

PUBLIC SERVICE ELECTRIC & GAS CO
Form 10-Q
May 02, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED March 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

Commission	Registrants, State of Incorporation,	I.R.S. Employer
File Number 001-09120	Address, and Telephone Number PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED (A New Jersey Corporation) 80 Park Plaza, P.O. Box 1171 Newark, New Jersey 07101-1171 973 430-7000 http://www.pseg.com	Identification No. 22-2625848
001-34232	PSEG POWER LLC (A Delaware Limited Liability Company) 80 Park Plaza T25 Newark, New Jersey 07102-4194 973 430-7000 http://www.pseg.com	22-3663480
001-00973	PUBLIC SERVICE ELECTRIC AND GAS COMPANY (A New Jersey Corporation)	22-1212800

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80 Park Plaza, P.O. Box 570
 Newark, New Jersey 07101-0570
 973 430-7000
<http://www.pseg.com>

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes x No "

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

Public Service Enterprise Group Incorporated	Yes x	No "
PSEG Power LLC	Yes x	No "
Public Service Electric and Gas Company	Yes x	No "

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Public Service Enterprise Group Incorporated	Large accelerated filer x	Accelerated filer "	Non-accelerated filer "	Smaller reporting company "
PSEG Power LLC	Large accelerated filer "	Accelerated filer "	Non-accelerated filer x	Smaller reporting company "
Public Service Electric and Gas Company	Large accelerated filer "	Accelerated filer "	Non-accelerated filer x	Smaller reporting company "

Indicate by check mark whether any of the registrants is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes " No x

As of April 17, 2012, Public Service Enterprise Group Incorporated had outstanding 505,894,915 shares of its sole class of Common Stock, without par value.

As of April 17, 2012, Public Service Electric and Gas Company had issued and outstanding 132,450,344 shares of Common Stock, without nominal or par value, all of which were privately held, beneficially and of record by Public Service Enterprise Group Incorporated.

PSEG Power LLC and Public Service Electric and Gas Company are wholly owned subsidiaries of Public Service Enterprise Group Incorporated and meet the conditions set forth in General Instruction H(1) (a) and (b) of Form 10-Q. Each is filing its Quarterly Report on Form 10-Q with the reduced disclosure format authorized by General Instruction H.

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FORWARD-LOOKING STATEMENTS

Certain of the matters discussed in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. When used herein, the words anticipate, intend, estimate, believe, expect, plan, should, hypothetical, potential, variations of such words and similar expressions are intended to identify forward-looking statements. Factors that may cause actual results to differ are often presented with the forward-looking statements themselves. Other factors that could cause actual results to differ materially from those contemplated in any forward-looking statements made by us herein are discussed in Item 1. Financial Statements Note 8. Commitments and Contingent Liabilities, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, and other factors discussed in filings we make with the United States Securities and Exchange Commission (SEC). These factors include, but are not limited to:

adverse changes in the demand for or the price of the capacity and energy that we sell into wholesale electricity markets,

adverse changes in energy industry law, policies and regulation, including market structures and a potential shift away from competitive markets toward subsidized market mechanisms, transmission planning and cost allocation rules, including rules regarding how transmission is planned and who is permitted to build transmission in the future, and reliability standards,

any inability of our transmission and distribution businesses to obtain adequate and timely rate relief and regulatory approvals from federal and state regulators,

changes in federal and state environmental regulations that could increase our costs or limit our operations,

changes in nuclear regulation and/or general developments in the nuclear power industry, including various impacts from any accidents or incidents experienced at our facilities or by others in the industry, that could limit operations of our nuclear generating units,

actions or activities at one of our nuclear units located on a multi-unit site that might adversely affect our ability to continue to operate that unit or other units located at the same site,

any inability to balance our energy obligations, available supply and trading risks,

any deterioration in our credit quality or the credit quality of our counterparties, including in our leveraged leases,

availability of capital and credit at commercially reasonable terms and conditions and our ability to meet cash needs,

any inability to realize anticipated tax benefits or retain tax credits,

changes in the cost of, or interruption in the supply of, fuel and other commodities necessary to the operation of our generating units,

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delays in receipt of necessary permits and approvals for our construction and development activities,

delays or unforeseen cost escalations in our construction and development activities,

any inability to achieve, or continue to sustain, our expected levels of operating performance,

increase in competition in energy supply markets as well as competition for certain rate-based transmission projects,

challenges associated with recruitment and /or retention of a qualified workforce,

adverse performance of our decommissioning and defined benefit plan trust fund investments and changes in discount rates and funding requirements, and

changes in technology and customer usage patterns.

All of the forward-looking statements made in this report are qualified by these cautionary statements and we cannot assure you that the results or developments anticipated by management will be realized or even if realized, will have the expected consequences to, or effects on, us or our business prospects, financial condition or results of operations. Readers are cautioned not to place undue reliance on these forward-looking statements in making any investment decision. Forward-looking statements made in this report apply only as of the date of this report. While we may elect to update forward-looking statements from time to time, we specifically disclaim any obligation to do so, even if internal estimates change, unless otherwise required by applicable securities laws.

The forward-looking statements contained in this report are intended to qualify for the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Millions

(Unaudited)

For The Three Months Ended
March 31,

2012 2011

OPERATING REVENUES	\$ 2,875	\$ 3,354
OPERATING EXPENSES		
Energy Costs	1,179	1,563
Operation and Maintenance	628	651
Depreciation and Amortization	256	241
Taxes Other Than Income Taxes	29	43
Total Operating Expenses	2,092	2,498
OPERATING INCOME	783	856
Income from Equity Method Investments	0	3
Other Income	44	76
Other Deductions	(16)	(13)
Other-Than-Temporary Impairments	(5)	(4)
Interest Expense	(101)	(127)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	705	791
Income Tax (Expense) Benefit	(212)	(329)
INCOME FROM CONTINUING OPERATIONS	493	462
Income (Loss) from Discontinued Operations, including Gain on Disposal, net of tax (expense) benefit of \$(36) for the period ended 2011	0	64
NET INCOME	\$ 493	\$ 526
WEIGHTED AVERAGE COMMON SHARE OUTSTANDING (THOUSANDS):		
BASIC	506,010	505,979
DILUTED	507,029	507,132
EARNINGS PER SHARE:		
BASIC		
INCOME FROM CONTINUING OPERATIONS	\$ 0.97	\$ 0.91
NET INCOME	\$ 0.97	\$ 1.04
DILUTED		
INCOME FROM CONTINUING OPERATIONS	\$ 0.97	\$ 0.91
NET INCOME	\$ 0.97	\$ 1.04
DIVIDENDS PAID PER SHARE OF COMMON STOCK	\$ 0.3550	\$ 0.3425

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See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Millions

(Unaudited)

	For The Three Months Ended March 31,	
	2012	2011
NET INCOME	\$ 493	\$ 526
Other Comprehensive Income, net of tax		
Available-for-Sale Securities, net of tax of \$38 and \$(8)	37	(5)
Change in Fair Value of Derivative Instruments, net of tax of \$14 and \$6	20	9
Reclassification Adjustments for Net Amounts included in Net Income, net of tax of \$(15) and \$(28)	(20)	(41)
Pension/OPEB adjustment, net of tax of \$5 and \$4	7	6
Other Comprehensive Income, net of tax	44	(31)
COMPREHENSIVE INCOME	\$ 537	\$ 495

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	March 31, 2012	December 31, 2011
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ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 931	\$ 834
Accounts Receivable, net of allowances of \$61 and \$56 in 2012 and 2011, respectively	992	967
Tax Receivable	16	16
Unbilled Revenues	230	289
Fuel	491	685
Materials and Supplies, net	375	367
Prepayments	315	308
Derivative Contracts	202	156
Regulatory Assets	381	167
Other	28	122
Total Current Assets	3,961	3,911

PROPERTY, PLANT AND EQUIPMENT

Less: Accumulated Depreciation and Amortization	(7,363)	(7,231)
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Net Property, Plant and Equipment	18,233	17,849
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NONCURRENT ASSETS

Regulatory Assets	3,437	3,805
Regulatory Assets of Variable Interest Entities (VIEs)	877	925
Long-Term Investments	1,276	1,303
Nuclear Decommissioning Trust (NDT) Fund	1,449	1,349
Other Special Funds	226	172
Goodwill	16	16
Other Intangibles	136	131
Derivative Contracts	131	106
Restricted Cash of VIEs	22	22
Other	238	232

Total Noncurrent Assets	7,808	8,061
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TOTAL ASSETS	\$ 30,002	\$ 29,821
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See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	March 31, 2012	December 31, 2011
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year (includes \$50 at fair value in 2012 and 2011)	\$ 501	\$ 417
Securitization Debt of VIEs Due Within One Year	218	216
Commercial Paper and Loans	29	0
Accounts Payable	1,030	1,184
Derivative Contracts	154	131
Accrued Interest	115	97
Accrued Taxes	59	30
Deferred Income Taxes	258	170
Clean Energy Program	199	214
Obligation to Return Cash Collateral	119	107
Regulatory Liabilities	81	100
Other	345	291
Total Current Liabilities	3,108	2,957
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	5,693	5,458
Regulatory Liabilities	216	228
Regulatory Liabilities of VIEs	10	9
Asset Retirement Obligations	497	489
Other Postretirement Benefit (OPEB) Costs	1,115	1,127
Accrued Pension Costs	613	734
Clean Energy Program	0	39
Environmental Costs	606	643
Derivative Contracts	20	26
Long-Term Accrued Taxes	154	292
Other	85	86
Total Noncurrent Liabilities	9,009	9,131
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)		
CAPITALIZATION		
LONG-TERM DEBT		
Long-Term Debt	6,544	6,694
Securitization Debt of VIEs	671	723
Project Level, Non-Recourse Debt	44	44
Total Long-Term Debt	7,259	7,461
STOCKHOLDERS EQUITY		
Common Stock, no par, authorized 1,000,000,000 shares; issued, 2012 and 2011 533,556,660 shares	4,823	4,823
Treasury Stock, at cost, 2012 27,663,745 shares; 2011 27,611,374 shares	(605)	(601)
Retained Earnings	6,699	6,385

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Accumulated Other Comprehensive Loss	(293)	(337)
Total Common Stockholders Equity	10,624	10,270
Noncontrolling Interest	2	2
Total Stockholders Equity	10,626	10,272
Total Capitalization	17,885	17,733
TOTAL LIABILITIES AND CAPITALIZATION	\$ 30,002	\$ 29,821

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions

(Unaudited)

For the Three Months Ended
March 31,

2012 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 493	\$ 526
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Gain on Disposal of Discontinued Operations	0	(81)
Depreciation and Amortization	256	245
Amortization of Nuclear Fuel	43	39
Provision for Deferred Income Taxes (Other than Leases) and ITC	12	(152)
Non-Cash Employee Benefit Plan Costs	68	53
Leveraged Lease Income, Adjusted for Rents Received and Deferred Taxes	140	(11)
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	0	8
Over (Under) Recovery of Electric Energy Costs (BGS and NTC) and Gas Costs	21	31
Over (Under) Recovery of Societal Benefits Charge (SBC)	0	23
Cost of Removal	(20)	(13)
Net Realized (Gains) Losses and (Income) Expense from NDT Funds	(15)	(60)
Net Change in Tax Receivable	0	441
Net Change in Certain Current Assets and Liabilities	279	455
Employee Benefit Plan Funding and Related Payments	(154)	(446)
Other	(35)	(16)
Net Cash Provided By (Used In) Operating Activities	1,088	1,042
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(687)	(497)
Proceeds from Sale of Discontinued Operations	0	351
Proceeds from Sales of Available-for-Sale Securities	499	315
Investments in Available-for-Sale Securities	(511)	(331)
Other	(7)	7
Net Cash Provided By (Used In) Investing Activities	(706)	(155)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Commercial Paper and Loans	29	(43)
Redemption of Long-Term Debt	(66)	0
Redemption of Securitization Debt	(49)	(46)
Repayment of Non-Recourse Debt	0	(1)
Cash Dividends Paid on Common Stock	(179)	(173)
Other	(20)	(4)
Net Cash Provided By (Used In) Financing Activities	(285)	(267)
Net Increase (Decrease) in Cash and Cash Equivalents	97	620
Cash and Cash Equivalents at Beginning of Period	834	280
Cash and Cash Equivalents at End of Period	\$ 931	\$ 900

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Supplemental Disclosure of Cash Flow Information:

Income Taxes Paid (Received)	\$ 3	\$ 8
Interest Paid, Net of Amounts Capitalized	\$ 84	\$ 85

See Notes to Condensed Consolidated Financial Statements.

PSEG POWER LLC**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****Millions****(Unaudited)****For The Three Months Ended
March 31,****2012 2011**

OPERATING REVENUES	\$ 1,561	\$ 1,967
OPERATING EXPENSES		
Energy Costs	822	1,135
Operation and Maintenance	241	277
Depreciation and Amortization	57	54
Total Operating Expenses	1,120	1,466
OPERATING INCOME	441	501
Other Income	30	70
Other Deductions	(15)	(12)
Other-Than-Temporary Impairments	(5)	(2)
Interest Expense	(30)	(51)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	421	506
Income Tax (Expense) Benefit	(168)	(208)
INCOME FROM CONTINUING OPERATIONS	253	298
Income (Loss) from Discontinued Operations, including Gain on Disposal, net of tax (expense) benefit of \$(36) for the period ended 2011	0	64
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	\$ 253	\$ 362

See disclosures regarding PSEG Power LLC included in the Notes to Condensed Consolidated Financial Statements.

PSEG POWER LLC**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****Millions****(Unaudited)**

	For The Three Months Ended March 31,	
	2012	2011
NET INCOME	\$ 253	\$ 362
Other Comprehensive Income, net of tax		
Available-for-Sale Securities, net of tax of \$39 and \$(9)	37	(7)
Change in Fair Value of Derivative Instruments, net of tax of \$14 and \$6	20	9
Reclassification Adjustments for Net Amounts included in Net Income, net of tax of \$(15) and \$(28)	(20)	(41)
Pension/OPEB adjustment, net of tax of \$5 and \$4	7	6
Other Comprehensive Income, net of tax	44	(33)
COMPREHENSIVE INCOME	\$ 297	\$ 329

See disclosures regarding PSEG Power LLC included in the Notes to Condensed Consolidated Financial Statements.

PSEG POWER LLC

CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 5	\$ 12
Accounts Receivable	219	267
Accounts Receivable - Affiliated Companies, net	243	381
Short-Term Loan to Affiliate	1,035	907
Fuel	491	685
Materials and Supplies, net	278	272
Derivative Contracts	186	139
Prepayments	48	24
Total Current Assets	2,505	2,687
PROPERTY, PLANT AND EQUIPMENT		
PROPERTY, PLANT AND EQUIPMENT	9,345	9,191
Less: Accumulated Depreciation and Amortization	(2,550)	(2,460)
Net Property, Plant and Equipment	6,795	6,731
NONCURRENT ASSETS		
Nuclear Decommissioning Trust (NDT) Fund	1,449	1,349
Goodwill	16	16
Other Intangibles	136	131
Other Special Funds	44	33
Derivative Contracts	51	55
Other	93	85
Total Noncurrent Assets	1,789	1,669
TOTAL ASSETS	\$ 11,089	\$ 11,087

See disclosures regarding PSEG Power LLC included in the Notes to Condensed Consolidated Financial Statements.

PSEG POWER LLC

CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	March 31, 2012	December 31, 2011
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LIABILITIES AND MEMBER S EQUITY

CURRENT LIABILITIES

Long-Term Debt Due Within One Year	\$ 0	\$ 66
Accounts Payable	473	541
Derivative Contracts	152	124
Deferred Income Taxes	56	53
Accrued Interest	49	32
Other	67	86
Total Current Liabilities	797	902

NONCURRENT LIABILITIES

Deferred Income Taxes and Investment Tax Credits (ITC)	1,364	1,266
Asset Retirement Obligations	264	259
Other Postretirement Benefit (OPEB) Costs	183	180
Derivative Contracts	18	24
Accrued Pension Costs	200	236
Long-Term Accrued Taxes	52	8
Other	84	83
Total Noncurrent Liabilities	2,165	2,056

COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)

LONG-TERM DEBT

Total Long-Term Debt	2,685	2,685
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MEMBER S EQUITY

Contributed Capital	2,028	2,028
Basis Adjustment	(986)	(986)
Retained Earnings	4,632	4,678
Accumulated Other Comprehensive Loss	(232)	(276)
Total Member s Equity	5,442	5,444

TOTAL LIABILITIES AND MEMBER S EQUITY	\$ 11,089	\$ 11,087
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See disclosures regarding PSEG Power LLC included in the Notes to the Condensed Consolidated Financial Statements.

PSEG POWER LLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions

(Unaudited)

	For the Three Months Ended March 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 253	\$ 362
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Gain on Disposal of Discontinued Operations	0	(81)
Depreciation and Amortization	57	58
Amortization of Nuclear Fuel	43	39
Provision for Deferred Income Taxes and ITC	101	(139)
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	0	8
Non-Cash Employee Benefit Plan Costs	18	13
Net Realized (Gains) Losses and (Income) Expense from NDT Funds	(15)	(60)
Net Change in Certain Current Assets and Liabilities:		
Fuel, Materials and Supplies	188	286
Margin Deposit	(34)	(23)
Accounts Receivable	47	145
Accounts Payable	(11)	(126)
Accounts Receivable/Payable-Affiliated Companies, net	145	500
Other Current Assets and Liabilities	(22)	58
Employee Benefit Plan Funding and Related Payments	(38)	(124)
Other	(1)	(13)
Net Cash Provided By (Used In) Operating Activities	731	903
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(237)	(155)
Proceeds from Sale of Discontinued Operations	0	351
Proceeds from Sales of Available-for-Sale Securities	375	315
Investments in Available-for-Sale Securities	(385)	(331)
Short-Term Loan Affiliated Company, net	(128)	(926)
Other	10	17
Net Cash Provided By (Used In) Investing Activities	(365)	(729)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Dividend Paid	(300)	(175)
Redemption of Long-Term Debt	(66)	0
Other	(7)	0
Net Cash Provided By (Used In) Financing Activities	(373)	(175)
Net Increase (Decrease) in Cash and Cash Equivalents	(7)	(1)
Cash and Cash Equivalents at Beginning of Period	12	11
Cash and Cash Equivalents at End of Period	\$ 5	\$ 10

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Supplemental Disclosure of Cash Flow Information:

Income Taxes Paid (Received)	\$ (2)	\$ 9
Interest Paid, Net of Amounts Capitalized	\$ 15	\$ 10

See disclosures regarding PSEG Power LLC included in the Notes to the Condensed Consolidated Financial Statements.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Millions

(Unaudited)

	For The Three Months Ended March 31,	
	2012	2011
OPERATING REVENUES	\$ 1,939	\$ 2,306
OPERATING EXPENSES		
Energy Costs	1,002	1,366
Operation and Maintenance	376	368
Depreciation and Amortization	190	179
Taxes Other Than Income Taxes	29	43
Total Operating Expenses	1,597	1,956
OPERATING INCOME	342	350
Other Income	11	5
Other Deductions	(1)	(1)
Other-Than-Temporary Impairments	0	(1)
Interest Expense	(73)	(79)
INCOME BEFORE INCOME TAXES	279	274
Income Tax (Expense) Benefit	(82)	(111)
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	\$ 197	\$ 163

See disclosures regarding Public Service Electric and Gas Company included in the Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Millions

(Unaudited)

	For The Three Months Ended March 31,	
	2012	2011
NET INCOME	\$ 197	\$ 163
Available-for-Sale Securities, net of tax of \$(1) and \$1	(1)	1
COMPREHENSIVE INCOME	\$ 196	\$ 164

See disclosures regarding Public Service Electric and Gas Company included in the Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY**CONDENSED CONSOLIDATED BALANCE SHEETS**

Millions

(Unaudited)

	March 31, 2012	December 31, 2011
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ASSETS**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 35	\$ 143
Accounts Receivable, net of allowances of \$61 in 2012 and \$56 in 2011, respectively	764	691
Tax Receivable	16	16
Unbilled Revenues	230	289
Materials and Supplies	97	94
Deferred Income Taxes	5	0
Prepayments	65	117
Regulatory Assets	381	167
Other	18	21

Total Current Assets	1,611	1,538
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PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT	15,637	15,306
Less: Accumulated Depreciation and Amortization	(4,572)	(4,539)

Net Property, Plant and Equipment	11,065	10,767
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NONCURRENT ASSETS

Regulatory Assets	3,437	3,805
Regulatory Assets of VIEs	877	925
Long-Term Investments	299	280
Other Special Funds	75	57
Derivative Contracts	34	4
Restricted Cash of VIEs	22	22
Other	94	89

Total Noncurrent Assets	4,838	5,182
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TOTAL ASSETS	\$ 17,514	\$ 17,487
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See disclosures regarding Public Service Electric and Gas Company included in the Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	March 31, 2012	December 31, 2011
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	\$ 450	\$ 300
Securitization Debt of VIEs Due Within One Year	218	216
Commercial Paper and Loans	29	0
Accounts Payable	421	498
Accounts Payable - Affiliated Companies, net	280	280
Accrued Interest	65	65
Clean Energy Program	199	214
Derivative Contracts	2	7
Deferred Income Taxes	0	32
Obligation to Return Cash Collateral	119	107
Regulatory Liabilities	81	100
Other	278	186
Total Current Liabilities	2,142	2,005
NONCURRENT LIABILITIES		
Deferred Income Taxes and ITC	3,803	3,675
Other Postretirement Benefit (OPEB) Costs	885	900
Accrued Pension Costs	282	355
Regulatory Liabilities	216	228
Regulatory Liabilities of VIEs	10	9
Clean Energy Program	0	39
Environmental Costs	555	592
Asset Retirement Obligations	228	226
Long-Term Accrued Taxes	23	83
Other	35	35
Total Noncurrent Liabilities	6,037	6,142
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)		
CAPITALIZATION		
LONG-TERM DEBT		
Long-Term Debt	3,821	3,970
Securitization Debt of VIEs	671	723
Total Long-Term Debt	4,492	4,693
STOCKHOLDER'S EQUITY		
Common Stock; 150,000,000 shares authorized; issued and outstanding, 2012 and 2011 - 132,450,344 shares	892	892
Contributed Capital	420	420
Basis Adjustment	986	986
Retained Earnings	2,544	2,347
Accumulated Other Comprehensive Income	1	2

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Total Stockholder s Equity	4,843	4,647
Total Capitalization	9,335	9,340
TOTAL LIABILITIES AND CAPITALIZATION	\$ 17,514	\$ 17,487

See disclosures regarding Public Service Electric and Gas Company included in the Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions

	For The Three Months Ended March 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 197	\$ 163
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	190	179
Provision for Deferred Income Taxes and ITC	8	(8)
Non-Cash Employee Benefit Plan Costs	44	35
Cost of Removal	(20)	(13)
Market Transition Charge (MTC) Refund	(14)	(15)
Over (Under) Recovery of Electric Energy Costs (BGS and NTC) and Gas Costs	21	31
Over (Under) Recovery of SBC	0	23
Net Changes in Certain Current Assets and Liabilities:		
Accounts Receivable and Unbilled Revenues	(14)	(47)
Materials and Supplies	(3)	(3)
Prepayments	52	79
Accounts Receivable/Payable-Affiliated Companies, net	(8)	(33)
Other Current Assets and Liabilities	51	40
Employee Benefit Plan Funding and Related Payments	(103)	(276)
Other	(35)	2
Net Cash Provided By (Used In) Operating Activities	366	157
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(435)	(339)
Proceeds from Sale of Available-for-Sale Securities	51	0
Investments in Available-for-Sale Securities	(51)	0
Solar Loan Investments	(19)	(10)
Net Cash Provided By (Used In) Investing Activities	(454)	(349)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Short-Term Debt	29	21
Redemption of Securitization Debt	(49)	(46)
Net Cash Provided By (Used In) Financing Activities	(20)	(25)
Net Increase (Decrease) In Cash and Cash Equivalents	(108)	(217)
Cash and Cash Equivalents at Beginning of Period	143	245
Cash and Cash Equivalents at End of Period	\$ 35	\$ 28
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	\$ (22)	\$ 0
Interest Paid, Net of Amounts Capitalized	\$ 69	\$ 74

See disclosures regarding Public Service Electric and Gas Company included in the Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

This combined Form 10-Q is separately filed by Public Service Enterprise Group Incorporated (PSEG), PSEG Power LLC (Power) and Public Service Electric and Gas Company (PSE&G). Information relating to any individual company is filed by such company on its own behalf. Power and PSE&G each is only responsible for information about itself and its subsidiaries.

Note 1. Organization and Basis of Presentation

Organization

PSEG is a holding company with a diversified business mix within the energy industry. Its operations are primarily in the Northeastern and Mid Atlantic United States and in other select markets. PSEG's four principal direct wholly owned subsidiaries are:

Power which is a multi-regional, wholesale energy supply company that integrates its generating asset operations and gas supply commitments with its wholesale energy, fuel supply, energy trading and marketing and risk management functions through three principal direct wholly owned subsidiaries. Power's subsidiaries are subject to regulation by the Federal Energy Regulatory Commission (FERC), the Nuclear Regulatory Commission (NRC) and the states in which they operate.

PSE&G which is an operating public utility engaged principally in the transmission of electricity and distribution of electricity and natural gas in certain areas of New Jersey. PSE&G is subject to regulation by the New Jersey Board of Public Utilities (BPU) and FERC. PSE&G is also investing in the development of solar generation projects and energy efficiency programs, which are regulated by the BPU.

PSEG Energy Holdings L.L.C. (Energy Holdings) which has invested in leveraged leases and owns and operates primarily domestic projects engaged in the generation of energy through its direct wholly owned subsidiaries. Certain Energy Holdings' subsidiaries are subject to regulation by FERC and the states in which they operate. Energy Holdings has also invested in solar generation projects and is exploring opportunities for other investments in renewable generation and has been awarded a contract to manage the transmission and distribution assets of the Long Island Power Authority (LIPA).

PSEG Services Corporation (Services) which provides management, administrative and general services to PSEG and its subsidiaries at cost.

Basis of Presentation

The respective financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) applicable to Quarterly Reports on Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements (Notes) should be read in conjunction with, and update and supplement matters discussed in, the Annual Report on Form 10-K for the year ended December 31, 2011.

The unaudited condensed consolidated financial information furnished herein reflects all adjustments which are, in the opinion of management, necessary to fairly state the results for the interim periods presented. All such adjustments are of a normal recurring nature. All significant intercompany accounts and transactions are eliminated in consolidation, except as discussed in Note 17. Related-Party Transactions. The year-end Condensed Consolidated Balance Sheets were derived from the audited Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2011.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 2. Recent Accounting Standards

New Standard Adopted during 2012

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and International Financial Reporting Standards (IFRS)

This accounting standard was issued to update guidance related to fair value measurements and disclosures as a step towards achieving convergence between GAAP and IFRS. The updated guidance

clarifies intent about application of existing fair value measurements and disclosures,

changes some requirements for fair value measurements, and

requires expanded disclosures.

We adopted this standard prospectively effective January 1, 2012. Upon adoption there was no material impact on our consolidated financial position, results of operations or cash flows; however, it has resulted in expanded disclosures. For additional information, see Note 11. Fair Value Measurements.

Presentation of Comprehensive Income

This accounting standard addresses the presentation of comprehensive income as a step towards achieving convergence between GAAP and IFRS. The updated guidance

allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements, and

eliminates the current option to report other comprehensive income and its components in the statement of changes in equity.

In December 2011, the FASB issued an amendment to this standard to indefinitely defer the effective date for some of the specific disclosure requirements that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. During the deferral period, the existing requirements in GAAP for the presentation of reclassification adjustments must continue to be followed.

We adopted this standard retrospectively effective January 1, 2012. Upon adoption of the new amended guidance, there was no impact on our consolidated financial position, results of operations or cash flows, but there was a change in the presentation of the components of other comprehensive income.

New Accounting Standards Issued But Not Yet Adopted

Disclosures about Offsetting Assets and Liabilities

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This accounting standard was issued on balance sheet offsetting disclosures to facilitate comparability between financial statements prepared on the basis of GAAP and financial statements prepared on the basis of IFRS. This standard requires entities:

to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on an entity's financial position, and

to present both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset.

The guidance is effective for fiscal years and interim periods beginning on or after January 1, 2013. As this standard requires disclosures only, it will not have any impact on our consolidated financial position, results of operations or cash flows upon adoption.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 3. Variable Interest Entities (VIEs)

Variable Interest Entities for which PSE&G is the Primary Beneficiary

PSE&G is the primary beneficiary and consolidates two marginally capitalized VIEs, PSE&G Transition Funding LLC (Transition Funding) and PSE&G Transition Funding II LLC (Transition Funding II), which were created for the purpose of issuing transition bonds and purchasing bond transitional property of PSE&G, which is pledged as collateral to a trustee. PSE&G acts as the servicer for these entities to collect securitization transition charges authorized by the BPU. These funds are remitted to Transition Funding and Transition Funding II and are used for interest and principal payments on the transition bonds and related costs.

The assets and liabilities of these VIEs are presented separately on the face of the Condensed Consolidated Balance Sheets of PSEG and PSE&G because the Transition Funding and Transition Funding II assets are restricted and can only be used to settle their respective obligations. No Transition Funding or Transition Funding II creditor has any recourse to the general credit of PSE&G in the event the transition charges are not sufficient to cover the bond principal and interest payments of Transition Funding or Transition Funding II, respectively.

PSE&G's maximum exposure to loss is equal to its equity investment in these VIEs which was \$16 million as of March 31, 2012 and December 31, 2011. The risk of actual loss to PSE&G is considered remote. PSE&G did not provide any financial support to Transition Funding or Transition Funding II during the first three months of 2012 or in 2011. Further, PSE&G does not have any contractual commitments or obligations to provide financial support to Transition Funding or Transition Funding II.

Note 4. Discontinued Operations and Dispositions

Discontinued Operations

Power

In March 2011, Power completed the sale of its 1,000 MW gas-fired Guadalupe generating facility for a total price of \$351 million, resulting in an after-tax gain of \$53 million.

PSEG Texas' operating results for the three months ended March 31, 2011, which were reclassified to Discontinued Operations, are summarized below:

	Three Months Ended March 31,	
	2011	
	Millions	
Operating Revenues	\$	63
Income Before Income Taxes	\$	18
Net Income	\$	11

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 5. Financing Receivables

PSE&G

PSE&G sponsors a solar loan program designed to help finance the installation of solar power systems throughout its electric service area. The loans are generally paid back with Solar Renewable Energy Certificates (SRECs) generated from the installed solar electric system. The following table reflects the outstanding short and long-term loans by class of customer, none of which are considered non-performing.

Credit Risk Profile Based on Payment Activity

Consumer Loans	As of March 31, 2012	As of December 31, 2011
	Millions	
Performing		
Commercial/Industrial	\$ 125	\$ 106
Residential	11	10
	\$ 136	\$ 116

Energy Holdings

Energy Holdings has investments in domestic energy and real estate assets subject primarily to leveraged lease accounting. A leveraged lease is typically comprised of an investment by an equity investor and debt provided by a third party debt investor. The debt is recourse only to the assets subject to lease and is not included on PSEG's Condensed Consolidated Balance Sheets. As an equity investor, Energy Holdings investments in the leases are comprised of the total expected lease receivables on its investments over the lease terms plus the estimated residual values at the end of the lease terms, reduced for any income not yet earned on the leases. This amount is included in Long-Term Investments on PSEG's Condensed Consolidated Balance Sheets. The more rapid depreciation of the leased property for tax purposes creates tax cash flow that will be repaid to the taxing authority in later periods. As such, the liability for such taxes due is recorded in Deferred Income Taxes on PSEG's Condensed Consolidated Balance Sheets. The table below shows Energy Holdings' gross and net lease investment as of March 31, 2012 and December 31, 2011, respectively.

	As of March 31, 2012	As of December 31, 2011
	Millions	
Lease Receivables (net of Non-Recourse Debt)	\$ 726	\$ 763
Estimated Residual Value of Leased Assets	535	553
	1,261	1,316
Unearned and Deferred Income	(431)	(435)
	830	881
Deferred Tax Liabilities	(694)	(716)
	\$ 136	\$ 165
Net Investments in Leases	\$ 136	\$ 165

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The corresponding receivables associated with the lease portfolio are reflected below, net of non-recourse debt. The ratings in the table represent the ratings of the entities providing payment assurance to Energy Holdings. Not Rated counterparties relate to investments in leases of commercial real estate properties.

Counterparties	Credit Rating (S&P)	Lease Receivables, Net of Non-Recourse Debt	
		As of March 31, 2012	As of December 31, 2011
		Millions	
AA		\$ 21	\$ 21
A+		73	110
BBB - BB		316	316
B		166	299
CCC+		134	0
Not Rated		16	17
		\$ 726	\$ 763

The B and CCC+ ratings above represent lease receivables related to coal-fired assets in Illinois and Pennsylvania. As of March 31, 2012, the gross investment in the leases of such assets, net of non-recourse debt, was \$552 million (\$47 million, net of deferred taxes). A more detailed description of such assets under lease is presented in the table below.

Asset	Location	Gross Investment Millions	% Owned	Total MW	Fuel Type	Counterparties	
						S&P Credit Ratings	Counterparty
Powerton Station Units 5 and 6	IL	\$ 134	64%	1,538	Coal	CCC+	Edison Mission Energy
Joliet Station Units 7 and 8	IL	\$ 84	64%	1,044	Coal	CCC+	Edison Mission Energy
Keystone Station Units 1 and 2	PA	\$ 113	17%	1,711	Coal	B	GenOn REMA, LLC
Conemaugh Station Units 1 and 2	PA	\$ 113	17%	1,711	Coal	B	GenOn REMA, LLC
Shawville Station Units 1, 2, 3 and 4	PA	\$ 108	100%	603	Coal	B	GenOn REMA, LLC

Although all payments of equity rent, debt service and other fees are current, no assurances can be given that all payments in accordance with the lease contracts will continue. Factors which may impact future lease cash flows include, but are not limited to, new environmental legislation and regulation regarding air quality, water and other discharges in the process of generating electricity, market prices for fuel and electricity, overall financial condition of lease counterparties and the quality and condition of assets under lease. Of our facilities under lease to GenOn REMA, LLC (GenOn REMA), a subsidiary of GenOn Energy Inc (GenOn), PSEG believes Keystone has adequate environmental controls installed and Conemaugh has flue gas desulfurization controls and mercury controls, with the final component, selective catalytic reduction (SCR) equipment for Nitrogen Oxide (NO_x) scheduled to be installed in 2014.

GenOn recently disclosed its intention to place the coal-fired units at the Shawville facility in a long-term protective layup effective April 2015. GenOn has indicated that it plans to continue paying the required rent

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

and maintaining the facility in accordance with the lease terms. The lessee is evaluating its options under the lease including termination for economic obsolescence or continuing to keep the facility in long-term protective layup. In the event of an early termination for obsolescence, the lessee would be required to pay the pre-determined termination value structured to recover Energy Holdings' lease investment as specified in the lease agreement, and may have additional liability under the relevant documents.

With respect to Edison Mission Energy's (EME) Midwest Generation leases on the Powerton and Joliet coal units in Illinois, the lessees completed investments in low NOx burners and Selective Non-Catalytic Reduction systems and plan to utilize a Trona system to reduce sulfur. EME and these units remain in litigation with the United States Environmental Protection Agency (EPA) and the State of Illinois regarding certain environmental matters, but EME has announced that the above actions should enable compliance with pending environmental rules. The federal district court has dismissed new source review claims in reference to Powerton and Joliet, but certain opacity claims remain active and under appeal by the EPA and the State of Illinois. The federal district court has stayed proceedings in connection with the opacity claims until the appeal is resolved. During the first quarter of 2012, the credit ratings of EME and Midwest Generation were lowered and continue to carry a negative outlook.

The credit exposure for lessors is partially mitigated through various credit enhancement mechanisms within the lease transactions. These credit enhancement features vary from lease to lease. Some of the leasing transactions include covenants that restrict the flow of dividends from the lessee to its parent, collateralization of the lessee with non-leased assets, historical and forward cash flow coverage tests that prohibit discretionary capital expenditures and dividend payments to the parent/lessee if stated minimum coverage ratios are not met. These covenants are designed to maintain cash reserves in the transaction entity for the benefit of the non-recourse lenders and the lessor/equity participants in the event of a temporary market downturn or degradation in operating performance of the leased assets. In the event of a default in any of the lease transactions, Energy Holdings would exercise its rights and attempt to seek recovery of its investment. The results of such efforts may not be known for a period of time. A bankruptcy of a lessee and failure to recover adequate value could lead to a foreclosure of the lease. If foreclosures were to occur, Energy Holdings could potentially record a pre-tax write-off up to its gross investment in these facilities and may also be required to pay significant cash tax liabilities.

On December 13, 2011, affiliates of Energy Holdings and Dynegy reached a settlement agreement resolving disputes that had arisen between them with regard to Dynegy Holdings' (DH) rejection of the Dynegy leases. The settlement agreement resolves certain disputes regarding the Dynegy leases, including claims under our Tax Indemnity Agreement with DH. The original terms of the settlement agreement included a cash payment of \$7.5 million, which was received on January 4, 2012, and the allowance of a \$110 million claim against DH payable through a mix of cash, senior secured notes and mandatorily convertible notes. On May 1, 2012, a settlement agreement entered into by DH, Dynegy and many of the creditors was filed with the Bankruptcy Court, which could change the method of payment to cash and stock in Dynegy on our claim against DH following confirmation of the DH plan of reorganization by the Bankruptcy Court. The settlement agreement provides that it must be made effective by the Bankruptcy Court by June 2012 or it could terminate.

On December 30, 2011, the effective date of the court order authorizing the Dynegy lease rejections, the leases no longer qualified for leveraged lease accounting treatment under GAAP since the lease agreements were effectively terminated. As a result, Energy Holdings wrote off the \$264 million gross lease investment against the previously recorded reserve. As the owner of the two plants, Energy Holdings' lessor entities ceased leveraged lease accounting, and recorded the generation assets and related nonrecourse project debt on their balance sheets at their respective fair values (See Note 11. Fair Value Measurements). DH remains responsible for the operations, including the financial obligations, of these lessor entities.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 6. Available-for-Sale Securities

Nuclear Decommissioning Trust (NDT) Fund

Power maintains an external master nuclear decommissioning trust to fund its share of decommissioning for its five nuclear facilities upon termination of operation. The trust contains two separate funds: a qualified fund and a non-qualified fund. Section 468A of the Internal Revenue Code limits the amount of money that can be contributed into a qualified fund. The trust funds are managed by third party investment advisors who operate under investment guidelines developed by Power.

Power classifies investments in the NDT Fund as available-for-sale. The following tables show the fair values and gross unrealized gains and losses for the securities held in the NDT Fund:

	Cost	As of March 31, 2012		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Millions				
Equity Securities	\$ 589	\$ 187	\$ (4)	\$ 772
Debt Securities				
Government Obligations	314	10	(1)	323
Other Debt Securities	289	17	(1)	305
Total Debt Securities	603	27	(2)	628
Other Securities	49	0	0	49
Total Available-for-Sale Securities	\$ 1,241	\$ 214	\$ (6)	\$ 1,449

	Cost	As of December 31, 2011		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Millions				
Equity Securities	\$ 582	\$ 126	\$ (23)	\$ 685
Debt Securities				
Government Obligations	343	16	0	359
Other Debt Securities	268	15	(2)	281
Total Debt Securities	611	31	(2)	640
Other Securities	24	0	0	24
Total Available-for-Sale Securities	\$ 1,217	\$ 157	\$ (25)	\$ 1,349

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These amounts do not include receivables and payables for NDT Fund transactions which have not settled at the end of each period. Such amounts are included in Accounts Receivable and Accounts Payable on the Condensed Consolidated Balance Sheets as shown in the following table.

	As of March 31, 2012	As of December 31, 2011
		Millions
Accounts Receivable	\$ 47	\$ 27
Accounts Payable	\$ 49	\$ 22

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table shows the value of securities in the NDT Fund that have been in an unrealized loss position for less than and greater than 12 months. Power does not consider these securities to be other-than-temporarily impaired as of March 31, 2012.

	As of March 31, 2012				As of December 31, 2011			
	Less Than 12 Months		Greater Than 12 Months		Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	Millions							
Equity Securities (A)	\$ 85	\$ (4)	\$ 0	\$ 0	\$ 183	\$ (23)	\$ 0	\$ 0
Debt Securities								
Government Obligations (B)	89	(1)	2	0	20	0	3	0
Other Debt Securities (C)	40	(1)	6	0	56	(1)	4	(1)
Total Debt Securities	129	(2)	8	0	76	(1)	7	(1)
Other Securities	0	0	0	0	0	0	0	0
Total Available-for-Sale Securities	\$ 214	\$ (6)	\$ 8	\$ 0	\$ 259	\$ (24)	\$ 7	\$ (1)

- (A) Equity Securities Represent investments primarily in common stock within a broad range of industries and sectors. The unrealized losses are distributed over two hundred companies with limited impairment durations.
- (B) Debt Securities (Government) Unrealized losses on investments in United States Treasury obligations and Federal Agency mortgage-backed securities were caused by interest rate changes. Since these investments are guaranteed by the United States government or an agency of the United States government, it is not expected that these securities will settle for less than their amortized cost basis. Power does not intend to sell nor will it be more-likely-than-not required to sell these securities.
- (C) Debt Securities (Corporate) Represent investment grade corporate bonds which are not expected to settle for less than their amortized cost. Power does not intend to sell nor will it be more-likely-than-not required to sell these securities.

The proceeds from the sales of and the net realized gains on securities in the NDT Fund were:

	Three Months Ended March 31,	
	2012	2011
	Millions	
Proceeds from Sales	\$ 345	\$ 315
Net Realized Gains (Losses):		
Gross Realized Gains	\$ 16	\$ 59
Gross Realized Losses	(6)	(7)

Net Realized Gains (Losses)	\$ 10	\$ 52
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Net realized gains disclosed in the above table were recognized in Other Income and Other Deductions in PSEG's and Power's Condensed Consolidated Statements of Operations. Net unrealized gains of \$104 million (after-tax) were recognized in Accumulated Other Comprehensive Loss on Power's Condensed Consolidated

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Balance Sheet as of March 31, 2012. The NDT available-for-sale debt securities held as of March 31, 2012 had the following maturities:

Time Frame	Fair Value Millions
Less than one year	\$ 15
1 - 5 years	140
6 - 10 years	173
11 - 15 years	49
16 - 20 years	15
Over 20 years	236
	\$ 628

The cost of these securities was determined on the basis of specific identification.

Power periodically assesses individual securities whose fair value is less than amortized cost to determine whether the investments are considered to be other-than-temporarily impaired. For equity securities, management considers the ability and intent to hold for a reasonable time to permit recovery in addition to the severity and duration of the loss. For fixed income securities, management considers its intent to sell or requirement to sell a security prior to expected recovery. In those cases where a sale is expected, any impairment would be recorded through earnings. For fixed income securities where there is no intent to sell or likely requirement to sell, management evaluates whether credit loss is a component of the impairment. If so, that portion is recorded through earnings while the noncredit loss component is recorded through Accumulated Other Comprehensive Income (Loss). In 2012, other-than-temporary impairments of \$5 million were recognized on securities in the NDT Fund. Any subsequent recoveries in the value of these securities would be recognized in Accumulated Other Comprehensive Income (Loss) unless the securities are sold, in which case, any gain would be recognized in income. The assessment of fair market value compared to cost is applied on a weighted average basis taking into account various purchase dates and initial cost of the securities.

Rabbi Trust

PSEG maintains certain unfunded nonqualified benefit plans to provide supplemental retirement and deferred compensation benefits to certain key employees. Certain assets related to these plans have been set aside in a grantor trust commonly known as the Rabbi Trust. In March 2012, PSEG restructured the fixed income component of the Rabbi Trust.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

PSEG classifies investments in the Rabbi Trust as available-for-sale. The following tables show the fair values, gross unrealized gains and losses and amortized cost basis for the securities held in the Rabbi Trust.

	Cost	As of March 31, 2012		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Millions				
Equity Securities	\$ 16	\$ 6	\$ 0	\$ 22
Debt Securities				
Government Obligations	110	0	0	110
Other Debt Securities	41	0	0	41
Total Debt Securities	151	0	0	151
Other Securities	53	0	0	53
Total Available-for-Sale Securities	\$ 220	\$ 6	\$ 0	\$ 226

	Cost	As of December 31, 2011		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Millions				
Equity Securities	\$ 16	\$ 3	\$ 0	\$ 19
Debt Securities	148	5	0	153
Total Available-for-Sale Securities	\$ 164	\$ 8	\$ 0	\$ 172

As of March 31, 2012, amounts in the above table do not include Accounts Receivable of \$1 million and Accounts Payable of \$51 million for Rabbi Trust Fund transactions which had not yet settled. These amounts are included on the Condensed Consolidated Balance Sheets.

	Three Months Ended	
	2012	2011
March 31,		
Millions		
Proceeds from Sales	\$ 154	\$ 0
Net Realized Gains (Losses):		
Gross Realized Gains	\$ 5	\$ 0
Gross Realized Losses	0	0
Net Realized Gains (Losses)	\$ 5	\$ 0

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Gross realized gains disclosed in the above table were recognized in Other Income in the Condensed Consolidated Statements of Operations. Net unrealized gains of \$3 million (after-tax) were recognized in Accumulated Other Comprehensive Loss on the Condensed Consolidated Balance Sheets as of March 31, 2012. The Rabbi Trust available-for-sale debt securities held as of March 31, 2012 had the following maturities:

Time Frame	Fair Value Millions
Less than one year	\$ 0
1 - 5 years	53
6 - 10 years	29
11 - 15 years	15
16 - 20 years	3
Over 20 years	51
	\$ 151

PSEG periodically assesses individual securities whose fair value is less than amortized cost to determine whether the investments are considered to be other-than-temporarily impaired. For equity securities, the Rabbi Trust is invested in a commingled indexed mutual fund. Due to the commingled nature of this fund, PSEG does not have the ability to hold these securities until expected recovery. As a result, any declines in fair market value below cost are recorded as a charge to earnings. For fixed income securities, management considers its intent to sell or requirement to sell a security prior to expected recovery. In those cases where a sale is expected, any impairment would be recorded through earnings. For fixed income securities where there is no intent to sell or likely requirement to sell, management evaluates whether credit loss is a component of the impairment. If so, that portion is recorded through earnings while the noncredit loss component is recorded through Accumulated Other Comprehensive Income (Loss). The assessment of fair market value compared to cost is applied on a weighted average basis taking into account various purchase dates and initial cost of the securities.

The cost of these securities was determined on the basis of specific identification.

The fair value of assets in the Rabbi Trust related to PSEG, Power and PSE&G are detailed as follows:

	As of March 31, 2012	As of December 31, 2011
	Millions	
Power	\$ 44	\$ 33
PSE&G	75	57
Other	107	82
Total Available-for-Sale Securities	\$ 226	\$ 172

Note 7. Pension and OPEB

PSEG sponsors several qualified and nonqualified pension plans and OPEB plans covering PSEG's and its participating affiliates' current and former employees who meet certain eligibility criteria. The following table provides the components of net periodic benefit costs relating to all qualified and nonqualified pension and OPEB plans on an aggregate basis. OPEB costs are presented net of the federal subsidy expected for

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prescription drugs under the Medicare Prescription Drug Improvement and Modernization Act of 2003. New federal health care legislation enacted in March 2010 eliminates the tax deductibility of retiree health care costs beginning in 2013, to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D coverage. See Note 13. Income Taxes for additional information.

Pension and OPEB costs for PSEG are detailed as follows:

	Pension Benefits		OPEB	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2012	2011	2012	2011
	Millions			
Components of Net Periodic Benefit Cost:				
Service Cost	\$ 25	\$ 24	\$ 4	\$ 4
Interest Cost	56	58	16	15
Expected Return on Plan Assets	(76)	(81)	(4)	(4)
Amortization of Net Transition Obligation	0	0	1	2
Prior Service Cost	(5)	0	(4)	(3)
Actuarial Loss	42	30	8	3
Net Periodic Benefit Cost	\$ 42	\$ 31	\$ 21	\$ 17
Effect of Regulatory Asset	0	0	5	5
Total Benefit Costs, Including Effect of Regulatory Asset	\$ 42	\$ 31	\$ 26	\$ 22

Pension and OPEB costs for Power, PSE&G and PSEG's other subsidiaries are detailed as follows:

	Pension		OPEB	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2012	2011	2012	2011
	Millions			
Power	\$ 13	\$ 10	\$ 5	\$ 3
PSE&G	24	17	20	18
Other	5	4	1	1
Total Benefit Costs	\$ 42	\$ 31	\$ 26	\$ 22

During the three months ended March 31, 2012, PSEG contributed its entire planned contribution for the year 2012 of \$124 million and \$11 million into its pension and postretirement healthcare plans, respectively.

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Note 8. Commitments and Contingent Liabilities

Guaranteed Obligations

Power's activities primarily involve the purchase and sale of energy and related products under transportation, physical, financial and forward contracts at fixed and variable prices. These transactions are with numerous counterparties and brokers that may require cash, cash-related instruments or guarantees.

Power has unconditionally guaranteed payments to counterparties by its subsidiaries in commodity-related transactions in order to

support current exposure, interest and other costs on sums due and payable in the ordinary course of business, and

obtain credit.

Under these agreements, guarantees cover lines of credit between entities and are often reciprocal in nature. The exposure between counterparties can move in either direction.

In order for Power to incur a liability for the face value of the outstanding guarantees, its subsidiaries would have to

fully utilize the credit granted to them by every counterparty to whom Power has provided a guarantee, and

all of the related contracts would have to be out-of-the-money (if the contracts are terminated, Power would owe money to the counterparties).

Power believes the probability of this result is unlikely. For this reason, Power believes that the current exposure at any point in time is a more meaningful representation of the potential liability under these guarantees. This current exposure consists of the net of accounts receivable and accounts payable and the forward value on open positions, less any collateral posted.

Power is subject to

counterparty collateral calls related to commodity contracts, and

certain creditworthiness standards as guarantor under performance guarantees of its subsidiaries.

Changes in commodity prices can have a material impact on collateral requirements under such contracts, which are posted and received primarily in the form of cash and letters of credit. Power also routinely enters into futures and options transactions for electricity and natural gas as part of its operations. These futures contracts usually require a cash margin deposit with brokers, which can change based on market movement and in accordance with exchange rules.

In addition to the guarantees discussed above, Power has also provided payment guarantees to third parties on behalf of its affiliated companies. These guarantees support various other non-commodity related contractual obligations.

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The face value of outstanding guarantees, current exposure and margin positions as of March 31, 2012 and December 31, 2011 are shown below:

	As of March 31, 2012	As of December 31, 2011
	Millions	
Face Value of Outstanding Guarantees	\$ 1,803	\$ 1,756
Exposure under Current Guarantees	\$ 349	\$ 315
Letters of Credit Margin Posted	\$ 135	\$ 135
Letters of Credit Margin Received	\$ 142	\$ 91
Cash Deposited and Received		
Counterparty Cash Margin Deposited	\$ 38	\$ 20
Counterparty Cash Margin Received	(5)	(7)
Net Broker Balance Deposited (Received)	(78)	(92)
In the Event Power were to Lose its Investment Grade Rating:		
Additional Collateral that could be Required	\$ 876	\$ 812
Liquidity Available under PSEG's and Power's Credit Facilities to Post Collateral	\$ 3,510	\$ 3,415
Additional Amounts Posted		
Other Letters of Credit	\$ 55	\$ 52

As part of determining credit exposure, Power nets receivables and payables with the corresponding net energy contract balances. See Note 10. Financial Risk Management Activities for further discussion. In accordance with our accounting policy, where it is applicable, cash (received)/deposited is allocated against derivative asset and liability positions with the same counterparty on the face of the Balance Sheet. The remaining balances of net cash (received)/deposited after allocation is generally included in Accounts Payable and Receivable, respectively.

In the event of a deterioration of Power's credit rating to below investment grade, which would represent a two level downgrade from its current ratings, many of these agreements allow the counterparty to demand further performance assurance. See table above.

In addition, during 2012, the SEC and the Commodity Futures Trading Commission (CFTC) are continuing efforts to implement new rules to enact stricter regulation over swaps and derivatives. Power will carefully monitor these new rules as they are developed to analyze the potential impact on its swap and derivatives transactions, including any potential increase to collateral requirements.

In addition to amounts for outstanding guarantees, current exposure and margin positions, Power had posted letters of credit to support various other non-energy contractual and environmental obligations. See table above.

Environmental Matters

Passaic River

Historic operations of PSEG companies and the operations of hundreds of other companies along the Passaic and Hackensack Rivers are alleged by federal and state agencies to have discharged substantial contamination into the Passaic River/Newark Bay Complex.

Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA)

The EPA has determined that an eight-mile stretch of the Passaic River in the area of Newark, New Jersey is a "facility" within the meaning of that term under CERCLA. The EPA has determined the need to perform a study of the entire 17-mile tidal reach of the lower Passaic River.

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PSE&G and certain of its predecessors conducted operations at properties in this area on or adjacent to the Passaic River. The properties included one operating electric generating station (Essex Site), which was transferred to Power, one former generating station and four former manufactured gas plant (MGP) sites. When the Essex Site was transferred from PSE&G to Power, PSE&G obtained releases and indemnities for liabilities arising out of the former Essex generating station and Power assumed any environmental liabilities.

The EPA believes that certain hazardous substances were released from the Essex Site and one of PSE&G's former MGP locations (Harrison Site). In 2006, the EPA notified the potentially responsible parties (PRPs) that the cost of its study would greatly exceed the original estimated cost of \$20 million. The total cost of the study is now estimated at approximately \$99 million. 73 PRPs, including Power and PSE&G, agreed to assume responsibility for the study and to divide the associated costs according to a mutually agreed upon formula. The PRP group, currently 71 members, is presently executing the study. Approximately five percent of the study costs are attributable to PSE&G's former MGP sites and approximately one percent to Power's generating stations. Power has provided notice to insurers concerning this potential claim.

In 2007, the EPA released a draft Focused Feasibility Study (FFS) that proposed six options to address the contamination cleanup of the lower eight miles of the Passaic River. The estimated costs for the proposed remedy range from \$1.3 billion to \$3.7 billion. The work contemplated by the study is not subject to the cost sharing agreement discussed above. The EPA is conducting a revised focused feasibility study which may be released as early as the third quarter of 2012.

In June 2008, an agreement was announced between the EPA and two PRPs for removal of a portion of the contaminated sediment in the Passaic River at an estimated cost of \$80 million. The two PRPs have reserved their rights to seek contribution for the removal costs from the other PRPs, including Power and PSE&G.

The EPA has advised that the levels of contaminants at Passaic River mile 10.9 may require a pilot study and removal in advance of the completion of the Remedial Investigation and Feasibility Study or the issuance of a revised draft FFS. Preliminary cost estimates range from \$20 million to \$150 million.

Power and PSE&G are unable to estimate their portion of the possible loss or range of loss related to these matters.

New Jersey Spill Compensation and Control Act (Spill Act)

In 2005, the New Jersey Department of Environmental Protection (NJDEP) filed suit against a PRP and its related companies in the New Jersey Superior Court seeking damages and reimbursement for costs expended by the State of New Jersey to address the effects of the PRP's discharge of hazardous substances into both the Passaic River and the balance of the Newark Bay Complex. Power and PSE&G are alleged to have owned, operated or contributed hazardous substances to a total of 11 sites or facilities that impacted these water bodies. In February 2009, third party complaints were filed against some 320 third party defendants, including Power and PSE&G, claiming that each of the third party defendants is responsible for its proportionate share of the clean-up costs for the hazardous substances they allegedly discharged into the Passaic River and the Newark Bay Complex. The third party complaints seek statutory contribution and contribution under the Spill Act to recover past and future removal costs and damages. Power and PSE&G filed answers to the complaint in June 2010. A special master for discovery has been appointed by the court and document production has commenced. Power and PSE&G believe they have good and valid defenses to the allegations contained in the third party complaints and will vigorously assert those defenses. Power and PSE&G are unable to estimate their portion of the possible loss or range of loss related to this matter.

Natural Resource Damage Claims

In 2003, the NJDEP directed PSEG, PSE&G and 56 other PRPs to arrange for a natural resource damage assessment and interim compensatory restoration of natural resource injuries along the lower Passaic River and its tributaries pursuant to the Spill Act. The NJDEP alleged that hazardous substances had been discharged from the Essex Site and the Harrison Site. The NJDEP estimated the cost of interim natural resource injury

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restoration activities along the lower Passaic River at approximately \$950 million. In 2007, agencies of the United States Department of Commerce and the United States Department of the Interior sent letters to PSE&G and other PRPs inviting participation in an assessment of injuries to natural resources that the agencies intended to perform. In 2008, PSEG and a number of other PRPs agreed to share certain immaterial costs the trustees have incurred and will incur going forward, and to work with the trustees to explore whether some or all of the trustees' claims can be resolved in a cooperative fashion. That effort is continuing. PSE&G is unable to estimate its portion of the possible loss or range of loss related to this matter.

Newark Bay Study Area

The EPA has established the Newark Bay Study Area, which it defines as Newark Bay and portions of the Hackensack River, the Arthur Kill and the Kill Van Kull. In August 2006, the EPA sent PSEG and 11 other entities notices that it considered each of the entities to be a PRP with respect to contamination in the Study Area. The notice letter requested that the PRPs fund an EPA-approved study in the Newark Bay Study Area and encouraged the PRPs to contact Occidental Chemical Corporation (OCC) to discuss participating in the Remedial Investigation/Feasibility Study that OCC was conducting. The notice stated the EPA's belief that hazardous substances were released from sites owned by PSEG companies and located on the Hackensack River, including two operating electric generating stations (Hudson and Kearny sites) and one former MGP site. PSEG has participated in and partially funded the second phase of this study. Notices to fund the next phase of the study have been received but it is uncertain at this time whether the PSEG companies will consent to fund the third phase. Power and PSE&G are unable to estimate their portion of the possible loss or range of loss related to this matter.

MGP Remediation Program

PSE&G is working with the NJDEP to assess, investigate and remediate environmental conditions at its former MGP sites. To date, 38 sites requiring some level of remedial action have been identified. Based on its current studies, PSE&G has determined that the estimated cost to remediate all MGP sites to completion could range between \$625 million and \$723 million through 2021. Since no amount within the range is considered to be most likely, PSE&G has recorded a liability of \$625 million as of March 31, 2012. Of this amount, \$82 million was recorded in Other Current Liabilities and \$543 million was reflected as Environmental Costs in Noncurrent Liabilities. PSE&G has recorded a \$625 million Regulatory Asset with respect to these costs. PSE&G periodically updates its studies taking into account any new regulations or new information which could impact future remediation costs and adjusts its recorded liability accordingly.

Prevention of Significant Deterioration (PSD)/New Source Review (NSR)

The PSD/NSR regulations, promulgated under the Clean Air Act, require major sources of certain air pollutants to obtain permits, install pollution control technology and obtain offsets, in some circumstances, when those sources undergo a major modification, as defined in the regulations. The federal government may order companies that are not in compliance with the PSD/NSR regulations to install the best available control technology at the affected plants and to pay monetary penalties ranging from \$25,000 to \$37,500 per day for each violation, depending upon when the alleged violation occurred.

In 2009, the EPA issued a notice of violation to Power and the other owners of the Keystone coal fired plant in Pennsylvania, alleging, among other things, that various capital improvement projects were completed at the plant which are considered modifications (or major modifications) causing significant net emission increases of PSD/NSR air pollutants, beginning in 1985 for Keystone Unit 1 and in 1984 for Keystone Unit 2. The notice of violation states that none of these modifications underwent PSD/NSR permitting process prior to being put into service, which the EPA alleges was required under the Clean Air Act. The notice of violation states that the EPA may issue an order requiring compliance with the relevant Clean Air Act provisions and may seek injunctive relief and/or civil penalties. Power owns approximately 23% of the plant. Power cannot predict the outcome of this matter.

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Hazardous Air Pollutants Regulation

In accordance with a court ruling, the EPA published a Maximum Achievable Control Technology (MACT) regulation in the Federal Register on February 16, 2012. These Mercury Air Toxics Standards (MATS) go into effect on April 16, 2015 and establish allowable emission levels for mercury as well as other hazardous air pollutants pursuant to the Clean Air Act. On March 19, 2012, PSEG filed a motion to intervene in support of the EPA's implementation of MATS. The impact to our fossil fleet is currently being determined; but Power believes the back-end technology environmental controls recently installed at its Hudson and Mercer coal facilities should meet the rule's requirements. Some additional controls could be necessary at Power's Connecticut facilities and some of its other New Jersey facilities, pending engineering evaluation. In December 2011, a decision was reached to upgrade the previously planned two flue gas desulfurization scrubbers and install Selective Catalytic Reduction (SCR) systems at Power's jointly owned coal fired generating facility at Conemaugh in Pennsylvania. This installation is expected to be completed in the fourth quarter of 2014. PSEG's share of this investment is approximately \$147 million.

New Jersey regulations required coal fired electric generating units to meet certain emissions limits or reduce mercury emissions by approximately 90% by December 15, 2007. Companies that are parties to multi-pollutant reduction agreements, such as Power, have been permitted to postpone such reductions on half of their coal fired electric generating capacity until December 15, 2012.

With newly installed controls at its plants in New Jersey, Power expects to achieve the required mercury reductions that are part of Power's multi-pollutant reduction agreement that resolved issues arising out of the PSD/NSR air pollution control programs discussed above.

Nitrogen Oxide (NO_x) Regulation

In April 2009, the NJDEP finalized revisions to NO_x emission control regulations that impose new NO_x emission reduction requirements and limits for New Jersey fossil fuel fired electric generating units. The rule will have a significant impact on Power's generation fleet, as it imposes NO_x emissions limits that will require significant capital investment for controls or the retirement of up to 102 combustion turbines (approximately 2,000 MW) and four older New Jersey steam electric generating units (approximately 400 MW) by May 30, 2015. Power is currently evaluating its compliance options and is unable to estimate the possible loss or range of loss related to this matter.

Under current Connecticut regulations, Power's Bridgeport and New Haven facilities have been utilizing Discrete Emission Reduction Credits (DERCs) to comply with certain NO_x emission limitations that were incorporated into the facilities' operating permits. In 2010, Power negotiated new agreements with the State of Connecticut extending the continued use of DERCs for certain emission units and equipment until May 31, 2014.

Cross-State Air Pollution Rule (CSAPR)

In July 2011, the EPA issued the Cross-State Air Pollution Rule (CSAPR) that limits power plant emissions in 28 states that contribute to the ability of downwind states to attain and/or maintain current particulate matter and ozone emission standards. Emission reductions would have been governed by this rule beginning on January 1, 2012 for Sulfur Dioxide (SO₂) and annual NO_x and May 1, 2012 for Ozone season NO_x. Certain states would have been required to make additional SO₂ reductions in 2014. The EPA issued draft technical adjustments to the final CSAPR in October 2011. Technical revisions to the CSAPR were finalized on February 7, 2012. The EPA increased New Jersey's allocation of annual NO_x and ozone season NO_x allowances beyond what was proposed. The EPA also finalized the increase in New Jersey's allocation of SO₂ allowances from the October proposal. The additional increases in NO_x allocations are favorable to us, since both Power and New Jersey as a whole were projected to be short on NO_x allowances (both ozone season and annual) under the original allocation scenario.

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On December 30, 2011, the United States Court of Appeals for the D.C. Circuit issued a ruling to stay CSAPR pending judicial review. Until a final decision is reached, the court has ordered that the Clean Air Interstate Rule (CAIR) requirements continue temporarily. PSEG has intervened in this litigation along with Calpine and Exelon in support of implementing CSAPR. Oral argument occurred on April 13, 2012. A final decision on the merits is expected in the summer of 2012.

The continuation of CAIR affects our generating stations in Connecticut, New Jersey and New York. The purpose of CAIR is to improve Ozone and Fine Particulate (PM_{2.5}) air quality within states that have not demonstrated achievement of the National Ambient Air Quality Standards (NAAQS). CAIR was implemented through a cap-and-trade program and to date the impact has not been material to us as the allowances allocated to our stations were sufficient. If 2012 operations are similar to those in the past three years, it is expected that the impact to operations from the temporary implementation of CAIR in 2012 will not be significant.

PSEG continues to evaluate the impact of this rule on it due to many of the uncertainties that still exist regarding implementation. Power has made major capital investments over the past several years to lower the SO₂ and NO_x emissions of its fossil plants in the states affected by CSAPR (New Jersey, New York and Pennsylvania). Power does not foresee the need to make significant additional expenditures to its generation fleet to comply with the regulation. As such, Power believes this rule will not have a material impact to its capital investment program or units operations.

Clean Water Act Permit Renewals

Pursuant to the Federal Water Pollution Control Act (FWPCA), New Jersey Pollutant Discharge Elimination System (NJPDES) permits expire within five years of their effective date. In order to renew these permits, but allow a plant to continue to operate, an owner or operator must file a permit application no later than six months prior to expiration of the permit.

One of the most significant NJPDES permits governing cooling water intake structures at Power is for Salem. In 2001, the NJDEP issued a renewed NJPDES permit for Salem, expiring in July 2006, allowing for the continued operation of Salem with its existing cooling water intake system. In February 2006, Power filed with the NJDEP a renewal application allowing Salem to continue operating under its existing NJPDES permit until a new permit is issued. Power prepared its renewal application in accordance with the FWPCA Section 316(b) and the 316(b) rules published in 2004. Those rules did not mandate the use of cooling towers at large existing generating plants. Rather, the rules provided alternatives for compliance with 316(b), including the use of restoration efforts to mitigate for the potential effects of cooling water intake structures, as well as the use of site-specific analysis to determine the best technology available for minimizing adverse impact based upon a cost-benefit test. Power has used restoration and/or a site-specific cost-benefit test in applications filed to renew the permits at its once-through cooled plants, including Salem, Hudson and Mercer.

As a result of several legal challenges to the 2004 316(b) rule by certain northeast states, environmentalists and industry groups, the rule has been suspended and has been returned to the EPA to be consistent with a 2009 United States Supreme Court decision which concluded that the EPA could rely upon cost-benefit analysis in setting the national performance standards and in providing for cost-benefit variances from those standards as part of the Phase II regulations.

In April 2011, the EPA published a new proposed rule which did not establish any particular technology as the best technology available (e.g. closed cycle cooling). Instead, the proposed rule established marine life mortality standards for existing cooling water intake structures with a design flow of more than two million gallons per day. Power reviewed the proposed rule, assessed the potential impact on its generating facilities and used this information to develop its comments to the EPA which were filed in August 2011. Although the EPA has recently stated that a revision of the proposed rule to include an alternative framework for compliance is currently being considered, if the rule were to be adopted as proposed, the impact would be material since the majority of Power's electric generating stations would be affected. The EPA is expected to propose the alternative compliance framework as part of a Notice of Data Availability (NODA) in the second quarter of 2012.

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This NODA will have a 30 day comment period and the timing of this action could impact the issuance of the final rule which is currently scheduled for July 27, 2012. Power is unable to predict the outcome of this proposed rulemaking, the final form that the proposed regulations may take and the effect, if any, that they may have on its future capital requirements, financial condition, results of operations or cash flows. The results of further proceedings on this matter could have a material impact on Power's ability to renew permits at its larger once-through cooled plants, including Salem, Hudson, Mercer, Bridgeport and possibly Sewaren and New Haven, without making significant upgrades to existing intake structures and cooling systems. The costs of those upgrades to one or more of Power's once-through cooled plants would be material, and would require economic review to determine whether to continue operations at these facilities. For example, in Power's application to renew its Salem permit, filed with the NJDEP in February 2006, the estimated costs for adding cooling towers for Salem were approximately \$1 billion, of which Power's share would have been approximately \$575 million. These cost estimates have not been updated. Currently, potential costs associated with any closed cycle cooling requirements are not included in Power's forecasted capital expenditures. In addition to the EPA rulemaking, several states, including California and New York, have begun setting policies that may require closed cycle cooling. It is unknown how these policies may ultimately impact the EPA's rulemaking.

In January 2010, the NJDEP issued a draft NJPDES permit to another company which would require the installation of closed cycle cooling at that company's nuclear generating station located in New Jersey. In December 2010, the NJDEP and that company entered into an Administrative Consent Order (ACO) which would require the company to cease operations at the nuclear generating station no later than 2019. In the ACO, the NJDEP agreed that closed cycle cooling is not the best technology available for that facility and agreed to issue a new draft NJPDES permit for that facility without a requirement for construction of cooling towers or other closed cycle cooling facilities. The new draft NJPDES permit was issued by NJDEP on June 1, 2011. The permit was issued as final on December 21, 2011 incorporating the 316(b) requirements as defined in the ACO. In that permit, NJDEP defended its position that closed-cycle cooling was not the best technology available for that facility. Per that permit the facility will cease operations on December 31, 2019. Power cannot predict at this time the final outcome of the NJDEP decision and the impact, if any, such a decision would have on any of Power's once-through cooled generating stations.

Power has received a preliminary draft of the Delaware River Basin Commission (DRBC) water discharge permit that would revise Mercer Generating Station's thermal discharge limits and require compliance within five years of approval. Power is reviewing the proposed revisions with NJDEP and DRBC staff. Power cannot at this time determine the final form of the permit that will be presented to the DRBC commissioners for approval and what, if any, impact this permit would have on Mercer's operations.

New Generation and Development

Nuclear

Power has approved the expenditure of approximately \$192 million for a steam path retrofit and related upgrades at its co-owned Peach Bottom Units 2 and 3. Unit 3 upgrades were completed on schedule in October 2011. Unit 2 upgrades are expected to result in an increase of Power's share of nominal capacity by approximately 14 MW in 2012. Total expenditures through March 31, 2012 were \$118 million and are expected to continue through 2014.

Power has begun expenditures in pursuit of additional output through an extended power uprate of the Peach Bottom nuclear units. The uprate is expected to be in service in 2015 for Unit 2 and 2016 for Unit 3. Power's share of the increased capacity is expected to be approximately 137 MW with an anticipated cost of approximately \$419 million. Total expenditures through March 31, 2012 were \$40 million and are expected to continue through 2016.

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Connecticut

Power was selected by the Connecticut Public Utilities Regulatory Authority (PURA), formerly the Department of Public Utility Control, in a regulatory process to build 130 MW of gas fired peaking capacity. Final approval was received and construction began in the second quarter of 2011. The project is expected to be in service by June 2012. Power estimates the cost of these generating units to be approximately \$148 million, (not including the capitalized cost to finance during construction). Capitalized expenditures through March 31, 2012 were \$141 million, which are included in Property, Plant and Equipment on the Condensed Consolidated Balance Sheets of PSEG and Power. The first of the annual filings to recover the capital and operating costs of the project was submitted in December 2011 to the PURA. A hearing before the PURA has been held and a decision is expected in May 2012. Costs for this project, including financing costs capitalized during the construction period, will be recovered subject to regulatory review and approval.

PJM Interconnection L.L.C. (PJM)

Power is constructing 267 MW of new gas fired peaking facilities at its Kearny site. Construction began in the second quarter of 2011. The projects are expected to be in service by June 2012. Power estimates the cost of these generating units to be \$250 million to \$300 million. Total capitalized expenditures through March 31, 2012 were \$225 million which are included in Property, Plant and Equipment on Power's and PSEG's Condensed Consolidated Balance Sheets.

PSE&G Solar

As part of the BPU-approved Solar 4 All Program, PSE&G is installing up to 40 MW of solar generation on existing utility poles within its service territory. PSE&G has entered into an agreement to purchase solar units for this program. PSE&G's commitments under this agreement are contingent upon, among other things, the availability of suitable utility poles for installation of the units. On January 18, 2012, the BPU initiated a proceeding to address the proposed placement of solar panels on the poles. On April 12, 2012, the BPU issued an order granting a waiver that will allow PSE&G to use additional existing poles for these installations. PSE&G estimates the total cost of this project to be \$265 million. Approximately 28 MW have been installed as of March 31, 2012. PSE&G's cumulative investments for these solar units were approximately \$199 million, with additional purchases to be made on a quarterly basis during the remaining two-year term of the purchase agreement, to the extent adequate space on poles is available.

Another aspect of the Solar 4 All program is the installation of 40 MW of solar systems on land and buildings owned by PSE&G and third parties. PSE&G estimates the total cost of this phase of the program to be \$191 million. Through March 31, 2012, 36 MW representing 20 projects had been placed into service with an investment of approximately \$173 million.

Energy Holdings Solar

In January 2012, Energy Holdings acquired a 25 MW solar project currently under construction in Arizona. Completion of this project is expected in 2012. Energy Holdings issued guarantees of up to \$71.5 million for payment of obligations related to the construction of the project, of which \$67 million was outstanding as of March 31, 2012. These guarantees will terminate upon successful completion of the project. The total investment for the project is expected to be approximately \$75 million.

Basic Generation Service (BGS) and Basic Gas Supply Service (BGSS)

PSE&G obtains its electric supply requirements for customers who do not purchase electric supply from third party suppliers through the annual New Jersey BGS auctions. Pursuant to applicable BPU rules, PSE&G enters into the Supplier Master Agreement with the winners of these BGS auctions following the BPU's approval of the auction results. PSE&G has entered into contracts with Power, as well as with other winning BGS

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suppliers, to purchase BGS for PSE&G's load requirements. The winners of the auction (including Power) are responsible for fulfilling all the requirements of a PJM Load Serving Entity including the provision of capacity, energy, ancillary services, transmission and any other services required by PJM. BGS suppliers assume all volume risk and customer migration risk and must satisfy New Jersey's renewable portfolio standards.

Power seeks to mitigate volatility in its results by contracting in advance for the sale of most of its anticipated electric output as well as its anticipated fuel needs. As part of its objective, Power has entered into contracts to directly supply PSE&G and other New Jersey electric distribution companies (EDCs) with a portion of their respective BGS requirements through the New Jersey BGS auction process, described above. In addition to the BGS-related contracts, Power also enters into firm supply contracts with EDCs, as well as other firm sales and commitments.

PSE&G has contracted for its anticipated BGS-Fixed Price eligible load, as follows:

	Auction Year			
	2009	2010	2011	2012
36-Month Terms Ending	May 2012	May 2013	May 2014	May 2015(A)
Load (MW)	2,900	2,800	2,800	2,900
\$ per kWh	0.10372	0.09577	0.09430	0.08388

(A) Prices set in the 2012 BGS auction will become effective on June 1, 2012 when the 2009 BGS auction agreements expire. PSE&G has a full requirements contract with Power to meet the gas supply requirements of PSE&G's gas customers. That contract extended through March 31, 2012, and continues substantially on a year-to-year basis. Power has entered into hedges for a portion of these anticipated BGSS obligations, as permitted by the BPU. The BPU permits PSE&G to recover the cost of gas hedging up to 115 billion cubic feet or 80% of its residential gas supply annual requirements through the BGSS tariff. For additional information, see Note 17. Related-Party Transactions. Current plans call for Power to hedge on behalf of PSE&G approximately 70 billion cubic feet or 50% of its residential gas supply annual requirements.

Minimum Fuel Purchase Requirements

Power has various long-term fuel purchase commitments for coal through 2013 to support its fossil generation stations and for supply of nuclear fuel for the Salem and Hope Creek nuclear generating stations and for firm transportation and storage capacity for natural gas.

Power's strategy is to maintain certain levels of uranium and to make periodic purchases to support such levels. As such, the commitments referred to below may include estimated quantities to be purchased that deviate from contractual nominal quantities. Power's nuclear fuel commitments cover approximately 100% of its estimated uranium, enrichment and fabrication requirements through 2015 and a portion for 2016 at Salem, Hope Creek and Peach Bottom.

Power's various multi-year contracts for firm transportation and storage capacity for natural gas are primarily used to meet its gas supply obligations to PSE&G. These purchase obligations are consistent with Power's strategy to enter into contracts for its fuel supply in comparable volumes to its sales contracts.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

As of March 31, 2012, the total minimum purchase requirements included in these commitments were as follows:

Fuel Type	Commitments through 2016 Power's Share Millions
Nuclear Fuel	
Uranium	\$ 489
Enrichment	\$ 454
Fabrication	\$ 147
Natural Gas	\$ 933
Coal/Oil	\$ 265

Regulatory Proceedings

Electric Discount and Energy Competition Act (Competition Act)

In 2007, PSE&G and Transition Funding were served with a purported class action complaint (Complaint) in New Jersey Superior Court challenging the constitutional validity of certain stranded cost recovery provisions of the Competition Act, seeking injunctive relief against continued collection from PSE&G's electric customers of the Transition Bond Charge (TBC) of Transition Funding, as well as recovery of TBC amounts previously collected. Under New Jersey law, the Competition Act, enacted in 1999, is presumed constitutional.

Also in 2007, the plaintiff filed an amended Complaint to also seek injunctive relief from continued collection of related taxes as well as recovery of such taxes previously collected. In October 2007, the Court granted PSE&G's motion to dismiss the amended Complaint and in November 2007, the plaintiff filed a notice of appeal with the Appellate Division of the New Jersey Superior Court (Appellate Division). In February 2009, the Appellate Division affirmed the decision of the lower court dismissing the case. In May 2009, the New Jersey Supreme Court denied a request from the plaintiff to review the Appellate Division's decision.

In July 2007, the same plaintiff also filed a petition with the BPU requesting review and adjustment to PSE&G's recovery of the same stranded cost charges. In September 2007, PSE&G filed a motion with the BPU to dismiss the petition. In June 2010, the BPU granted PSE&G's motion to dismiss. In April 2011, the BPU issued a written order memorializing this decision. In June 2011, the plaintiff/petitioner filed a notice of appeal of the BPU action with the Appellate Division. This appellate proceeding remains pending.

New Jersey Clean Energy Program

In 2008, the BPU approved funding requirements for each New Jersey EDC applicable to its Renewable Energy and Energy Efficiency programs for the years 2009 to 2012. The aggregate funding amount is \$1.2 billion for all years. PSE&G's share is \$705 million. PSE&G has recorded a current liability of \$199 million as of March 31, 2012. The liability is reduced as normal payments are made. The liability has been recorded with an offsetting Regulatory Asset, since the costs associated with this program are expected to be recovered from PSE&G ratepayers through the Societal Benefits Charge (SBC).

The BPU has started a new Comprehensive Resource Analysis proceeding to determine SBC funding for the years 2013-2016. The proceeding has no impact on current SBC assessments.

Long-Term Capacity Agreement Pilot Program (LCAPP)

In January 2011, New Jersey enacted the LCAPP Act directing the BPU to conduct a process to procure and subsidize up to 2,000 megawatts of base load or mid-merit electric power generation. In March 2011, the BPU issued a written order approving a form of agreement and selecting three generators to build a total of approximately 1,949 MW of new combined-cycle generating facilities located in New Jersey. Each of the

New

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Jersey EDCs, including PSE&G, executed standard offer capacity agreements (SOCA) with each of the three selected generators in compliance with the BPU's directive, but did so under protest preserving its respective legal rights. The SOCA provides for the EDCs to make capacity payments to, or receive capacity payments from, the generators as calculated based on the difference between the Reliability Pricing Model (RPM) clearing price for each year of the term and the price bid set forth in the SOCA. The LCAPP Act and the BPU order provide that, once the SOCAs are executed and approved by the BPU, they will be irrevocable and the EDCs will be entitled to full rate recovery of the prudently incurred costs. PSE&G will not make or receive payments under the three contracts unless (1) the plant successfully bids into and clears the capacity auction in accordance with the terms of the SOCA and (2) the proposed plant is constructed. Two of the SOCA generators have filed petitions at the BPU claiming that there has been a material modification in PJM's RPM that could adversely affect their performance under the SOCA and asking the BPU for relief through modifications to their respective SOCAs. On May 1, 2012, the BPU denied the request of these generators for modifications to the SOCA contracts, though the BPU indicated that it may re-examine the need for SOCA changes or other actions after the results of the May RPM auction are issued. Legal challenges to the BPU's implementation of the LCAPP Act were filed in New Jersey appellate court and the challenge filed by the EDCs has been remanded back to the BPU for consideration of certain procedural issues. The LCAPP Act has also been challenged on constitutional grounds in federal court. This legal challenge remains pending.

Leveraged Lease Investments

On January 31, 2012, PSEG entered into a specific matter closing agreement settling the dispute with the IRS over previously challenged leveraged lease transactions. This agreement settles the leasing dispute with finality for all tax periods in which PSEG realized tax deductions from these transactions. On January 31, 2012, PSEG also signed a Form 870-AD settlement agreement covering all audit issues for tax years 1997 through 2003. On March 26, 2012, PSEG executed a Form 870-AD settlement agreement covering all audit issues for tax years 2004 through 2006. These two agreements conclude ten years of audits for PSEG and the leasing issue for all tax years. For PSEG, the impact of these agreements is an increase in financial statement Income Tax Expense of approximately \$175 million. In prior periods, PSEG had established financial statement tax liabilities for uncertain tax positions in the amount of \$245 million with respect to these tax years. Accordingly, the settlement resulted in a net \$70 million decrease in the Income Tax Expense of PSEG.

Cash Impact

For tax years 1997 through 2003, the tax and interest PSEG owes the IRS as a result of this settlement will be reduced by the \$320 million PSEG has on deposit with the IRS for this matter. A net deficiency for these years of approximately \$4 million is expected to be paid during the second quarter of 2012. Based upon the closing agreement and the Form 870-AD for tax years 2004 through 2006, PSEG owes the IRS approximately \$600 million in tax and interest for tax years from 2004 through 2006. Based on the settlement of the leasing dispute, for tax years 2007 through 2010, the IRS owes PSEG approximately \$670 million. PSEG will attempt to work with the IRS to process these audit years simultaneously. No assurance can be given that the IRS will agree to this process. It is possible that PSEG would have to make several payments totaling \$600 million over the next year to the IRS and file claims for refunds for \$670 million which the IRS would process in the normal course; it could take several years for the IRS to process these claims. In addition to the above, PSEG will claim a tax deduction for the accrued deficiency interest associated with this settlement in 2012, which will give rise to a cash tax savings of approximately \$100 million.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 9. Changes in Capitalization

The following capital transactions occurred in the first three months of 2012:

Power

paid \$66 million of 5.00% Pollution Control Revenue Refunding bond at maturity in March.

paid cash dividends of \$300 million to PSEG.

PSE&G

paid \$49 million of Transition Funding s securitization debt.

Note 10. Financial Risk Management Activities

The operations of PSEG, Power and PSE&G are exposed to market risks from changes in commodity prices, interest rates and equity prices that could affect their results of operations and financial condition. Exposure to these risks is managed through normal operating and financing activities and, when appropriate, through hedging transactions. Hedging transactions use derivative instruments to create a relationship in which changes to the value of the assets, liabilities or anticipated transactions exposed to market risks are expected to be offset by changes in the value of these derivative instruments.

Commodity Prices

The availability and price of energy commodities are subject to fluctuations due to weather, environmental policies, changes in supply and demand, state and federal regulatory policies, market conditions, transmission availability and other events. Power uses physical and financial transactions in the wholesale energy markets to mitigate the effects of adverse movements in fuel and electricity prices. Derivative contracts that do not qualify for hedge accounting or normal purchases/normal sales treatment are marked to market (MTM) with changes in fair value recorded in the income statement. The fair value for the majority of these contracts is obtained from quoted market sources. Modeling techniques using assumptions reflective of current market rates, yield curves and forward prices are used to interpolate certain prices when no quoted market exists.

Cash Flow Hedges

Power uses forward sale and purchase contracts, swaps and futures contracts to hedge

forecasted energy sales from its generation stations and the related load obligations,

the price of fuel to meet its fuel purchase requirements, and

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certain forecasted natural gas sales and purchases made to support the BGSS contract with PSE&G.

These derivative transactions are designated and effective as cash flow hedges. As of March 31, 2012 and December 31, 2011, the fair value and the impact on Accumulated Other Comprehensive Income (Loss) associated with these hedges was as follows:

	As of March 31, 2012	As of December 31, 2011
	Millions	
Fair Value of Cash Flow Hedges	\$ 54	\$ 57
Impact on Accumulated Other Comprehensive Income (Loss) (after tax)	\$ 33	\$ 33

The expiration date of the longest-dated cash flow hedge at Power is in 2013. Power's after-tax unrealized gains on these derivatives that are expected to be reclassified to earnings during the next 12 months are \$28 million. There was ineffectiveness of \$1 million associated with these hedges as of March 31, 2012.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Trading Derivatives

The primary purpose of Power's wholesale marketing operation is to optimize the value of the output of the generating facilities via various products and services available in the markets we serve. Historically, Power engaged in trading of electricity and energy-related products where such transactions were not associated with the output or fuel purchase requirements of its facilities. This trading consisted mostly of energy supply contracts where Power secured sales commitments with the intent to supply the energy services from purchases in the market rather than from its owned generation. Such trading activities were marked to market through the income statement and represented less than one percent of gross margin (revenues less energy costs) on an annual basis. Effective July 2011, Power anticipates that it will not enter into any more trading derivative contracts.

Other Derivatives

Power enters into additional contracts that are derivatives, but do not qualify for or are not designated as cash flow hedges. These transactions are intended to mitigate exposure to fluctuations in commodity prices and optimize the value of our expected generation. Trade types include financial options, futures, swaps, fuel purchases and forward purchases and sales of electricity. Changes in fair market value of these contracts are recorded in earnings.

Interest Rates

PSEG, Power and PSE&G are subject to the risk of fluctuating interest rates in the normal course of business. Exposure to this risk is managed by targeting a balanced debt maturity profile which limits refinancing in any given period or interest rate environment. In addition, we have used a mix of fixed and floating rate debt, interest rate swaps and interest rate lock agreements.

Fair Value Hedges

PSEG enters into fair value hedges to convert fixed-rate debt into variable-rate debt. As of March 31, 2012, PSEG had eight interest rate swaps outstanding totaling \$1.1 billion. These swaps convert Power's \$250 million of 5% Senior Notes due April 2014, Power's \$300 million of 5.5% Senior Notes due December 2015, \$300 million of Power's \$303 million of 5.32% Senior Notes due September 2016 and Power's \$250 million of 2.75% Senior Notes due September 2016 into variable-rate debt. These interest rate swaps are designated and effective as fair value hedges. The fair value changes of the interest rate swaps are fully offset by the changes in the fair value of the underlying debt. As of March 31, 2012 and December 31, 2011, the fair value of all the underlying hedges was \$60 million and \$62 million, respectively.

Cash Flow Hedges

PSEG uses interest rate swaps and other derivatives, which are designated and effective as cash flow hedges, to manage their exposure to the variability of cash flows, primarily related to variable-rate debt instruments. The Accumulated Other Comprehensive Income (Loss) (after tax) related to interest rate derivatives designated as cash flow hedges was \$(2) million as of March 31, 2012 and December 31, 2011.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Fair Values of Derivative Instruments

The following are the fair values of derivative instruments on the Condensed Consolidated Balance Sheets:

Balance Sheet Location	As of March 31, 2012							Consolidated Total Derivatives
	Cash Flow Hedges Energy- Related Contracts	Power Non Hedges Energy- Related Contracts	Netting (A)	Total Power Millions	PSE&G Non Hedges Energy- Related Contracts	PSEG Fair Value Hedges Interest Rate Swaps		
Derivative Contracts								
Current Assets	\$ 52	\$ 644	\$ (510)	\$ 186	\$ 0	\$ 16	\$ 202	
Noncurrent Assets	8	147	(104)	51	34	46	131	
Total Mark-to-Market Derivative Assets	\$ 60	\$ 791	\$ (614)	\$ 237	\$ 34	\$ 62	\$ 333	
Derivative Contracts								
Current Liabilities	\$ (5)	\$ (602)	\$ 455	\$ (152)	\$ (2)	\$ 0	\$ (154)	
Noncurrent Liabilities	(1)	(128)	111	(18)	0	(2)	(20)	
Total Mark-to-Market Derivative (Liabilities)	\$ (6)	\$ (730)	\$ 566	\$ (170)	\$ (2)	\$ (2)	\$ (174)	
Total Net Mark-to-Market Derivative Assets (Liabilities)	\$ 54	\$ 61	\$ (48)	\$ 67	\$ 32	\$ 60	\$ 159	

Balance Sheet Location	As of December 31, 2011							Consolidated Total Derivatives
	Cash Flow Hedges Energy- Related Contracts	Power Non Hedges Energy- Related Contracts	Netting (A)	Total Power Millions	PSE&G Non Hedges Energy- Related Contracts	PSEG Fair Value Hedges Interest Rate Swaps		
Derivative Contracts								
Current Assets	\$ 55	\$ 532	\$ (448)	\$ 139	\$ 0	\$ 17	\$ 156	
Noncurrent Assets	8	121	(74)	55	4	47	106	
Total Mark-to-Market Derivative Assets	\$ 63	\$ 653	\$ (522)	\$ 194	\$ 4	\$ 64	\$ 262	
Derivative Contracts								
Current Liabilities	\$ (5)	\$ (506)	\$ 387	\$ (124)	\$ (7)	\$ 0	\$ (131)	

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Noncurrent Liabilities	(1)	(76)	53	(24)	0	(2)	(26)
Total Mark-to-Market Derivative (Liabilities)	\$ (6)	\$ (582)	\$ 440	\$ (148)	\$ (7)	\$ (2)	\$ (157)
Total Net Mark-to-Market Derivative Assets (Liabilities)	\$ 57	\$ 71	\$ (82)	\$ 46	\$ (3)	\$ 62	\$ 105

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(A) Represents the netting of fair value balances with the same counterparty (where the right of offset exists) and the application of collateral. As of March 31, 2012 and December 31, 2011, net cash collateral received of \$48 million and \$82 million, respectively, was netted against the corresponding net derivative contract positions. Of the \$48 million as of March 31, 2012, cash collateral of \$(79) million and \$(9) million were netted against current assets and noncurrent assets, respectively, and cash collateral of \$24 million and \$16 million were netted against current liabilities and noncurrent liabilities, respectively. Of the \$82 million as of December 31, 2011, cash collateral of \$(77) million and \$(23) million were netted against current assets and noncurrent assets, respectively, and cash collateral of \$16 million and \$2 million were netted against current liabilities and noncurrent liabilities, respectively.

Certain of PSEG's derivative instruments contain provisions that require PSEG to post collateral. This collateral may be posted in the form of cash or credit support with thresholds contingent upon PSEG's credit rating from each of the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. These credit risk-related contingent features stipulate that if PSEG were to be downgraded or lose its investment grade credit rating, it would be required to provide additional collateral. This incremental collateral requirement can offset collateral requirements related to other derivative instruments that are assets with the same counterparty, where the contractual right of offset exists under applicable master agreements. PSEG also enters into commodity transactions on the New York Mercantile Exchange (NYMEX) and Intercontinental Exchange (ICE). The NYMEX and ICE clearing houses act as counterparties to each trade. Transactions on NYMEX and ICE must adhere to comprehensive collateral and margining requirements.

The aggregate fair value of all derivative instruments with credit risk-related contingent features in a liability position that are not fully collateralized (excluding transactions on NYMEX and ICE that are fully collateralized) was \$350 million and \$285 million as of March 31, 2012 and December 31, 2011, respectively. As of March 31, 2012 and December 31, 2011, PSEG had the contractual right of offset of \$189 million and \$149 million, respectively, related to derivative instruments that are assets with the same counterparty under master agreements and net of margin posted. If PSEG had been downgraded or lost its investment grade rating, it would have had additional collateral obligations of \$161 million and \$136 million as of March 31, 2012 and December 31, 2011, respectively, related to its derivatives, net of the contractual right of offset under master agreements and the application of collateral. This potential additional collateral is included in the \$876 million and \$812 million as of March 31, 2012 and December 31, 2011, respectively, discussed in Note 8. Commitments and Contingent Liabilities.

The following shows the effect on the Condensed Consolidated Statements of Operations and on Accumulated Other Comprehensive Income (AOCI) of derivative instruments designated as cash flow hedges for the three months ended March 31, 2012 and 2011:

Derivatives in Cash Flow Hedging Relationships	Amount of Pre-Tax Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) Three Months Ended March 31,		Location of Pre-Tax Gain (Loss) Reclassified from AOCI into Income	Amount of Pre-Tax Gain (Loss) Reclassified from AOCI into Income (Effective Portion) Three Months Ended March 31,		Location of Pre-Tax Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)	Amount of Pre-Tax Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) Three Months Ended March 31,	
	2012	2011		2012	2011		2012	2011
PSEG and Power								
Energy-Related Contracts	\$ 38	\$ 13	Operating Revenues	\$ 39	\$ 66	Operating Revenues	\$ (1)	\$ (2)
Energy-Related Contracts	(4)	2	Energy Costs	(4)	3		0	0
Total PSEG	\$ 34	\$ 15		\$ 35	\$ 69		\$ (1)	\$ (2)

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The following reconciles the Accumulated Other Comprehensive Income for derivative activity included in the Accumulated Other Comprehensive Loss of PSEG on a pre-tax and after-tax basis:

Accumulated Other Comprehensive Income	Pre-Tax	After-Tax
	Millions	
Balance as of December 31, 2010	\$ 188	\$ 111
Gain Recognized in AOCI	80	47
Less: Gain Reclassified into Income	(214)	(127)
Balance as of December 31, 2011	\$ 54	\$ 31
Gain Recognized in AOCI	34	20
Less: Gain Reclassified into Income	(35)	(20)
Balance as of March 31, 2012	\$ 53	\$ 31

The following shows the effect on the Condensed Consolidated Statements of Operations of derivative instruments not designated as hedging instruments or as normal purchases and sales for the three months ended March 31, 2012 and 2011:

Derivatives Not Designated as Hedges	Location of Pre-Tax Gain (Loss) Recognized in Income on Derivatives	Pre-Tax Gain (Loss) Recognized in Income on Derivatives Three Months Ended March 31, 2012 2011 Millions	
PSEG and Power			
Energy-Related Contracts	Operating Revenues	\$ 195	\$ (42)
Energy-Related Contracts	Energy Costs	(26)	3
Total PSEG and Power		\$ 169	\$ (39)

Power's derivative contracts reflected in the preceding tables include contracts to hedge the purchase and sale of electricity and natural gas and the purchase of fuel. Not all of these contracts qualify for hedge accounting. Most of these contracts are marked to market. The tables above do not include contracts for which Power has elected the normal purchase/normal sales exemption, such as its BGS contracts and certain other energy supply contracts that it has with other utilities and companies with retail load. In addition, PSEG has interest rate swaps designated as fair value hedges. The effect of these hedges was to reduce interest expense by \$6 million for each of the three month periods ended March 31, 2012 and 2011.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following reflects the gross volume, on an absolute value basis, of derivatives as of March 31, 2012 and December 31, 2011:

Type	Notional	Total	PSEG Millions	Power	PSE&G
As of March 31, 2012					
Natural Gas	Dth	590	0	366	224
Electricity	MWh	138	0	138	0
FTRs	MWh	6	0	6	0
Interest Rate Swaps	US Dollars	1,100	1,100	0	0
Coal	Tons	1	0	1	0
As of December 31, 2011					
Natural Gas	Dth	612	0	377	235
Electricity	MWh	137	0	137	0
FTRs	MWh	12	0	12	0
Interest Rate Swaps	US Dollars	1,100	1,100	0	0
Coal	Tons	1	0	1	0

Credit Risk

Credit risk relates to the risk of loss that we would incur as a result of non-performance by counterparties pursuant to the terms of their contractual obligations. We have established credit policies that we believe significantly minimize credit risk. These policies include an evaluation of potential counterparties' financial condition (including credit rating), collateral requirements under certain circumstances and the use of standardized agreements, which allow for the netting of positive and negative exposures associated with a single counterparty. In the event of non-performance or non-payment by a major counterparty, there may be a material adverse impact on Power's and PSEG's financial condition, results of operations or net cash flows.

As of March 31, 2012, 96% of the credit for Power's operations was with investment grade counterparties. Credit exposure is defined as any positive results of netting accounts receivable/accounts payable and the forward value of open positions (which includes all financial instruments including derivatives and non-derivatives and normal purchases/normal sales).

The following table provides information on Power's credit risk from others, net of cash collateral, as of March 31, 2012. It further delineates that exposure by the credit rating of the counterparties and provides guidance on the concentration of credit risk to individual counterparties and an indication of the quality of Power's credit risk by credit rating of the counterparties.

Rating	Current Exposure	Securities held as Collateral Millions	Net Exposure	Number of Counterparties >10%	Net Exposure of Counterparties >10% Millions
Investment Grade External Rating	\$ 674	\$ 104	\$ 669	2	\$ 400(A)
Non-Investment Grade External Rating	26	0	26	0	0
Investment Grade No External Rating	7	0	7	0	0
Non-Investment Grade No External Rating	0	0	0	0	0
Total	\$ 707	\$ 104	\$ 702	2	\$ 400

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- (A) Includes net exposure of \$302 million with PSE&G. The remaining net exposure of \$98 million is with two nonaffiliated power purchasers which are regulated investment grade counterparties.

The net exposure listed above, in some cases, will not be the difference between the current exposure and the collateral held. A counterparty may have posted more cash collateral than the outstanding exposure, in which case there would be no exposure. When letters of credit have been posted as collateral, the exposure amount is not reduced, but the exposure amount is transferred to the rating of the issuing bank. As of March 31, 2012, Power had 191 active counterparties.

Note 11. Fair Value Measurements

PSEG, Power and PSE&G adopted accounting standard Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and International Financial Reporting Standards (IFRS) effective January 1, 2012. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting guidance for fair value measurement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and establishes a fair value hierarchy that distinguishes between assumptions based on market data obtained from independent sources and those based on an entity's own assumptions. The hierarchy prioritizes the inputs to fair value measurement into three levels:

Level 1 measurements utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that PSEG, Power and PSE&G have the ability to access. These consist primarily of listed equity securities.

Level 2 measurements include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable inputs such as interest rates and yield curves that are observable at commonly quoted intervals. These consist primarily of non-exchange traded derivatives such as forward contracts or options and most fixed income securities.

Level 3 measurements use unobservable inputs for assets or liabilities, based on the best information available and might include an entity's own data and assumptions. In some valuations, the inputs used may fall into different levels of the hierarchy. In these cases, the financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. As of March 31, 2012, these consist primarily of electric swaps whose basis is deemed significant to the fair value measurement, and long-term gas supply contracts.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following tables present information about PSEG's, Power's and PSE&G's respective assets and (liabilities) measured at fair value on a recurring basis as of March 31, 2012 and December 31, 2011, including the fair value measurements and the levels of inputs used in determining those fair values. Amounts shown for PSEG include the amounts shown for Power and PSE&G.

Recurring Fair Value Measurements as of March 31, 2012

Description	Total	Cash Collateral Netting (E)	Quoted Market Prices of Identical Assets (Level 1) Millions	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
PSEG					
Assets:					
Derivative Contracts:					
Energy-Related Contracts (A)	\$ 271	\$ (88)	\$ 0	\$ 280	\$ 79
Interest Rate Swaps (B)	\$ 62	\$ 0	\$ 0	\$ 62	\$ 0
NDT Funds: (C)					
Equity Securities	\$ 772	\$ 0	\$ 772	\$ 0	\$ 0
Debt Securities-Govt Obligations	\$ 323	\$ 0	\$ 0	\$ 323	\$ 0
Debt Securities-Other	\$ 305	\$ 0	\$ 0	\$ 305	\$ 0
Other Securities	\$ 48	\$ 0	\$ 0	\$ 48	\$ 0
Rabbi Trusts: (C)					
Equity Securities-Mutual Funds	\$ 22	\$ 0	\$ 22	\$ 0	\$ 0
Debt Securities-Govt Obligations	\$ 110	\$ 0	\$ 0	\$ 110	\$ 0
Debt Securities-Other	\$ 41	\$ 0	\$ 0	\$ 41	\$ 0
Other Securities	\$ 53	\$ 0	\$ 0	\$ 53	\$ 0
Liabilities:					
Derivative Contracts:					
Energy-Related Contracts (A)	\$ (172)	\$ 40	\$ 0	\$ (194)	\$ (18)
Interest Rate Swaps (B)	\$ (2)	\$ 0	\$ 0	\$ (2)	\$ 0
Non-Recourse Debt (D)	\$ (50)	\$ 0	\$ 0	\$ 0	\$ (50)
Power					
Assets:					
Derivative Contracts:					
Energy-Related Contracts (A)	\$ 237	\$ (88)	\$ 0	\$ 280	\$ 45
NDT Funds: (C)					
Equity Securities	\$ 772	\$ 0	\$ 772	\$ 0	\$ 0
Debt Securities-Govt Obligations	\$ 323	\$ 0	\$ 0	\$ 323	\$ 0
Debt Securities-Other	\$ 305	\$ 0	\$ 0	\$ 305	\$ 0
Other Securities	\$ 48	\$ 0	\$ 0	\$ 48	\$ 0
Rabbi Trusts: (C)					
Equity Securities-Mutual Funds	\$ 4	\$ 0	\$ 4	\$ 0	\$ 0
Debt Securities-Govt Obligations	\$ 22	\$ 0	\$ 0	\$ 22	\$ 0
Debt Securities-Other	\$ 8	\$ 0	\$ 0	\$ 8	\$ 0
Other Securities	\$ 10	\$ 0	\$ 0	\$ 10	\$ 0
Liabilities:					
Derivative Contracts:					
Energy-Related Contracts (A)	\$ (170)	\$ 40	\$ 0	\$ (194)	\$ (16)
PSE&G					
Assets:					
Derivative Contracts:					
Energy-Related Contracts (A)	\$ 34	\$ 0	\$ 0	\$ 0	\$ 34
Rabbi Trusts: (C)					
Equity Securities-Mutual Funds	\$ 7	\$ 0	\$ 7	\$ 0	\$ 0
Debt Securities-Govt Obligations	\$ 36	\$ 0	\$ 0	\$ 36	\$ 0
Debt Securities-Other	\$ 14	\$ 0	\$ 0	\$ 14	\$ 0

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Other Securities	\$ 18	\$ 0	\$ 0	\$ 18	\$ 0
Liabilities:					
Derivative Contracts:					
Energy-Related Contracts (A)	\$ (2)	\$ 0	\$ 0	\$ 0	\$ (2)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**(UNAUDITED)****Recurring Fair Value Measurements as of December 31, 2011**

Description	Total	Cash Collateral Netting (E)	Quoted Market Prices of Identical Assets (Level 1) Millions	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
PSEG					
Assets:					
Derivative Contracts:					
Energy-Related Contracts (A)	\$ 198	\$ (100)	\$ 0	\$ 257	\$ 41
Interest Rate Swaps (B)	\$ 64	\$ 0	\$ 0	\$ 64	\$ 0
NDT Funds: (C)					
Equity Securities	\$ 685	\$ 0	\$ 685	\$ 0	\$ 0
Debt Securities-Govt Obligations	\$ 359	\$ 0	\$ 0	\$ 359	\$ 0
Debt Securities-Other	\$ 281	\$ 0	\$ 0	\$ 281	\$ 0
Other Securities	\$ 24	\$ 0	\$ 0	\$ 24	\$ 0
Rabbi Trusts-Mutual Funds (C)	\$ 172	\$ 0	\$ 19	\$ 153	\$ 0
Liabilities:					
Derivative Contracts:					
Energy-Related Contracts (A)	\$ (155)	\$ 18	\$ 0	\$ (153)	\$ (20)
Interest Rate Swaps (B)	\$ (2)	\$ 0	\$ 0	\$ (2)	\$ 0
Non-Recourse Debt (D)	\$ (50)	\$ 0	\$ 0	\$ 0	\$ (50)
Power					
Assets:					
Derivative Contracts:					
Energy-Related Contracts (A)	\$ 194	\$ (100)	\$ 0	\$ 257	\$ 37
NDT Funds: (C)					
Equity Securities	\$ 685	\$ 0	\$ 685	\$ 0	\$ 0
Debt Securities-Govt Obligations	\$ 359	\$ 0	\$ 0	\$ 359	\$ 0
Debt Securities-Other	\$ 281	\$ 0	\$ 0	\$ 281	\$ 0
Other Securities	\$ 24	\$ 0	\$ 0	\$ 24	\$ 0
Rabbi Trusts-Mutual Funds (C)	\$ 33	\$ 0	\$ 4	\$ 29	\$ 0
Liabilities:					
Derivative Contracts:					
Energy-Related Contracts (A)	\$ (148)	\$ 18	\$ 0	\$ (153)	\$ (13)
PSE&G					
Assets:					
Derivative Contracts:					
Energy-Related Contracts (A)	\$ 4	\$ 0	\$ 0	\$ 0	\$ 4
Rabbi Trusts-Mutual Funds (C)	\$ 57	\$ 0	\$ 6	\$ 51	\$ 0
Liabilities:					
Derivative Contracts:					
Energy-Related Contracts (A)	\$ (7)	\$ 0	\$ 0	\$ 0	\$ (7)

(A) Level 2 Fair values for energy-related contracts are obtained primarily using a market-based approach. Most derivative contracts (forward purchase or sale contracts and swaps) are valued using the average of the bid/ask midpoints from multiple broker or dealer quotes or auction prices. Prices used in the

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valuation process are also corroborated independently by management to determine that values are based on actual transaction data or, in the absence of transactions, bid and offers for the day. Examples may include certain exchange and non-exchange traded capacity and electricity contracts and natural gas physical or swap contracts based on market prices, basis adjustments and other premiums where adjustments and premiums are not considered significant to the overall inputs.

Level 3 For energy-related contracts, which include more complex agreements where limited observable inputs or pricing information are available, modeling techniques are employed using assumptions reflective of contractual terms, current market rates, forward price curves, discount rates and risk factors, as applicable. Fair values of other energy contracts may be based on broker quotes that we cannot corroborate with actual market transaction data.

(B) Interest rate swaps are valued using quoted prices on commonly quoted intervals, which are interpolated for periods different than the quoted intervals, as inputs to a market valuation model. Market inputs can generally be verified and model selection does not involve significant management judgment.

(C) The fair value measurements table excludes cash of \$1 million which is part of the NDT Fund. The NDT Fund maintains investments in various equity and fixed income securities classified as available for sale. The Rabbi Trust maintains investments in an S&P 500 index fund and various fixed income securities classified as available for sale. These securities are generally valued with prices that are either exchange provided (equity securities) or market transactions for comparable securities and/or broker quotes (fixed income securities).

Level 1 Investments in marketable equity securities within the NDT Fund are primarily investments in common stocks across a broad range of industries and sectors. Most equity securities are priced utilizing the principal market close price or, in some cases, midpoint, bid or ask price (primarily Level 1). The Rabbi Trust equity index fund is valued based on quoted prices in an active market (Level 1).

Level 2 NDT and Rabbi Trust fixed income securities are limited to investment grade corporate bonds and United States Treasury obligations or Federal Agency mortgage-backed securities with a wide range of maturities. Since many fixed income securities do not trade on a daily basis, they are priced using an evaluated pricing methodology that varies by asset class and reflects observable market information such as the most recent exchange price or quoted bid for similar securities. Market-based standard inputs typically include benchmark yields, reported trades, broker/dealer quotes, and issuer spreads (primarily Level 2). Short-term investments and certain commingled temporary investments are valued using observable market prices or market parameters such as time-to-maturity, coupon rate, quality rating and current yield (primarily Level 2).

(D) For Non-Recourse Debt, see Fair Value Option below.

(E) Cash collateral netting represents collateral amounts netted against derivative assets and liabilities as permitted under the accounting guidance for Offsetting of Amounts Related to Certain Contracts.

Additional Information Regarding Level 3 Measurements

For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivatives valued using indicative price quotations for contracts with tenors that extend into periods with no observable pricing. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 because the model inputs generally are not observable. PSEG's Risk Management Committee approves risk management

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policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures. The Risk Management Committee reports to the Audit Committee of the PSEG Board of Directors on the scope of the risk management activities and is responsible for approving all valuation procedures at PSEG. Forward price curves for the power market utilized by PSEG Energy Resources & Trade LLC (ER&T) s traders to manage the portfolio are maintained and reviewed by PSEG s Enterprise Risk Management market pricing group, and used for financial reporting purposes. PSEG considers credit and nonperformance risk in the valuation of derivative contracts categorized in Levels 2 and 3, including both historical and current market data, in its assessment of credit and nonperformance risk by counterparty. The impacts of credit and nonperformance risk were not material to the financial statements.

Disclosed below is detail surrounding our significant Level 3 valuations, of which the most significant positions are electric swaps for Power and long-term natural gas supply contracts for PSE&G. For Power, in general, electric swaps are valued based on at least two pricing inputs, basis and underlying. To the extent the basis component is based on a single broker quote and is significant to the fair value of the electric swap, it is categorized as Level 3. The remaining balance of Power s Level 3 positions consist primarily of certain long-dated capacity contracts, electric load deals in which load consumption may change hourly and certain long-term natural gas supply contracts. Long-dated capacity contracts are fair valued using auction prices. If the fair value for the unobservable tenor is significant, then the entire capacity contract is categorized as Level 3. Electric load deals are fair valued using certain unobservable inputs, such as historic load variability. For Power and PSE&G, long-term gas supply contracts are valued using both actively traded pricing points as well as unobservable inputs such as gas prices beyond observable periods and longer term basis quotes and accordingly, the fair value measurements are classified in Level 3.

The table below discloses the significant unobservable inputs used in developing the fair value of these Level 3 positions:

Quantitative Information About Level 3 Fair Value Measurements

Commodity	Level 3 Position	Fair Value as of March 31, 2012 Assets (Liabilities) Millions		Valuation Technique(s)	Significant Unobservable Input	Range
Power						
Electricity	Electric Swaps	\$ 40	\$ (15)	Discounted cash flow	Power Basis	\$0 -\$10/MWh
Electricity	Electric Load Deals	4	0	Discounted cash flow	Historic Load Variability	-20% +20%
Other	Various (A)	1	(1)			
Total Power		\$ 45	\$ (16)			
PSE&G						
Natural Gas	Long-Term Gas Supply	\$ 34	\$ (2)	Discounted cash flow	Longer-Term Basis	\$0-\$2/MMBTU
Total PSE&G		\$ 34	\$ (2)			
PSEG						
Non-Recourse Debt		\$ 0	\$ (50)	Discounted cash flow	Underlying Collateral	See Fair Value Option below.
Total PSEG		\$ 79	\$ (68)			

(A) Includes long-dated electric capacity and long-term gas supply positions which are immaterial.

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The significant unobservable inputs listed above would have a direct impact on the fair values of the above Level 3 instruments if they were adjusted. For energy-related contracts in cases where Power and PSE&G are sellers, an increase in either the power basis or the load variability or the longer-term basis amounts would decrease the fair value.

A reconciliation of the beginning and ending balances of Level 3 derivative contracts and securities for the three months ended March 31, 2012 and 2011 follows:

Changes in Level 3 Assets and (Liabilities) Measured at Fair Value on a Recurring Basis

for the Three Months Ended March 31, 2012

Description	Total Gains or (Losses) Realized/Unrealized							Balance as of March 31, 2012
	Balance as of January 1, 2012	Included in Income (A)	Included in Regulatory Assets/ Liabilities (B)	Purchases, (Sales) (C)	(Issuances) Settlements (D)	Transfers In (Out) (E)		
PSEG								
Net Derivative Assets	\$ 21	\$ 34	\$ 35	\$ 0	\$ (29)	\$ 0	\$ 61	
Non-Recourse Debt	\$ (50)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (50)	
Power								
Net Derivative Assets	\$ 24	\$ 34	\$ 0	\$ 0	\$ (29)	\$ 0	\$ 29	
PSE&G								
Net Derivative Assets (Liabilities)	\$ (3)	\$ 0	\$ 35	\$ 0	\$ 0	\$ 0	\$ 32	

Changes in Level 3 Assets and (Liabilities) Measured at Fair Value on a Recurring Basis

for the Three Months Ended March 31, 2011

Description	Total Gains or (Losses) Realized/Unrealized							Balance as of March 31, 2011
	Balance as of January 1, 2011	Included in Income (A)	Included in Regulatory Assets/ Liabilities (B)	Purchases, (Sales) (C)	Issuances (Settlements) (D)	Transfers In (Out) (E)		
PSEG								
Net Derivative Assets	\$ 47	\$ (31)	\$ (10)	\$ 18	\$ (22)	\$ 0	\$ 2	
NDT Funds	\$ 8	\$ 0	\$ 0	\$ 0	\$ 0	\$ (8)	\$ 0	
Net Derivative Assets (Liabilities)	\$ 42	\$ (31)	\$ 0	\$ 18	\$ (22)	\$ 0	\$ 7	
NDT Funds	\$ 8	\$ 0	\$ 0	\$ 0	\$ 0	\$ (8)	\$ 0	
PSE&G								
Net Derivative Assets (Liabilities)	\$ 5	\$ 0	\$ (10)	\$ 0	\$ 0	\$ 0	\$ (5)	

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- (A) PSEG's and Power's gains and losses are mainly attributable to changes in net derivative assets and liabilities of which \$34 million and \$(33) million are included in Operating Income in 2012 and 2011, respectively, and \$(1) million is included in OCI and \$3 million is included in Income from Discontinued Operations in 2011. Of the \$34 million in Operating Income in 2012, \$5 million is unrealized. Of the \$(33) million in Operating Income in 2011, \$(32) million is unrealized.
- (B) Mainly includes gains/losses on PSE&G's derivative contracts that are not included in either earnings or OCI, as they are deferred as a Regulatory Asset/Liability and are expected to be recovered from/returned to PSE&G's customers.
- (C) Represents \$18 million in purchases in 2011.

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- (D) Represents \$(29) million in settlements in 2012. Includes \$(11) million in issuances and \$(11) million in settlements in 2011.
- (E) There were no transfers among levels during the three months ended March 31, 2012. During the three months ended March 31, 2011, \$8 million of assets in the NDT fund were transferred from Level 3 to Level 2, due to more observable pricing for the underlying securities. As per PSEG's policy, this transfer was recognized as of the beginning of the quarter. As of March 31, 2012, PSEG carried \$1.8 billion of net assets that are measured at fair value on a recurring basis, of which \$11 million of net assets were measured using unobservable inputs and classified as Level 3 within the fair value hierarchy. These Level 3 net assets represent less than 1% of PSEG's total assets.

As of March 31, 2011, PSEG carried \$1.7 billion of net assets that are measured at fair value on a recurring basis, of which \$2 million were measured using unobservable inputs and classified as Level 3 within the fair value hierarchy. These Level 3 net assets represent less than 1% of PSEG's total assets.

Fair Value Option

As of December 31, 2011, the effective date of the Dynegy lease rejections, the leases of the Roseton and Danskammer generation facilities were effectively terminated and no longer qualified for leveraged lease accounting under the guidance for leases. As the owner of the facilities, Energy Holdings was required to recognize the underlying assets and nonrecourse notes payable (Notes Payable) associated with these leases at their respective fair values on the effective date of the rejection. Energy Holdings has elected to record the Notes Payable at fair value each reporting period under the fair value option in accordance with guidance for Financial Instruments. The fair value option permits the irrevocable fair value election for selected eligible financial assets or liabilities. Any changes in the fair value of the Notes Payable will be included in earnings each period. The \$550 million of contractual principal outstanding on the Notes Payable is valued at \$50 million as of March 31, 2012 and December 31, 2011. Energy Holdings elected this option to eliminate certain complexities in applying the effective interest method of amortization given the uncertain payment streams between the election date and the expected foreclosure date. There were no other debt instruments of this type eligible for the fair value option as of March 31, 2012 or December 31, 2011. The \$50 million fair value of these Notes Payable is included on PSEG's Condensed Consolidated Balance Sheet as of March 31, 2012 and December 31, 2011. The fair values of the Notes Payable include significant internal assumptions based on expected cash flows and the fair values of the underlying collateral. Changes to projected capacity factors, capacity and energy prices, fuel costs and other required cash outflows could significantly impact the fair value of the collateral which would increase or decrease the fair value of the Notes. These Notes Payable are classified as Level 3 in the fair value hierarchy as a result of mainly unobservable inputs.

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Fair Value of Debt

The estimated fair values were determined using the market quotations or values of instruments with similar terms, credit ratings, remaining maturities and redemptions as of March 31, 2012 and December 31, 2011.

	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Millions			
Long-Term Debt:				
PSEG (Parent) (A)	\$ 38	\$ 60	\$ 39	\$ 62
Power-Recourse Debt (B)	2,685	3,092	2,751	3,158
PSE&G (B)	4,271	4,875	4,270	4,905
Transition Funding (PSE&G) (B)	845	954	895	1,016
Transition Funding II (PSE&G) (B)	44	47	44	47
Energy Holdings:				
Project Level, Non-Recourse Debt (C)	95	95	95	95
Total Long-term Debt	\$ 7,978	\$ 9,123	\$ 8,094	\$ 9,283

- (A) Fair value represents net offsets to debt resulting from adjustments from interest rate swaps entered into to hedge certain debt at Power and the unamortized premium resulting from a debt exchange entered into between Power and Energy Holdings.
- (B) The debt fair valuation is based on the present value of each bond's future cash flows. The discount rates used in the present value analysis are based on an estimate of new issue bond yields across the treasury curve. When a bond has embedded options, an interest rate model is used to reflect the impact of interest rate volatility into the analysis. (primarily Level 2 measurements).
- (C) Fair value amounts include \$50 million of non-recourse project debt related to Dynegy which is classified as a Level 3 measurement. See Fair Value Option above for more details on Dynegy debt. Non-recourse project debt of \$45 million is valued as equivalent to the amortized cost and is classified as a Level 3 measurement.

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Note 12. Other Income and Deductions

Other Income	Power	PSE&G	Other (A) Millions	Consolidated Total
Three Months Ended March 31, 2012				
NDT Fund Gains, Interest, Dividend and Other Income	\$ 28	\$ 0	\$ 0	\$ 28
Solar Loan Interest	0	4	0	4
Other	2	7	3	12
Total Other Income	\$ 30	\$ 11	\$ 3	\$ 44
Three Months Ended March 31, 2011				
NDT Fund Gains, Interest, Dividend and Other Income	\$ 69	\$ 0	\$ 0	\$ 69
Solar Loan Interest	0	2	0	2
Other	1	3	1	5
Total Other Income	\$ 70	\$ 5	\$ 1	\$ 76
Other Deductions	Power	PSE&G	Other (A) Millions	Consolidated Total
Three Months Ended March 31, 2012				
NDT Fund Realized Losses and Expenses	\$ 8	\$ 0	\$ 0	\$ 8
Other	7	1	0	8
Total Other Deductions	\$ 15	\$ 1	\$ 0	\$ 16
Three Months Ended March 31, 2011				
NDT Fund Realized Losses and Expenses	\$ 9	\$ 0	\$ 0	\$ 9
Other	3	1	0	4
Total Other Deductions	\$ 12	\$ 1	\$ 0	\$ 13

(A) Other primarily consists of activity at PSEG (as parent company), Energy Holdings, Services and intercompany eliminations.

Note 13. Income Taxes

PSEG's, Power's and PSE&G's effective tax rates for the three months ended March 31, 2012 and 2011 were as follows:

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	Three Months Ended	
	March 31,	
	2012	2011
PSEG	30.1%	41.6%
Power	39.8%	41.1%
PSE&G	29.4%	40.5%

For the quarter ended March 31, 2012, the decrease in PSEG's and PSE&G's effective tax rate was due primarily to the settlement with the IRS in regard to leveraged leases (See Note 8. Commitments and Contingent Liabilities) and the federal audits for tax years 1997 through 2006 (see below). The decrease in

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Power's effective tax rate was due primarily to a reduction in NDT taxes which was partially offset by a reduction in the IRC section 199 deduction for domestic production activities.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, enacted December 17, 2010, included a provision making qualified property placed into service after September 8, 2010 and before January 1, 2012, eligible for 100% bonus depreciation for tax purposes. In addition, qualified property placed into service in 2012 will be eligible for 50% bonus depreciation for tax purposes. These provisions have generated cash for PSEG through tax benefits related to the accelerated depreciation in 2011 and will for 2012. These tax benefits would have otherwise been received over an estimated average 20 year period.

PSE&G has accrued \$7 million of Investment Tax Credits (ITC) associated with alternative energy projects in the first quarter of 2012. Prior to 2012, the law provided an option to claim either a grant or the ITC. For years prior to 2012, the ITC had been accounted for as a reduction of the book basis of the related assets as opposed to being recorded in tax expense. As the grant program expired at the end of 2011, ITC for 2012 has been accounted for as an accumulated deferred investment credit on the balance sheet which is amortized as a reduction of tax expense over the life of the related project.

PSEG's unrecognized tax benefits decreased by approximately \$559 million in the first quarter 2012, primarily attributable to PSEG. This decrease was primarily due to the settlement with the IRS, in the amount of \$387 million, of the leasing issue (See Note 8. Commitments and Contingent Liabilities) and the federal audits for tax years 1997 through 2006 (see below). The remaining unrecognized tax benefit of \$172 million represents a decrease of prior period positions. As a result, as of March 31, 2012, there is no material increase or decrease in unrecognized tax benefits that is reasonably possible to occur within the next twelve months. The interest and penalties associated with the decrease in the uncertain tax position was \$352 million. The impact on the accumulated deferred income taxes and regulatory asset associated with the unrecognized tax benefit decrease is \$240 million. The change in the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$319 million.

On June 26, 2009, September 15, 2008 and December 17, 2007, PSEG made tax deposits with the IRS in the amounts of \$140 million, \$80 million and \$100 million, respectively, to defray potential interest costs associated with disputed tax assessments associated with certain lease investments (see Note 8. Commitments and Contingent Liabilities). On January 31, 2012, PSEG signed a specific matter closing agreement with the IRS regarding this matter. Based on this agreement, these deposits will be applied against tax and interest due pursuant to the closing agreement. Further, on the same date, PSEG signed a Form 870-AD settlement agreement covering all audit issues for tax years 1997 through 2003. On March 26, 2012, PSEG executed a Form 870-AD settlement agreement covering all audit issues for tax years 2004 through 2006. These two agreements conclude ten years of audits for PSEG and the leasing issue for all tax years. The financial statement impacts of these agreements, net of existing financial statement reserves, is a net decrease in tax expense of approximately \$70 million for PSEG, including \$30 million and \$1 million for PSE&G and Power, respectively.

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Note 14. Accumulated Other Comprehensive Income (Loss), Net of Tax

	Balance as of	Other Comprehensive Income (Loss) for the Three Months Ended			Balance as of
	December 31, 2011	Power	PSE&G	Other	March 31, 2012
			Millions		
Derivative Contracts	\$ 31	\$ 0	\$ 0	\$ 0	\$ 31
Pension and OPEB Plans	(438)	7	0	0	(431)
NDT Funds	66	38	0	0	104
Other	4	(1)	(1)	1	3
Accumulated Other Comprehensive Income (Loss)	\$ (337)	\$ 44	\$ (1)	\$ 1	\$ (293)

	Balance as of	Other Comprehensive Income (Loss) for the Three Months Ended			Balance as of
	December 31, 2010	Power	PSE&G	Other	March 31, 2011
			Millions		
Derivative Contracts	\$ 111	\$ (32)	\$ 0	\$ 0	\$ 79
Pension and OPEB Plans	(377)	6	0	0	(371)
NDT Funds	109	(7)	0	0	102
Other	1	0	1	1	3
Accumulated Other Comprehensive Income (Loss)	\$ (156)	\$ (33)	\$ 1	\$ 1	\$ (187)

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Note 15. Earnings Per Share (EPS) and Dividends

Diluted EPS is calculated by dividing Net Income by the weighted average number of shares of common stock outstanding, including shares issuable upon exercise of stock options outstanding or vesting of restricted stock awards granted under our stock compensation plans and upon payment of performance units or restricted stock units. The following table shows the effect of these stock options, performance units and restricted stock units on the weighted average number of shares outstanding used in calculating diluted EPS:

	Three Months Ended March 31,			
	2012		2011	
	Basic	Diluted	Basic	Diluted
EPS Numerator: (Millions)				
Continuing Operations	\$ 493	\$ 493	\$ 462	\$ 462
Discontinued Operations	0	0	64	64
Net Income	\$ 493	\$ 493	\$ 526	\$ 526
EPS Denominator: (Thousands)				
Weighted Average Common Shares Outstanding	506,010	506,010	505,979	505,979
Effect of Stock Based Compensation Awards	0	1,019	0	1,153
Total Shares	506,010	507,029	505,979	507,132
EPS:				
Continuing Operations	\$ 0.97	\$ 0.97	\$ 0.91	\$ 0.91
Discontinued Operations	0.00	0.00	0.13	0.13
Net Income	\$ 0.97	\$ 0.97	\$ 1.04	\$ 1.04

	Three Months Ended March 31,	
	2012	2011
Dividend Payments on Common Stock		
Per Share	\$ 0.3550	\$ 0.3425
in Millions	\$ 179	\$ 173

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Note 16. Financial Information by Business Segments

	Power	PSE&G	Energy Holdings Millions	Other (A)	Consolidated
Three Months Ended March 31, 2012					
Operating Revenues	\$ 1,561	\$ 1,939	\$ 20	\$ (645)	\$ 2,875
Income (Loss) From Continuing Operations	253	197	40	3	493
Net Income (Loss)	253	197	40	3	493
Segment Earnings (Loss)	253	197	40	3	493
Gross Additions to Long-Lived Assets	237	435	11	4	687
Three Months Ended March 31, 2011					
Operating Revenues	\$ 1,967	\$ 2,306	\$ 20	\$ (939)	\$ 3,354
Income (Loss) From Continuing Operations	298	163	(3)	4	462
Income (Loss) from Discontinued Operations, net of tax	64	0	0	0	64
Net Income (Loss)	362	163	(3)	4	526
Segment Earnings (Loss)	362	163	(3)	4	526
Gross Additions to Long-Lived Assets	155	339	1	2	497
As of March 31, 2012					
Total Assets	\$ 11,089	\$ 17,514	\$ 1,945	\$ (546)	\$ 30,002
Investments in Equity Method Subsidiaries	\$ 39	\$ 0	\$ 104	\$ 0	\$ 143
As of December 31, 2011					
Total Assets	\$ 11,087	\$ 17,487	\$ 1,888	\$ (641)	\$ 29,821
Investments in Equity Method Subsidiaries	\$ 31	\$ 0	\$ 106	\$ 0	\$ 137

- (A) Other activities include amounts applicable to PSEG (as parent company), Services and intercompany eliminations, primarily relating to intercompany transactions between Power and PSE&G. No gains or losses are recorded on any intercompany transactions; rather, all intercompany transactions are priced in accordance with applicable regulations, including affiliate pricing rules, or at cost or, in the case of the BGS and BGSS contracts between Power and PSE&G, at rates prescribed by the BPU. For a further discussion of the intercompany transactions between Power and PSE&G, see Note 17. Related-Party Transactions.

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Note 17. Related-Party Transactions

The following discussion relates to intercompany transactions, the majority of which are eliminated during the PSEG consolidation process in accordance with GAAP.

Power

The financial statements for Power include transactions with related parties presented as follows:

Related Party Transactions	Three Months Ended March 31,	
	2012	2011
	Millions	
Revenue from Affiliates:		
Billings to PSE&G through BGSS (A)	\$ 451	\$ 698
Billings to PSE&G through BGS (A)	189	233
Total Revenue from Affiliates	\$ 640	\$ 931
Expense Billings from Affiliates:		
Administrative Billings from Services (B)	\$ (34)	\$ (37)
Total Expense Billings from Affiliates	\$ (34)	\$ (37)

Related Party Transactions	As of March 31, 2012	As of December 31, 2011
	Millions	
Receivables from PSE&G through BGS and BGSS Contracts (A)	\$ 163	\$ 247
Receivables from PSE&G Related to Gas Supply Hedges for BGSS (A)	116	109
Receivable from (Payable to) Services (B)	(21)	(26)
Tax Receivable from (Payable to) PSEG (C)	(8)	58
Receivable from (Payable to) PSEG	(7)	(7)
Accounts Receivable Affiliated Companies, net	\$ 243	\$ 381
Short-Term Loan to Affiliate (Demand Note to PSEG) (D)	\$ 1,035	\$ 907
Working Capital Advances to Services (E)	\$ 17	\$ 17
Long-Term Accrued Taxes Receivable (Payable) (C)	\$ (52)	\$ (8)

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PSE&G

The financial statements for PSE&G include transactions with related parties presented as follows:

Related Party Transactions	Three Months Ended March 31,	
	2012	2011
	Millions	
Expense Billings from Affiliates:		
Billings From Power through BGSS (A)	\$ (451)	\$ (698)
Billings From Power through BGS (A)	(189)	(233)
Administrative Billings from Services (B)	(50)	(51)
Total Expense Billings from Affiliates	\$ (690)	\$ (982)

Related Party Transactions	As of	As of
	March 31, 2012	December 31, 2011
	Millions	
Payable to Power through BGS and BGSS Contracts (A)	\$ (163)	\$ (247)
Payable to Power Related to Gas Supply Hedges for BGSS (A)	(116)	(109)
Payable to Power for SREC Liability (F)	(7)	(7)
Receivable from (Payable to) Services (B)	(41)	(56)
Tax Receivable from (Payable to) PSEG (C)	42	131
Receivable from PSEG	5	8
Accounts Payable Affiliated Companies, net	\$ (280)	\$ (280)
Working Capital Advances to Services (E)	\$ 33	\$ 33
Long-Term Accrued Taxes Receivable (Payable) (C)	\$ (23)	\$ (83)

- (A) PSE&G has entered into a requirements contract with Power under which Power provided the gas supply services needed to meet PSE&G's BGSS and other contractual requirements through March 31, 2012 and continues subsequently on a year-to-year basis. Power has also entered into contracts to supply energy, capacity and ancillary services to PSE&G through the BGS auction process.
- (B) Services provides and bills administrative services to Power and PSE&G at cost. In addition, Power and PSE&G have other payables to Services, including amounts related to certain common costs, such as pension and OPEB costs, which Services pays on behalf of each of the operating companies.
- (C) PSEG files a consolidated federal income tax return with its affiliated companies. A tax allocation agreement exists between PSEG and each of its affiliated companies. The general operation of these agreements is that the subsidiary company will compute its taxable

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income on a stand-alone basis. If the result is a net tax liability, such amount shall be paid to PSEG. If there are net operating losses and/or tax credits, the subsidiary shall receive payment for the tax savings from PSEG to the extent that PSEG is able to utilize those benefits.

- (D) Power's short-term loans with PSEG are for working capital and other short-term needs. Interest Income and Interest Expense relating to these short-term funding activities were immaterial.

- (E) Power and PSE&G have advanced working capital to Services. The amounts are included in Other Noncurrent Assets on Power's and PSE&G's Condensed Consolidated Balance Sheets.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

- (F) In 2008, the BPU issued a decision that certain BGS suppliers will be reimbursed for the cost they incurred above \$300 per Solar Renewable Energy Certificate (SREC) during the period June 1, 2008 through May 31, 2010. The BPU order further provided that the excess cost may be passed on to ratepayers. Following an appeal, on March 10, 2011, the New Jersey Supreme Court reversed and remanded the BPU's 2008 order. The Court did not rule on the substantive issue of whether the pass-through of SREC costs was appropriate. The BPU subsequently held a legislative hearing process to comply with the Court's ruling. On May 1, 2012, the BPU affirmed its earlier order and ruled that BGS suppliers could recover verified SREC expenditures above \$300 per SREC. PSE&G has estimated and accrued a total liability for the excess SREC cost of \$17 million as of March 31, 2012 and December 31, 2011, including approximately \$7 million for Power's share which is included in PSE&G's Accounts Payable - Affiliated Companies as of March 31, 2012 and December 31, 2011. Under current guidance, Power was unable to record the related intercompany receivable on its Condensed Consolidated Balance Sheet. As a result, PSE&G's liability to Power is not eliminated in consolidation and is included in Other Current Liabilities on PSEG's Condensed Consolidated Balance Sheet as of March 31, 2012 and December 31, 2011.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 18. Guarantees of Debt

Each series of Power's Senior Notes, Pollution Control Notes and its syndicated revolving credit facilities are fully and unconditionally and jointly and severally guaranteed by its subsidiaries, PSEG Fossil LLC (Fossil), PSEG Nuclear LLC (Nuclear) and ER&T. The following table presents condensed financial information for the guarantor subsidiaries, as well as Power's non-guarantor subsidiaries.

	Power	Guarantor Subsidiaries	Other Subsidiaries Millions	Consolidating Adjustments	Total
Three Months Ended March 31, 2012					
Operating Revenues	\$ 0	\$ 1,873	\$ 26	\$ (338)	\$ 1,561
Operating Expenses	(2)	1,433	27	(338)	1,120
Operating Income (Loss)	2	440	(1)	0	441
Equity Earnings (Losses) of Subsidiaries	260	(3)	0	(257)	0
Other Income	13	31	0	(14)	30
Other Deductions	(7)	(8)	0	0	(15)
Other-Than-Temporary Impairments	0	(5)	0	0	(5)
Interest Expense	(29)	(10)	(4)	13	(30)
Income Tax Benefit (Expense)	14	(185)	2	1	(168)
Net Income (Loss)	\$ 253	\$ 260	\$ (3)	\$ (257)	\$ 253
Three Months Ended March 31, 2012					
Net Cash Provided By (Used In) Operating Activities	\$ 124	\$ 723	\$ 2	\$ (118)	\$ 731
Net Cash Provided By (Used In) Investing Activities	\$ 242	\$ (656)	\$ (13)	\$ 62	