PSEG POWER LLC
Form 10-Q
August 04, 2008

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

FORM 10-Q

(Mark One)

S **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008**

OR

£ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**

Commission File Number	Registrants, State of Incorporation, Address, and Telephone Number	I.R.S. Employer Identification No.
001-09120	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	22-2625848
000-49614	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) 80 Park Plaza, P.O. Box 570 Newark, New Jersey 07101-0570 973 430-7000 http://www.pseg.com	22-1212800

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 S 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 S	Accelerated filer £	Non-accelerated filer £	Smaller reporting company £
PSEG Power LLC	Large accelerated filer £	Accelerated filer £	Non-accelerated filer S	Smaller reporting company £
Public Service Electric and Gas Company	Large accelerated filer £	Accelerated filer £	Non-accelerated filer S	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 S

As of July 15, 2008, Public Service Enterprise Group Incorporated had outstanding 508,479,889 shares of its sole class of Common Stock, without par value.

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

As of July 15, 2008, 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.

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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, hypothetical, potential, forecast, 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 5. 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 energy industry policies and regulation, including market rules, that may adversely affect our operating results.

Any inability of our energy transmission and distribution businesses to obtain adequate and timely rate relief and/or regulatory approvals from federal and/or state regulators.

Changes in federal and/or state environmental regulations that could increase our costs or limit operations of our generating units.

Changes in nuclear regulation

and/or developments in the nuclear power industry generally that could limit operations of our nuclear generating units.

Actions or activities at one of our nuclear units that might adversely affect our ability to continue to operate that unit or other units at the same site.

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

Any deterioration in our credit quality.

Any inability to realize anticipated tax benefits or retain tax credits.

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

Delays or cost escalations in our construction and development activities.

- Adverse capital market performance of our decommissioning and defined benefit plan trust funds.
- Changes in technology and/or increased customer conservation.

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 only apply as of the date of this report. Except as may be required by the federal securities laws, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to these forward-looking statements to reflect events or circumstances that occur or arise or are anticipated to occur or arise after the date hereof. 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

	For The Quarters Ended June 30,		For The Six Months Ended June 30,	
	2008	2007	2008	2007
	(Millions) (Unaudited)			
OPERATING REVENUES	$ 2,561	$ 2,707	$ 6,364	$ 6,215
OPERATING EXPENSES				
Energy Costs	1,540	1,320	3,664	3,297
Operation and Maintenance	623	578	1,254	1,173
Depreciation and Amortization	193	191	387	383
Taxes Other Than Income Taxes	28	30	71	73
Total Operating Expenses	2,384	2,119	5,376	4,926
Income from Equity Method Investments	8	26	20	53
OPERATING INCOME	185	614	1,008	1,342
Other Income	98	58	191	130
Other Deductions	(87)	(37)	(181)	(73)
Interest Expense	(147)	(182)	(300)	(364)
Preferred Stock Dividends	(1)	(1)	(2)	(2)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	48	452	716	1,033
Income Tax Expense	(214)	(171)	(448)	(431)
(LOSS) INCOME FROM CONTINUING OPERATIONS	(166)	281	268	602
Income (Loss) from Discontinued Operations net of tax (expense) benefit of $(5), $(21), $(11) and $(19) for the quarters and six months ended 2008 and 2007, respectively	16	(6)	30	2
NET (LOSS) INCOME	$ (150)	$ 275	$ 298	$ 604

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (THOUSANDS):								
BASIC		508,491		507,261		508,491		506,526
DILUTED		509,487		508,067		509,483		507,393
EARNINGS PER SHARE:								
BASIC								
(LOSS) INCOME FROM CONTINUING OPERATIONS	$	(0.32)	$	0.55	$	0.53	$	1.19
NET (LOSS) INCOME	$	(0.29)	$	0.54	$	0.59	$	1.19
DILUTED								
(LOSS) INCOME FROM CONTINUING OPERATIONS	$	(0.32)	$	0.55	$	0.53	$	1.19
NET (LOSS) INCOME	$	(0.29)	$	0.54	$	0.59	$	1.19
DIVIDENDS PAID PER SHARE OF COMMON STOCK	$	0.3225	$	0.2925	$	0.6450	$	0.5850

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2008	December 31, 2007
	(Millions) (Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 86	$ 381
Accounts Receivable, net of allowances of $48 and $46 in 2008 and 2007, respectively	1,633	1,552
Unbilled Revenues	317	353
Fuel	839	793
Materials and Supplies	303	296
Prepayments	440	91
Restricted Funds	110	114
Derivative Contracts	389	65
Assets of Discontinued Operations	1,115	1,162
Other	64	29
Total Current Assets	5,296	4,836
PROPERTY, PLANT AND EQUIPMENT	19,982	19,310
Less: Accumulated Depreciation and Amortization	(6,209)	(6,035)
Net Property, Plant and Equipment	13,773	13,275
NONCURRENT ASSETS		
Regulatory Assets	4,870	5,165
Long-Term Investments	2,741	3,246
Nuclear Decommissioning Trust (NDT) Funds	1,178	1,276
Other Special Funds	144	164
Goodwill and Other Intangibles	62	64
Derivative Contracts	61	52
Other	209	221
Total Noncurrent Assets	9,265	10,188
TOTAL ASSETS	$ 28,334	$ 28,299

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2008	December 31, 2007
	(Millions) (Unaudited)	
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$ 835	$ 1,123
Commercial Paper and Loans	919	65
Accounts Payable	1,342	1,093
Derivative Contracts	662	324
Accrued Interest	101	113
Accrued Taxes	13	204
Deferred Income Taxes	95	106
Clean Energy Program	75	135
Obligation to Return Cash Collateral	257	79
Liabilities of Discontinued Operations	484	520
Other	438	458
Total Current Liabilities	5,221	4,220
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	3,275	4,454
Regulatory Liabilities	545	419
Asset Retirement Obligations	560	542
Other Postretirement Benefit (OPEB) Costs	1,014	1,003
Accrued Pension Costs	216	203
Clean Energy Program		14
Environmental Costs	658	649
Derivative Contracts	530	198
Long-Term Accrued Taxes	1,228	423
Other	152	133
Total Noncurrent Liabilities	8,178	8,038
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)		
CAPITALIZATION		
LONG-TERM DEBT		
Long-Term Debt	6,516	6,783

Securitization Debt	1,443	1,530
Project Level, Non-Recourse Debt	322	349
Total Long-Term Debt	8,281	8,662
SUBSIDIARY S PREFERRED SECURITIES		
Preferred Stock Without Mandatory Redemption, $100 par value, 7,500,000 authorized; issued and outstanding, 2008 and 2007 795,234 shares	80	80
COMMON STOCKHOLDERS EQUITY		
Common Stock, no par, authorized 1,000,000,000 shares; issued, 2008 and 2007 533,556,660 shares	4,748	4,732
Treasury Stock, at cost, 2008 25,075,762 shares; 2007 25,033,656 shares	(487)	(478)
Retained Earnings	3,209	3,261
Accumulated Other Comprehensive Loss	(896)	(216)
Total Common Stockholders Equity	6,574	7,299
Total Capitalization	14,935	16,041
TOTAL LIABILITIES AND CAPITALIZATION	$ 28,334	$ 28,299

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Six Months Ended June 30, 2008	2007
	(Millions) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 298	$ 604
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	387	392
Amortization of Nuclear Fuel	48	48
Provision for Deferred Income Taxes (Other than Leases) and ITC	90	124
Non-Cash Employee Benefit Plan Costs	84	93
Lease Transaction Reserves, Net of Taxes	490	
Leveraged Lease Income, Adjusted for Rents Received and Deferred Taxes	(23)	5
Undistributed Earnings from Affiliates	(37)	14
Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	(68)	39
Under Recovery of Electric Energy Costs (BGS and NTC) and Gas Costs	(66)	(74)
Under Recovery of Societal Benefits Charge (SBC)	(12)	(17)
Cost of Removal	(20)	(18)
Net Realized Gains (Losses) and Income (Expense) from NDT Funds	5	(30)
Net Change in Certain Current Assets and Liabilities	(584)	(282)
Employee Benefit Plan Funding and Related Payments	(30)	(39)
Other	62	(75)
Net Cash Provided By Operating Activities	624	784
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(739)	(659)
Proceeds from Sale of Discontinued Operations		325
Proceeds from Sale of Property, Plant and Equipment	2	40
Proceeds from the Sale of Capital Leases and Investments	41	7
Proceeds from NDT Funds Sales	1,257	883
Investment in NDT Funds	(1,271)	(904)
Restricted Funds		22
NDT Funds Interest and Dividends	24	25
Other	(16)	

Net Cash Used In Investing Activities		(702)		(261)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net Change in Commercial Paper and Loans		854		(36)
Issuance of Long-Term Debt		700		350
Issuance of Common Stock				68
Redemptions of Long-Term Debt		(1,263)		(488)
Repayment of Non-Recourse Debt		(22)		(24)
Redemption of Securitization Debt		(82)		(78)
Premium Paid on Early Extinguishment of Debt		(80)		
Cash Dividends Paid on Common Stock		(328)		(296)
Other		3		14
Net Cash Used In Financing Activities		(218)		(490)
Effect of Exchange Rate Change		1		
Net (Decrease) Increase in Cash and Cash Equivalents		(295)		33
Cash and Cash Equivalents at Beginning of Period		381		106
Cash and Cash Equivalents at End of Period	$	86	$	139
Supplemental Disclosure of Cash Flow Information:				
Income Taxes Paid	$	454	$	220
Interest Paid, Net of Amounts Capitalized	$	284	$	361

See Notes to Condensed Consolidated Financial Statements.

PSEG POWER LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For The Quarters Ended June 30, 2008	For The Quarters Ended June 30, 2007	For The Six Months Ended June 30, 2008	For The Six Months Ended June 30, 2007
	(Millions) (Unaudited)			
OPERATING REVENUES	$ 1,623	$ 1,305	$ 3,998	$ 3,454
OPERATING EXPENSES				
Energy Costs	867	694	2,456	2,182
Operation and Maintenance	275	241	514	479
Depreciation and Amortization	41	34	79	68
Total Operating Expenses	1,183	969	3,049	2,729
OPERATING INCOME	440	336	949	725
Other Income	93	55	179	106
Other Deductions	(87)	(34)	(178)	(63)
Interest Expense	(41)	(39)	(83)	(76)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	405	318	867	692
Income Tax Expense	(165)	(131)	(352)	(286)
INCOME FROM CONTINUING OPERATIONS	240	187	515	406
Loss from Discontinued Operations, net of tax benefit of $1 and $6 for the quarter and six months ended 2007		(3)		(9)
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	$ 240	$ 184	$ 515	$ 397

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

PSEG POWER LLC
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2008	December 31, 2007
	(Millions) (Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 17	$ 11
Accounts Receivable	643	533
Accounts Receivable Affiliated Companies, net		441
Fuel	836	791
Materials and Supplies	218	220
Derivative Contracts	368	46
Restricted Funds	37	50
Prepayments	27	26
Other	62	31
Total Current Assets	2,208	2,149
PROPERTY, PLANT AND EQUIPMENT	6,907	6,565
Less: Accumulated Depreciation and Amortization	(1,880)	(1,814)
Net Property, Plant and Equipment	5,027	4,751
NONCURRENT ASSETS		
Deferred Income Taxes and Investment Tax Credits (ITC)	224	
Nuclear Decommissioning Trust (NDT) Funds	1,178	1,276
Goodwill	16	16
Other Intangibles	40	35
Other Special Funds	28	45
Derivative Contracts	30	7
Other	60	57
Total Noncurrent Assets	1,576	1,436
TOTAL ASSETS	$ 8,811	$ 8,336
LIABILITIES AND MEMBER S EQUITY		
CURRENT LIABILITIES		

Long-Term Debt Due Within One Year	$ 250	$
Accounts Payable	826	648
Accounts Payable Affiliated Companies, net	57	
Short-Term Loan from Affiliate	400	238
Derivative Contracts	586	300
Accrued Interest	35	34
Other	153	118
Total Current Liabilities	2,307	1,338
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)		176
Asset Retirement Obligations	321	309
Other Postretirement Benefit (OPEB) Costs	135	129
Derivative Contracts	465	158
Accrued Pension Costs	72	70
Environmental Costs	55	55
Long-Term Accrued Taxes	14	26
Other	23	12
Total Noncurrent Liabilities	1,085	935
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)		
LONG-TERM DEBT		
Total Long-Term Debt	2,653	2,902
MEMBER S EQUITY		
Contributed Capital	2,000	2,000
Basis Adjustment	(986)	(986)
Retained Earnings	2,703	2,438
Accumulated Other Comprehensive Loss	(951)	(291)
Total Member s Equity	2,766	3,161
TOTAL LIABILITIES AND MEMBER S EQUITY	$ 8,811	$ 8,336

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

PSEG POWER LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Six Months Ended June 30, 2008	2007
	(Millions) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 515	$ 397
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	79	68
Amortization of Nuclear Fuel	48	48
Interest Accretion on Asset Retirement Obligations	12	11
Provision for Deferred Income Taxes and ITC	70	174
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	(68)	36
Non-Cash Employee Benefit Plan Costs	12	14
Net Realized Losses (Gains) and Income (Expense) from NDT Funds	5	(30)
Net Change in Working Capital:		
Fuel, Materials and Supplies	(43)	169
Margin Deposit Asset	(389)	(131)
Margin Deposit Liability	14	(4)
Accounts Receivable	(54)	(45)
Accounts Payable	139	(36)
Accounts Receivable/Payable-Affiliated Companies, net	138	147
Other Current Assets and Liabilities	(31)	(12)
Employee Benefit Plan Funding and Related Payments	(1)	(4)
Other	20	(8)
Net Cash Provided By Operating Activities	466	794
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(384)	(323)
Short-Term Loan Affiliated Company, net		(214)
Proceeds from Sale of Discontinued Operations		325
Sales of Property, Plant and Equipment	2	40
Proceeds from NDT Funds Sales	1,257	883
NDT Funds Interest and Dividends	24	25
Investment in NDT Funds	(1,271)	(904)

Restricted Funds		13		
Other		(13)		(4)
Net Cash Used In Investing Activities		(372)		(172)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash Dividend Paid		(250)		(575)
Short-Term Loan Affiliated Company, net		162		(54)
Net Cash Used In Financing Activities		(88)		(629)
Net Increase (Decrease) in Cash and Cash Equivalents		6		(7)
Cash and Cash Equivalents at Beginning of Period		11		13
Cash and Cash Equivalents at End of Period	$	17	$	6
Supplemental Disclosure of Cash Flow Information:				
Income Taxes Paid	$	261	$	74
Interest Paid, Net of Amounts Capitalized	$	80	$	85

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

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For The Quarters Ended June 30, 2008	For The Quarters Ended June 30, 2007	For The Six Months Ended June 30, 2008	For The Six Months Ended June 30, 2007
	(Millions) (Unaudited)			
OPERATING REVENUES	$ 1,858	$ 1,748	$ 4,476	$ 4,234
OPERATING EXPENSES				
Energy Costs	1,213	1,077	3,006	2,742
Operation and Maintenance	320	314	680	639
Depreciation and Amortization	139	143	282	288
Taxes Other Than Income Taxes	27	30	70	73
Total Operating Expenses	1,699	1,564	4,038	3,742
OPERATING INCOME	159	184	438	492
Other Income	2	5	7	10
Other Deductions		(1)	(1)	(2)
Interest Expense	(81)	(84)	(162)	(165)
INCOME BEFORE INCOME TAXES	80	104	282	335
Income Tax Expense	(28)	(41)	(93)	(140)
NET INCOME	52	63	189	195
Preferred Stock Dividends	(1)	(1)	(2)	(2)
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	$ 51	$ 62	$ 187	$ 193

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

	June 30, 2008	December 31, 2007
	(Millions) (Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 33	$ 32
Accounts Receivable, net of allowances of $48 in 2008 and $45 in 2007	902	995
Accounts Receivable Affiliated Companies, net	33	
Unbilled Revenues	317	353
Materials and Supplies	63	53
Prepayments	361	57
Restricted Funds	3	7
Derivative Contracts	1	1
Deferred Income Taxes	42	44
Total Current Assets	1,755	1,542
PROPERTY, PLANT AND EQUIPMENT	11,844	11,531
Less: Accumulated Depreciation and Amortization	(4,005)	(3,920)
Net Property, Plant and Equipment	7,839	7,611
NONCURRENT ASSETS		
Regulatory Assets	4,870	5,165
Long-Term Investments	156	153
Other Special Funds	48	57
Other	106	109
Total Noncurrent Assets	5,180	5,484
TOTAL ASSETS	$ 14,774	$ 14,637

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

	June 30, 2008	December 31, 2007
	(Millions) (Unaudited)	
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$ 493	$ 429
Commercial Paper and Loans	200	65
Accounts Payable	399	325
Accounts Payable Affiliated Companies, net		559
Accrued Interest	58	56
Accrued Taxes	3	29
Clean Energy Program	75	135
Derivative Contracts	31	20
Obligation to Return Cash Collateral	257	79
Other	225	239
Total Current Liabilities	1,741	1,936
NONCURRENT LIABILITIES		
Deferred Income Taxes and ITC	2,508	2,440
Other Postretirement Benefit (OPEB) Costs	824	821
Accrued Pension Costs	65	63
Regulatory Liabilities	545	419
Clean Energy Program		14
Environmental Costs	603	594
Asset Retirement Obligations	236	231
Derivative Contracts	64	36
Long-Term Accrued Taxes	72	75
Other	31	9
Total Noncurrent Liabilities	4,948	4,702
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)		
CAPITALIZATION		
LONG-TERM DEBT		
Long-Term Debt	3,088	3,102
Securitization Debt	1,443	1,530

Total Long-Term Debt	4,531	4,632
PREFERRED SECURITIES		
Preferred Stock Without Mandatory Redemption, $100 par value, 7,500,000 authorized; issued and outstanding, 2008 and 2007 795,234 shares	80	80
COMMON STOCKHOLDER S EQUITY		
Common Stock; 150,000,000 shares authorized; issued and outstanding, 2008 and 2007 132,450,344 shares	892	892
Contributed Capital	170	170
Basis Adjustment	986	986
Retained Earnings	1,424	1,237
Accumulated Other Comprehensive Income	2	2
Total Common Stockholder s Equity	3,474	3,287
Total Capitalization	8,085	7,999
TOTAL LIABILITIES AND CAPITALIZATION	$ 14,774	$ 14,637

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

	For The Six Months Ended June 30, 2008	2007
	(Millions) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 189	$ 195
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	282	288
Provision for Deferred Income Taxes and ITC	23	(32)
Non-Cash Employee Benefit Plan Costs	65	70
Non-Cash Interest Expense	6	4
Cost of Removal	(20)	(18)
Under Recovery of Electric Energy Costs (BGS and NTC)	(12)	(23)
Under Recovery of Gas Costs	(54)	(51)
Under Recovery of SBC	(12)	(17)
Net Changes in Certain Current Assets and Liabilities:		
Accounts Receivable and Unbilled Revenues	128	12
Materials and Supplies	(10)	(12)
Prepayments	(304)	(328)
Accrued Taxes	(26)	
Accounts Payable	74	99
Accounts Receivable/Payable-Affiliated Companies, net	(191)	(172)
Obligation to Return Cash Collateral	178	8
Other Current Assets and Liabilities	(6)	(35)
Employee Benefit Plan Funding and Related Payments	(28)	(30)
Other		(75)
Net Cash Provided By (Used In) Operating Activities	282	(117)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(345)	(296)
Net Cash Used In Investing Activities	(345)	(296)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Short-Term Debt	135	264

Issuance of Long-Term Debt	700	350
Redemption of Long-Term Debt	(651)	(113)
Redemption of Securitization Debt	(82)	(78)
Deferred Issuance Costs	(4)	(3)
Premium Paid on Early Retirement of Debt	(32)	
Preferred Stock Dividends	(2)	(2)
Net Cash Provided By Financing Activities	64	418
Net Increase In Cash and Cash Equivalents	1	5
Cash and Cash Equivalents at Beginning of Period	32	28
Cash and Cash Equivalents at End of Period	$ 33	$ 33
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid	$ 40	$ 203
Interest Paid, Net of Amounts Capitalized	$ 155	$ 157

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

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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 contained herein relating to any individual company is filed by such company on its own behalf. Power and PSE&G each make representations only as to itself and make no representations as to any other company.

Note 1. Organization and Basis of Presentation

Organization

PSEG

PSEG has four principal direct wholly owned subsidiaries: Power, PSE&G, PSEG Energy Holdings L.L.C. (Energy Holdings) and PSEG Services Corporation (Services).

Power

Power 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 function through three principal direct wholly owned subsidiaries: PSEG Nuclear LLC (Nuclear), PSEG Fossil LLC (Fossil) and PSEG Energy Resources & Trade LLC (ER&T). Nuclear and Fossil own and operate generation and generation-related facilities. ER&T is responsible for day-to-day management of Power s portfolio. Fossil, Nuclear and ER&T are subject to regulation by the Federal Energy Regulatory Commission (FERC) and Nuclear is also subject to regulation by the Nuclear Regulatory Commission (NRC).

PSE&G

PSE&G is an operating public utility engaged principally in the transmission of electric energy and distribution of electric energy 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 Transition Funding LLC (Transition Funding) and PSE&G Transition Funding II LLC (Transition Funding II), are wholly owned, bankruptcy-remote subsidiaries of PSE&G that purchased certain transition properties from PSE&G and issued transition bonds secured by such properties. The transition properties consist principally of the statutory rights to receive electricity consumption-based per kilowatt-hour (kWh) charges from PSE&G electric distribution customers, which represent irrevocable rights to receive amounts sufficient to recover certain of PSE&G s transition costs related to deregulation, as approved by the BPU.

Energy Holdings

Energy Holdings has two principal direct wholly owned subsidiaries: PSEG Global L.L.C. (Global), which primarily owns and operates domestic projects engaged in generation of energy and PSEG Resources L.L.C. (Resources), which has invested primarily in energy-related leveraged leases. Energy Holdings also owns Enterprise Group Development Corporation (EGDC), a commercial real estate property management business.

Global has reduced its international risk by monetizing the majority of its international investments. In July 2008, Global closed on the sale of its largest remaining international investment in the SAESA Group. For additional information, see Note 3. Discontinued Operations and Dispositions. Global s remaining international investments in Italy, Venezuela and India had a total net book value of $122 million as of June 30, 2008.

Services

Services provides management and administrative and general services to PSEG and its subsidiaries. These include accounting, treasury, financial risk management, law, tax, planning, information technology,

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investor relations and certain other services. Services charges PSEG and its subsidiaries for the cost of work performed and services provided pursuant to intercompany service agreements.

Basis of Presentation

PSEG, Power and PSE&G

The respective financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for 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, PSEG s, Power s and PSE&G s respective Annual Reports on Form 10-K for the year ended December 31, 2007 and Quarterly Reports on Form 10-Q for the quarter ended March 31, 2008.

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. 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, 2007.

Reclassifications

PSEG and Power

Certain reclassifications have been made to the prior period financial statements to conform to the 2008 presentation. In accordance with a new policy established in the first quarter of 2008, Power has adjusted its Condensed Consolidated Balance Sheet as of December 31, 2007 to net the fair value of cash collateral receivables and payables with the corresponding net derivative balances. See Note 2. Recent Accounting Standards for additional information. In addition, operating results for the SAESA Group were reclassified to Income from Discontinued Operations on the Condensed Consolidated Statements of Operations of PSEG for the quarter and six months ended June 30, 2007. See Note 3. Discontinued Operations and Dispositions.

Note 2. Recent Accounting Standards

The following accounting standards were issued by the Financial Accounting Standards Board (FASB), but have not yet been adopted by PSEG, Power or PSE&G.

Statement of Financial Accounting Standards (SFAS) No. 141 (revised 2007), Business Combinations (SFAS 141(R))

PSEG, Power and PSE&G

In December 2007, the FASB issued SFAS 141(R) which replaces SFAS No. 141 Business Combinations. SFAS 141(R) will change financial accounting and reporting of business combination transactions. It is based on the principle that all assets acquired and liabilities assumed in a business combination should be measured at their acquisition date fair values, with limited exceptions. This standard applies to all transactions and events in which an entity obtains control of one or more businesses of an acquiree. The standard also expands the definition of a business. A transaction formerly recorded as an asset acquisition may qualify as a business combination under SFAS 141(R). It also requires that acquisition-related costs and certain restructuring costs be recognized separately from the business combination.

SFAS 141(R) is effective for all business combinations with an acquisition date on or after the beginning of fiscal years commencing on or after December 15, 2008. Earlier adoption is prohibited. SFAS 141(R) is required to be adopted concurrently with SFAS 160. PSEG, Power and PSE&G will adopt SFAS 141(R) effective January 1, 2009. Accordingly, any business combinations for which the acquisition date is on or after

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January 1, 2009 will be accounted for under this new guidance. PSEG, Power and PSE&G do not anticipate a material impact to their respective financial statements.

SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin (ARB) No. 51 (SFAS 160)

PSEG, Power and PSE&G

In December 2007, the FASB issued SFAS 160 which significantly changes the financial reporting relationship between a parent and non-controlling interests (i.e. minority interests). SFAS 160 requires all entities to report minority interests in subsidiaries as a separate component of equity in the consolidated financial statements. Accordingly, the amount of net income attributable to the noncontrolling interest is required to be included in consolidated net income on the face of the income statement. Further, SFAS 160 requires that transactions between a parent and noncontrolling interests should be treated as equity. However, if a subsidiary is deconsolidated, a parent is required to recognize a gain or loss.

SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. SFAS 160 will be applied prospectively, except for presentation and disclosure requirements which are required to be applied retrospectively. PSEG, Power and PSE&G will adopt SFAS 160 effective January 1, 2009. PSEG, Power and PSE&G do not anticipate a material impact to their respective financial statements upon adoption.

SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161)

PSEG, Power and PSE&G

In March 2008, the FASB issued SFAS 161 which expands derivative disclosures by requiring an entity to disclose: i) an understanding of how and why an entity uses derivatives, ii) an understanding of how derivatives and related hedged items are accounted for and iii) transparency into the overall impact of derivatives on an entity s financial statements.

SFAS 161 is effective for fiscal years beginning after November 15, 2008. Earlier adoption is encouraged. PSEG, Power and PSE&G are analyzing the requirements of SFAS 161 and will adopt the standard on January 1, 2009. PSEG, Power and PSE&G do not anticipate a material impact to their respective financial statements.

SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162)

In May 2008, the FASB issued SFAS 162 for the purpose of improving financial reporting by providing a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernmental entities. GAAP hierarchy was previously defined in the American Institute of Certified Public Accountants Statement on Auditing Standards No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.

SFAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to Auditing Standards: Section 411. PSEG, Power and PSE&G do not anticipate a material impact to their respective financial statements upon adoption of SFAS 162.

FASB Staff Position (FSP) FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS 142-3)

In April 2008, the FASB issued FSP FAS 142-3 to amend the factors an entity should consider in determining the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The FSP would allow an entity to consider its own experience regarding renewals and extensions, as long as entity s own experience is consistent with the intended use of similar assets. If an entity

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lacks such experience, it would look to market participant information that is consistent with the highest and best use of the asset and make adjustments for other entity-specific factors.

FSP FAS 142-3 is effective for fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years. Earlier adoption is not permitted. PSEG, Power and PSE&G will adopt the standard on January 1, 2009 and do not anticipate a material impact to their respective financial statements upon adoption.

FSP Emerging Issues Task Force (EITF) 03-6-1, Determining whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (FSP EITF 03-6-1)

In June 2008, the FASB issued FSP EITF 03-6-1 to address whether instruments granted in share-based payment transactions are participating securities prior to their vesting and therefore need to be included in the earnings per share calculation under the two-class method described in SFAS No. 128, Earnings per Share.

This FSP requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents as participating securities and thus, include them in calculation of basic earnings per share.

FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. Earlier adoption is not permitted. PSEG will adopt the standard on January 1, 2009 and does not anticipate a material impact on its financial statements or its computation of basic earnings per share upon adoption.

The following new accounting standards were adopted by PSEG, Power and PSE&G during 2008.

SFAS No. 157, Fair Value Measurements (SFAS 157)

PSEG, Power and PSE&G

In September 2006, the FASB issued SFAS 157 which provides a single definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Prior to SFAS 157, guidance for applying fair value was incorporated into several accounting pronouncements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy that distinguishes between assumptions based on market data obtained from independent sources (observable inputs) and those based on an entity s own assumptions (unobservable inputs). Under SFAS 157, fair value measurements are disclosed by level within that hierarchy, with the highest priority being quoted prices in active markets.

PSEG, Power and PSE&G adopted SFAS 157 (except for non-financial assets and liabilities as described in FSP FAS 157-2) effective January 1, 2008. In accordance with the provisions of SFAS 157, PSEG recorded a cumulative effect adjustment of $22 million (after-tax) to January 1, 2008 Retained Earnings associated with the implementation of SFAS 157. In February 2008, the FASB issued FSP FAS 157-2 to partially defer the effective date of SFAS 157 for certain nonfinancial assets and nonfinancial liabilities. In February 2008, the FASB also issued FSP FAS 157-1 to exclude leasing transactions from SFAS 157 s scope.

For additional information, see Note 13. Fair Value Measurements.

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159)

PSEG, Power and PSE&G

In February 2007, the FASB issued SFAS 159, which permits entities to measure many financial instruments and certain other items at fair value that would not otherwise be required to be measured at fair value. An entity would report unrealized gains and losses in earnings at each subsequent reporting date on items for which the fair value option has been elected. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The decision whether to elect the fair value option is applied instrument by instrument, with a few exceptions. The

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decision is irrevocable and it is required to be applied only to entire instruments and not to portions of instruments.

The statement requires disclosures that facilitate comparisons (a) between entities that choose different measurement attributes for similar assets and liabilities; and (b) between assets and liabilities in the financial statements of an entity that selects different measurement attributes for similar assets and liabilities. SFAS 159 was effective for financial statements issued for fiscal years beginning after November 15, 2007. Upon implementation, an entity shall report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of Retained Earnings.

PSEG, Power and PSE&G adopted SFAS 159 effective January 1, 2008; however, to date, PSEG, Power and PSE&G have not elected to measure any of their respective assets or liabilities at fair value under this standard.

FSP FIN 39-1, Amendment of FASB Interpretation No. 39 (FSP FIN 39-1)

PSEG and Power

In April 2007, the FASB issued FSP FIN 39-1, which amends FIN 39, Offsetting of Amounts Related to Certain Contracts to permit an entity to offset cash collateral paid or received against fair value amounts recognized for derivative instruments held with the same counterparty under the same master netting arrangement.

PSEG and Power adopted the FSP effective January 1, 2008. In accordance with the provisions of FSP FIN 39-1, PSEG and Power established a policy of netting fair value cash collateral receivables and payables with the corresponding net derivative balances. The adoption of FSP FIN 39-1 resulted in PSEG and Power offsetting cash collateral receivables of $418 million against net derivative positions as of June 30, 2008. Amounts in prior period statements have been retroactively adjusted, as required under the FSP.

Note 3. Discontinued Operations and Dispositions

Discontinued Operations

Power

Lawrenceburg Energy Center (Lawrenceburg)

In May 2007, Power completed the sale of Lawrenceburg, a 1,096-megawatt (MW), gas-fired combined cycle electric generating plant located in Lawrenceburg, Indiana, to AEP Generating Company, a subsidiary of American Electric Power Company, Inc. (AEP) for a sale price of $325 million.

Lawrenceburg s operating results for the quarter and six months ended June 30, 2007, which are included in Discontinued Operations, are summarized below:

	Quarter Ended June 30, 2007	Six Months Ended June 30, 2007
	(Millions)	

Operating Revenues	$		$	
Loss Before Income Taxes	$	(4)	$	(15)
Net Loss.	$	(3)	$	(9)

Energy Holdings

SAESA Group

In June 2008, Global announced an agreement to sell its investment in the SAESA Group, which consists of four distribution companies, one transmission company and a generation facility located in Chile. The sale was completed in July 2008 for a total purchase price of approximately $1.3 billion, including the assumption of approximately $413 million of the consolidated debt of the group. The sale resulted in an after-tax gain of approximately $180 million, which will be reported as Gain on Disposal of Discontinued

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Operations in the third quarter of 2008. Net cash proceeds, after Chilean and US taxes of approximately $275 million, were approximately $600 million. A tax charge of $82 million was recognized in the fourth quarter of 2007 relating to the discontinuation of applying Accounting Principle Board No. 23, Accounting for Income Taxes Special Areas.

SAESA Group s operating results for the quarters and six months ended June 30, 2008 and 2007, which are included in Discontinued Operations, are summarized below:

	Quarters Ended June 30,		Six Months Ended June 30	
	2008	2007	2008	2007
	(Millions)			
Operating Revenues.	$ 156	$ 104	$ 342	$ 198
Income Before Income Taxes	$ 21	$ 13	$ 41	$ 29
Net Income	$ 16	$ 11	$ 30	$ 25

The carrying amounts of SAESA Group s assets as of June 30, 2008 and December 31, 2007 are summarized in the following table:

	As of June 30, 2008	As of December 31, 2007
	(Millions)	
Current Assets	$ 155	$ 191
Noncurrent Assets	960	971
Total Assets of Discontinued Operations	$ 1,115	$ 1,162
Current Liabilities	$ 122	$ 130
Noncurrent Liabilities	362	390
Total Liabilities of Discontinued Operations	$ 484	$ 520

Electroandes S.A. (Electroandes)

On October 17, 2007, Global sold its investment in Electroandes, a hydro-electric generation and transmission company in Peru that owns and operates four hydro-generation plants with total capacity of 180 MW and 437 miles of electric transmission lines, for a total purchase price of $390 million, including the assumption of approximately $108 million of debt.

Electroandes operating results for the quarter and six months ended June 30, 2007, which are included in Discontinued Operations, are summarized below:

	Quarter Ended June 30, 2007	Six Months Ended June 30, 2007
	(Millions)	
Operating Revenues	$ 13	$ 24
Income Before Income Taxes	$ 6	$ 7
Net Loss.	$ (14)	$ (14)

Dispositions

Power

In December 2006, Power recorded a pre-tax impairment loss of $44 million to write down four turbines to their estimated realizable value and reclassified them to Assets Held for Sale on Power s Condensed Consolidated Balance Sheet. In April 2007, Power sold the four turbines to a third party and received proceeds of approximately $40 million, which approximated the recorded book value.

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Energy Holdings

Chilquinta Energia S.A. (Chilquinta) and Luz del Sur S.A.A. (LDS)

In December 2007, Global closed on the sales of its ownership interest in the Chilean electric distributor, Chilquinta and its affiliates, and in the Peruvian electric distributor, LDS and its affiliates, for $685 million. Net cash proceeds after taxes were approximately $480 million, which resulted in an after-tax loss of $23 million.

Thermal Energy Development Partnership, L.P. (Tracy Biomass)

In January 2007, Global sold its interest in Tracy Biomass for approximately $7 million, resulting in a 2007 pre-tax gain of approximately $7 million ($6 million after-tax).

Note 4. Earnings Per Share (EPS)

PSEG

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 PSEG s stock co