum of 10% of randomly selected treated facilities will be subject to verification and inspection by an independent contractor(s) hired by the utility.

***Effectiveness Measures***

Energy savings are determined based on deemed savings protocols from "New Jerseys' Clean Energy Program Protocols to Measure Resource Savings," adopted by Order on December 22, 2004 in Docket No. EO04080894 or subsequent updates approved by the BPU. For energy savings measures that are not covered by such protocols, savings will be calculated based on a methodology that will be determined by PSE&G and approved by the BPU. Energy savings will be translated into an estimate of avoided pollutants including CO<sub>2</sub>.

Additional Measures will include: customer participation rate and customer satisfaction survey results

PSE&G will utilize this pilot to identify potential approaches to overcome tenant/landlord challenges.

***Budget***

PSE&G will commit up to \$1,000,000 to this program segment in Trenton and Newark.

## Large Business Best Practices and Technology Demonstration Pilot

### ***Description:***

The Large Business Best Practices and Technology Demonstration Pilot is designed to reduce carbon emissions by lowering the energy consumption of large businesses. There are numerous technologies and measures that are economic, yet many large business customers do not take advantage of such technologies. This pilot will identify one specific type of technology and customer segment, and through the utility's relationships with its customers, demonstrate that these measures can be brought to customers.

PSE&G, working with General Electric (GE) and Orion Energy Systems, will provide a holistic warehouse lighting system for high-bay applications that includes:

- Advance fixtures with high-intensity fluorescent lighting
- Day lighting "light tubes", with automated controls
- Fixture level lighting controls
- Real-time measurement and verification of performance

In combination, this lighting system will provide energy savings, while maintaining existing lighting levels in the facility.

### ***Target market and Eligibility***

The pilot program is targeted to warehouse facilities in PSE&G's electric service territory. Customers participating in this program are not eligible for additional incentives on the same investment under the NJ Clean Energy Program. Funding priority will be given to port areas and areas with high load growth.

### ***Customer Offering***

Orion Energy services will provide customers with a lighting audit of their warehouse space. Audit results will determine the potential savings derived through the installation of the following: high-bay lighting equipment, light tubes (equipment that allows natural light into the interior space), and a lighting control system with the following features: 1) Continually monitors the lighting level in the warehouse and automatically lowers the lighting from the high-bay lights when natural light is sufficient to maintain overall lighting levels. 2) Monitors usage of all light fixtures in real time. 3) Allows for automated control of lighting equipment

All audits and installation work will be done by Orion Energy Services, along with GE.

GE or Orion Energy Services may provide financing for qualifying customers if requested by the customer.

At the customer's option, GE and PSE&G will work with the customer to facilitate the customer's participation in PJM's Demand Response program and information will be provided on participating Curtailable Service Providers. PJM payments to the customer based on such participation is dependent on the program option chosen and the level of commitment the customer wishes to make in such program.

This effort will be coordinated with the NJ Clean Energy Program.

***Incentive***

This lighting system incentive will be paid to the customer over a three-year period that will effectively reduce the simple pay back period for the system to 2 years. For evaluation purposes, performance will be monitored utilizing the lighting control system that is installed. A performance baseline for each project will be established during the audit phase. It is estimated that the incentive will be about \$0.04/kwh paid each year over a three year period, to be established on a project specific basis.

***Delivery Methods***

PSE&G will review facility audit results with the customer and GE lighting to establish baseline performance information and projected savings. PSE&G will provide incentive payments to the customer after the project has been completed and is operating. Payments will be made on an annual basis over a 3-year period, upon verification by PSE&G that the facility is still in operation.

For the purposes of this pilot program, for those programs that qualify as a "public work" as defined by statute, the service provider will adhere to all aspects of the New Jersey State Prevailing Wage Act, N.J.S.A. 34:11-56.25 et seq., and will require the same of all subcontractors. For those projects that do not qualify as public works, service providers will be required to pay the equivalent of the prevailing wages for the county in which the work is to be performed, unless the work is performed by union employees, in which case the employees will be paid in accordance with the union contract.

***Quality Assurance Provisions***

PSE&G will review and approve all projects and will conduct an on-site audit of the completed project. PSE&G will also conduct a verification to ensure that the facility is still in operation prior to subsequent annual incentive payments. A minimum of 10% of randomly selected treated facilities will be subject to verification and inspection by an independent contractor(s) hired by the utility.

***Effectiveness Measures***

Energy savings are determined based on deemed savings protocols from "New Jerseys' Clean Energy Program Protocols to Measure Resource Savings," adopted by Order on December 22, 2004 in Docket No. EO04080894 or subsequent updates approved by the BPU. For energy savings measures that are not covered by such protocols, savings will be calculated based on a methodology that will be determined by PSE&G and approved by the BPU. Energy savings will be translated into an estimate of avoided pollutants including CO<sub>2</sub>.

Additional Measures will include: customer participation rate and customer satisfaction survey results

***Budget***

PSE&G will commit up to \$1 million to this market segment for incentives.

## Hospital Best Practices and Technology Demonstration Pilot – Retrofit

### ***Description***

The **Hospital Best Practices and Technology Demonstration Pilot** is designed to reduce carbon emissions by lowering the energy consumption of hospitals. Over the years the hospital sector has taken advantage of existing lighting rebates and programs, but have been more reluctant to address opportunities in other areas due to cost concerns. This pilot will assist hospitals to move forward in addressing energy savings opportunities other than the lighting applications that have to a large extent, been fully exploited.

### ***Target market and Eligibility***

The pilot program is targeted to hospitals in PSE&G's electric and gas service territory. Customers participating in this program are not eligible for additional incentives for the same investment under the NJ Clean Energy Program. Funding priority will be given to non-profit hospitals.

### ***Customer Offering***

Customers will receive an investment grade audit of their hospital campus. Audit results will determine the potential savings derived through a variety of measures and technologies; HVAC, humidification, building envelop motors, and other energy consuming equipment. Lighting will also be included, if applicable. Opportunities for CHP (combined heat and power) will be identified and customers will be referred to the NJ Clean Energy Program. Opportunities to participate in PJM's Demand Response program will be identified and information will be provided to customers regarding participating Curtailable Service Providers.

All measures that have a simple payback of 7 years or less will be targeted for retrofit opportunities. PSE&G will provide incentives that will effectively lower the payback down to 2 years and no upfront payment will be required from customers. Customers pay for the balance of the project over a period of 3 years through their energy bill.

### ***Incentive***

A financial incentive will be paid to effectively reduce the simple pay back period for the system to 2 years.

PSE&G will provide upfront funding for the total cost of the project. The amount of the project, less the financial incentive described above, will be repaid in equal monthly payments over a period of 3 years. Customer savings will contribute to the loan repayments, while providing long term energy savings to the customer.

### ***Delivery Methods***

PSE&G will provide the audit through a qualified audit professional. PSE&G will enter into contracts with hospitals to provide funding of eligible measures. PSE&G will review facility audit results with the customer to establish baseline performance information and projected savings. Hospitals will obtain services for the installation of the approved measures from qualified service providers.

For the purposes of this pilot program, for those programs that qualify as a "public work" as defined by statute, the service provider will adhere to all aspects of the New Jersey State Prevailing Wage Act, N.J.S.A. 34:11-56.25 et seq., and will require the same of all subcontractors. For those projects that do not qualify as public works, service providers will be required to pay the equivalent of the prevailing wages for the county in which the work is to be performed, unless the work is performed by union employees, in which case the employees will be paid in accordance with the union contract.

***Quality Assurance Provisions***

PSE&G will review and approve all projects and will conduct an on-site audit of the completed project.

***Effectiveness Measures***

Energy savings are determined based on deemed savings protocols from "New Jersey's Clean Energy Program Protocols to Measure Resource Savings," adopted by Order on December 22, 2004 in Docket No. EO04080894 or subsequent updates approved by the BPU. For energy savings measures that are not covered by such protocols, savings will be calculated based on a methodology that will be determined by PSE&G and approved by the BPU. Energy savings will be translated into an estimate of avoided pollutants including CO<sub>2</sub>.

***Budget***

PSE&G will commit up to \$1 million to this market segment for audits and incentives. Funding will be provided for up to \$500,000 per customer.

Customers pay for the portion that is not covered by the incentive to buydown the project and the payment is made over a 3-year period.

## **Hospital Best Practices and Technology Demonstration Pilot – New Construction**

### ***Description***

The **Hospital Best Practices and Technology Demonstration Pilot** is designed to reduce carbon emissions by lowering the energy consumption of hospitals. This pilot will assist hospitals to move forward in addressing energy savings opportunities in new construction projects.

### ***Target market and Eligibility***

The pilot program is targeted to new construction hospitals in PSE&G's electric and gas service territory which will begin construction in 2008. Customers participating in this program are not eligible for additional incentives on the same investment under the NJ Clean Energy Program. Funding priority will be given to non-profit hospitals.

### ***Customer Offering***

Customers will submit a proposal to PSE&G for new construction funding that will provide an incentive for environmentally friendly construction above the levels required by code. Measures that have a simple payback of 7 years or less will be considered. PSE&G will provide incentives that will effectively reduce the payback down to 2 years.

### ***Incentive***

A financial incentive will be paid to effectively reduce the simple pay back period for the system to 2 years. The incentive will be paid upon completion of the project and after a successful post implementation audit is conducted.

### ***Delivery Methods***

PSE&G will enter into contracts with hospitals to provide funding for eligible measures. Hospitals will obtain services for the installation of the approved measures from qualified service providers.

For the purposes of this pilot program, for those programs that qualify as a "public work" as defined by statute, the service provider will adhere to all aspects of the New Jersey State Prevailing Wage Act, N.J.S.A. 34:11-56.25 et seq., and will require the same of all subcontractors. For those projects that do not qualify as public works, service providers will be required to pay the equivalent of the prevailing wages for the county in which the work is to be performed, unless the work is performed by union employees, in which case the employees will be paid in accordance with the union contract.

### ***Quality Assurance Provisions***

PSE&G will review and approve all projects and will conduct an on-site audit of the completed project.

***Effectiveness Measures***

Energy savings are determined based on deemed savings protocols from “New Jerseys’ Clean Energy Program Protocols to Measure Resource Savings,” adopted by Order on December 22, 2004 in Docket No. EO04080894 or subsequent updates approved by the BPU. For energy savings measures that are not covered by such protocols, savings will be calculated based on a methodology that will be determined by PSE&G and approved by the BPU. Energy savings will be translated into an estimate of avoided pollutants including CO<sub>2</sub>.

***Budget***

PSE&G will commit up to \$1 million to this market segment for incentives. Funding will be provided for up to \$500,000 per customer.

Eligible customers will be required to begin construction on the new facility in 2008. If construction has not begun by the end of 2008, PSE&G reserves the right to reallocate the funding from this segment to the hospital retrofit segment. Construction must be completed by December 31, 2011.

**Carbon Abatement Pilot**  
**Proposed Cost Recovery Mechanism**

The proposed cost recovery, a separate clause mechanism to be filed independently but contemporaneously with PSE&G's Remediation Adjustment Clause (RAC) which is a part of the Societal Benefits Charge (SBC) for billing purposes, is such that it:

- Recovers the expenditures for the pilot programs over the five year period beginning in the billing period commencing after the expenditure is made.
  - Pilot program expenditures include all spending directly related to reducing energy usage and thereby reducing carbon emissions, including the cost of customer education, audits, incentives, direct installation costs, and measurement and verification.
- Recovers incremental outside administrative costs associated with marketing the various pilot programs and those costs associated with surveying program participants and program evaluation.
  - Such costs incurred in a given 12-month period ending July 31st will be recovered as part of the SBC charge contemporaneously to when next reset for RAC purposes.
  - There will be no return on the unrecovered balance of such costs.
- Refunds repayment of incentives, as required by the various pilot programs, accumulated as received in a given year as part of the SBC charge contemporaneously to when next reset for RAC purposes.
- Reflects the cost of financing the unrecovered balance of the expenditures, net of repayments of incentives, at the weighted cost of capital as established in the Company's most recent distribution rate case. The cost of capital rate will reflect income tax effects. The cost of financing is the 7.9591% overall rate of return allowed for in the most recent distribution rate decision. A rate of 11.31% reflects the income tax effects of the overall rate of return.
- Reflects that the five year amortization of the pilot program expenditures, receipt of repayments of incentives and associated cost of financing the unrecovered balance will be calculated on a monthly basis for a 12-month period. Rates will be reset annually to recover the amortization of expenditures plus the actual cost items accumulated over the prior 12-month period ending July 31st.
- Will require the approval of the creation of regulatory assets for all pilot program expenditures that are made in a given 12-month period. Each vintage of regulatory asset will be amortized for recovery, as part of the SBC Charge for billing purposes, over the subsequent five year billing period as described above.
- Will require an annual true-up for actual costs incurred vs. actual cost recovery.
- Will be done on an electric and gas basis.

Page 1 of the attached schedule provides projected:

- Expenditures for the proposed Carbon Abatement Pilot. Included are the expected annual expenditures of the proposed total of \$5 million for the pilot programs described in Exhibit A.

- Incremental outside administrative costs associated with marketing the various pilot programs and those costs associated with surveys and evaluations.
- Projected repayment of incentives as described in Exhibit A for certain programs.

Page 2 of the attached schedule shows the derivation of the recovery of the associated costs of the pilot programs. This schedule is illustrative in that:

- It has been prepared on an annual basis assuming expenditures commence April 1, 2008 and in any given year are incurred ratably over the year.
- Rates are adjusted each October 1<sup>st</sup> to recognize expenditures and costs incurred through July 31<sup>st</sup>.
- The calculations were performed for the total pilot program and did not differentiate electric and gas.

**Carbon Abatement Pilot**  
**Cost Recovery**

(dollars)

**Projected Pilot Costs**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b><i>Expenditures:</i></b>									
Residential *	1,000,000	-	-						
Small Business Direct Install	1,000,000	-	-						
Large Business	333,334	333,333	333,333						
Hospital **	<u>500,000</u>	<u>500,000</u>	<u>-</u>	<u>1,000,000</u>					
Total Expenditures	2,833,334	833,333	333,333	1,000,000	-	-	-	-	-
<b>Cumulative Total Expenditures:</b>	5,000,000								
 <b><i>Incremental Marketing, Survey and Evaluation Costs:</i></b>									
Residential *	63,675	32,700	-	-	-	-	-	-	-
Small Business Direct Install	67,200	-	-	-	-	-	-	-	-
Large Business	12,500	12,500	-	-	-	-	-	-	-
Hospital **	<u>12,500</u>	<u>12,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	155,875	57,700	-	-	-	-	-	-	-
<b>Cum. Total Incre. Marketing, Survey and Evaluation Costs:</b>	213,575								
 <b><i>Incentive Repayment:</i></b>									
Residential *	-	5,050	20,200	15,150	-	-	-	-	-
Small Business Direct Install	-	25,000	100,000	75,000	-	-	-	-	-
Large Business	-	-	-	-	-	-	-	-	-
Hospital **	<u>5,556</u>	<u>36,458</u>	<u>84,375</u>	<u>94,444</u>	<u>63,542</u>	<u>15,625</u>	-	-	-
Total Incentive Repayment	5,556	66,508	204,575	184,594	63,542	15,625	-	-	-
<b>Cumulative Total Incentive Repayment:</b>	540,400								

\* Includes Residential Home Energy Tune-Up Program and Programmable Thermostat Installation Program.

\*\* Includes Hospital Best Practices and Technology Demonstration Pilot-Retrofit & New Construction.

**Carbon Abatement Pilot****Cost Recovery**

(dollars)

Amortization Period	5 Years
Equity Component	47.4027%
Equity Return	10%
After-Tax WACC	11.31%

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Expenditures	2,833,334	833,333	333,333	1,000,000	-	-	-	-	-
Amortization	62,963	354,861	690,972	829,167	1,000,000	937,037	645,139	309,028	170,833
Gross Expenditures	2,833,334	3,666,667	4,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Accumulated Amortization	<u>62,963</u>	<u>417,824</u>	<u>1,108,796</u>	<u>1,937,963</u>	<u>2,937,963</u>	<u>3,875,000</u>	<u>4,520,139</u>	<u>4,829,167</u>	<u>5,000,000</u>
Net Expenditures	2,770,371	3,248,843	2,891,204	3,062,037	2,062,037	1,125,000	479,861	170,833	-
Accumulated Deferred Tax	<u>1,138,179</u>	<u>1,334,755</u>	<u>1,187,822</u>	<u>1,258,007</u>	<u>847,167</u>	<u>462,195</u>	<u>197,146</u>	<u>70,185</u>	<u>0</u>
Under/(Over) Recovery Balance	1,632,192	1,914,088	1,703,381	1,804,030	1,214,870	662,805	282,715	100,648	(0)
Return Requirement	92,294	200,528	204,554	198,330	170,707	106,175	53,465	21,678	5,691
<b>Revenue</b>	<b>85,215</b>	<b>438,225</b>	<b>743,110</b>	<b>870,766</b>	<b>1,148,088</b>	<b>1,102,581</b>	<b>763,793</b>	<b>374,329</b>	<b>200,113</b>
Expenses:									
Amortization	62,963	354,861	690,972	829,167	1,000,000	937,037	645,139	309,028	170,833
Repayment of Incentives	(5,556)	(66,508)	(204,575)	(184,594)	(63,542)	(15,625)	-	-	-
Administrative Costs	155,875	57,700	-	-	-	-	-	-	-
Interest Expense	27,795	61,044	62,689	60,209	51,864	32,784	16,777	6,898	1,814
Deferred Expenses	<u>(220,362)</u>	<u>(108,356)</u>	<u>52,159</u>	<u>27,864</u>	<u>40,922</u>	<u>74,994</u>	<u>65,189</u>	<u>43,624</u>	<u>23,589</u>
Taxable Income	64,499	139,484	141,865	138,121	118,843	73,391	36,688	14,779	3,877
Taxes	<u>26,499</u>	<u>57,306</u>	<u>58,284</u>	<u>56,746</u>	<u>48,825</u>	<u>30,152</u>	<u>15,073</u>	<u>6,072</u>	<u>1,593</u>
<b>Net Income</b>	<b>38,000</b>	<b>82,179</b>	<b>83,581</b>	<b>81,375</b>	<b>70,017</b>	<b>43,239</b>	<b>21,615</b>	<b>8,707</b>	<b>2,284</b>
Preferred Dividends	<u>563</u>	<u>1,237</u>	<u>1,270</u>	<u>1,220</u>	<u>1,051</u>	<u>664</u>	<u>340</u>	<u>140</u>	<u>37</u>
<b>Income Available for Common</b>	<b>37,437</b>	<b>80,942</b>	<b>82,311</b>	<b>80,155</b>	<b>68,967</b>	<b>42,575</b>	<b>21,275</b>	<b>8,568</b>	<b>2,248</b>

(a) Deferred Expenses equals return requirement plus incremental marketing, survey and evaluation costs net of repayments of incentives not reflected in revenue.