

PUBLIC SERVICE ENTERPRISE GROUP INC  
Form DEF 14A  
October 10, 2006  
UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

**SCHEDULE 14A**

(Rule 14a-101)

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934**

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| £ Preliminary Proxy Statement                  | £ Confidential, for Use of the Commission Only |
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**Public Service Enterprise Group Incorporated**

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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**Public Service Enterprise Group Incorporated**  
**80 Park Plaza, P.O. Box 1171, Newark, New Jersey 07101-1171**

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD NOVEMBER 21, 2006  
AND  
PROXY STATEMENT**

To the Stockholders of Public Service Enterprise Group Incorporated:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Public Service Enterprise Group Incorporated (PSEG) will be held at the New Jersey Performing Arts Center, One Center Street, Newark, New Jersey, on November 21, 2006, at 2:00 P.M., for the following purposes:

1. To elect three members of Class I of the Board of Directors to hold office until the Annual Meeting of Stockholders in 2009, and one member of Class III of the Board of Directors to hold office until the Annual Meeting of Stockholders in 2008, in each case until their respective successors are elected and qualified;
2. To consider and act upon the ratification of the appointment of Deloitte & Touche LLP as independent auditor for the year 2006;
3. To consider and act upon a stockholder proposal relating to executive compensation, if the proponent presents the proposal at the meeting; and
4. To transact such other business as may properly come before said meeting or any adjournment thereof.

Stockholders entitled to vote at the meeting are the holders of Common Stock of record at the close of business on September 29, 2006.

The 2006 Annual Meeting of Stockholders is being held in November following termination of the proposed merger with Exelon Corporation. In 2007, PSEG plans to hold the Annual Meeting in April, consistent with past practice.

By order of the Board of Directors,

EDWARD J. BIGGINS, JR.  
*Secretary*

October 2, 2006

**YOUR VOTE IS IMPORTANT. PLEASE SIGN, DATE AND MAIL THE ACCOMPANYING PROXY FORM PROMPTLY. TELEPHONE AND ELECTRONIC VOTING ARE ALSO AVAILABLE. PLEASE USE THE TOLL-FREE TELEPHONE NUMBER OR THE INTERNET ADDRESS SHOWN ON THE PROXY FORM.**

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## INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation of proxies by Public Service Enterprise Group Incorporated (PSEG) on behalf of its Board of Directors to be voted at its 2006 Annual Meeting of Stockholders. PSEG is a public utility holding company that owns directly four subsidiaries: Public Service Electric and Gas Company (PSE&G), which is an operating electric and gas utility; PSEG Power LLC (Power), which is an electric generation and wholesale energy marketing and trading company; PSEG Energy Holdings L.L.C. (Energy Holdings), which directly owns energy-related businesses that operate electric generation and distribution in selected international and domestic markets and provide capital to finance energy-related assets; and PSEG Services Corporation (Services), which provides management and administrative services to PSEG and its subsidiaries. The complete mailing address of the principal executive offices of PSEG is 80 Park Plaza, P.O. Box 1171, Newark, New Jersey 07101-1171, telephone (973) 430-7000. PSEG's Internet website is [www.pseg.com](http://www.pseg.com). The approximate date on which this Proxy Statement and the accompanying proxy were first sent or given to security holders and made available electronically via the Internet was October 9, 2006.

Every vote is important. Accordingly, each stockholder is urged to sign, date and return the accompanying proxy form whether or not he or she plans to attend the meeting. In the alternative, stockholders of record may vote their proxies using the toll-free telephone number listed on the proxy form or via the Internet at the electronic address also listed on the proxy form. When a proxy form is returned properly dated and signed, or properly voted telephonically or electronically, the shares represented thereby will be voted by the persons named as proxies in accordance with the voting stockholder's directions.

Stockholders may specify their choices by marking the appropriate boxes on the enclosed proxy form. If a proxy form is dated, signed and returned without specifying choices, the shares will be voted as recommended by the Board of Directors. Stockholders voting telephonically or electronically should follow the directions given during the call or on the computer screen.

For shares held in the name of a bank or broker, stockholders should follow the voting instructions on the form received from such bank or broker. For such shares, the availability of telephone or Internet voting will depend on the voting processes of the relevant bank or broker.

PSEG requests that if a stockholder plans to attend the Annual Meeting, he or she should indicate so on the proxy form or in voting shares telephonically or electronically. **AN ADMISSION TICKET IS PRINTED ON THE TOP PORTION OF EACH PROXY FORM AND SHOULD BE USED BY EACH STOCKHOLDER WHO PLANS TO ATTEND THE ANNUAL MEETING.** The meeting will be held at the New Jersey Performing Arts Center, One Center Street, Newark, New Jersey.

The Annual Meeting is being held in November following the termination of the proposed merger with Exelon Corporation.

A proxy given in the form which accompanies this Proxy Statement or a vote telephonically or electronically is revocable. However, by law, the presence at the Annual Meeting of a stockholder who has given such a proxy will not revoke the proxy, unless the stockholder files a written notice of such revocation with the Secretary of PSEG prior to the voting of the proxies at the meeting, or the stockholder votes the shares subject to the proxy by written ballot.

## VOTING SECURITIES

Holders of record of the 252,099,066 shares of PSEG Common Stock outstanding at the close of business on September 29, 2006 will have one vote per share. The holders of Common Stock entitled to cast a majority of the votes at the meeting, present in person or represented by proxy, will constitute a quorum. All votes cast by proxy or in person will be counted. Abstentions and broker non-votes will not be counted, except for establishing a quorum.

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Under New York Stock Exchange Inc. (NYSE) rules, unless a bank or broker receives voting instructions on the stockholder proposal, a broker non-vote will occur with respect to that matter. All votes will be tabulated by an independent inspector of elections.

The accompanying proxy includes any shares registered in the names listed thereon in Enterprise Direct (formerly, the Dividend Reinvestment and Stock Purchase Plan) and the PSEG Employee Stock Purchase Plan. If no instructions are received with respect to shares held in Enterprise Direct, the

administrator of that plan will vote those shares in accordance with the recommendations of the Board of Directors contained in this Proxy Statement. If no instructions are received with respect to shares held in the PSEG Employee Stock Purchase Plan, the shares will not be voted.

Participants in the PSEG Thrift and Tax-Deferred Savings Plan or PSEG Employee Savings Plan will receive a separate direction card from the respective plan's trustee for shares that have been allocated to their accounts under the Enterprise Common Stock Fund and their ESOP Accounts. The trustee will vote the shares of PSEG Common Stock beneficially owned by the participant under the respective plan in accordance with such participant's instructions. If no instructions are received, the shares will not be voted.

Stockholders are entitled to cumulative voting in the election of directors. This means that stockholders may cast with respect to the class to be elected a number of votes equal to the number of votes to which their shares are entitled, multiplied by the number of directors to be elected in that class. The votes may be cast for the election of one nominee or may be distributed among as many nominees in that class as desired.

## **CORPORATE GOVERNANCE**

Management of PSEG is under the general direction of the Board of Directors. The Board of Directors has adopted and operates under the PSEG Corporate Governance Principles which reflect PSEG's current governance practices in accordance with applicable statutory and regulatory requirements, including those of the United States Securities and Exchange Commission (SEC) and the NYSE. The Corporate Governance Principles are posted on PSEG's website, [www.pseg.com/investor/governance](http://www.pseg.com/investor/governance). A copy is available upon request made to PSEG.

Under the Corporate Governance Principles and the requirements of the NYSE, the Board must consist of a majority of independent directors. The Board has established standards for director independence, which are set forth in the Corporate Governance Principles. These standards require that to be independent, a director may not be an employee and no member of the director's immediate family may be an executive officer of PSEG or its subsidiaries, or any company where any executive of PSEG or its subsidiaries serves on the compensation committee, or that makes payments to or receives payments from PSEG or its subsidiaries in any year more than the greater of \$1 million or 2% of such company's consolidated gross revenue, nor may any of them receive more than \$50,000 in direct compensation (other than fees and compensation provided to directors generally) or be affiliated or employed by PSEG's independent auditor. In addition, to be independent, a director may not be an executive officer of a charity if contributions by PSEG and its subsidiaries exceed the greater of \$1 million or 2% of the charity's consolidated gross revenue. These limitations apply for three years after the end of the applicable affiliation or arrangement. As determined by the Board, all of the current directors, with the exception of E. James Ferland, the Chairman of the Board, President and Chief Executive Officer, are independent under the Corporate Governance Principles and the requirements of the NYSE. This determination was based upon a review of the questionnaires submitted by each of the PSEG directors, relevant business records of PSEG, publicly available information and the applicable SEC and NYSE requirements.

PSEG has adopted a code of ethics entitled PSEG Standards of Integrity applicable to it and all its subsidiaries. The Standards of Integrity are an integral part of PSEG's business conduct compliance program and embody the commitment of PSEG and its subsidiary companies to conduct operations in accordance with the highest legal and ethical standards. The Standards of Integrity apply to all PSEG directors, employees, contractors and consultants, worldwide. Each such person is responsible for understanding and complying with the Standards of Integrity. The Standards of Integrity are posted on PSEG's website, [www.pseg.com/investor/governance](http://www.pseg.com/investor/governance). A copy is also available upon request made to PSEG.

The Board has had for a number of years an Audit Committee, a Corporate Governance Committee and an Organization and Compensation Committee, each consisting solely of independent directors. As discussed more fully below, each of these committees has a charter that defines its roles and responsibilities. The charters are posted on

PSEG's website, [www.pseg.com/investor/governance](http://www.pseg.com/investor/governance). Copies are also available upon request made to PSEG.



The Board of Directors holds regular monthly meetings, except in February, May and August, and meets on other occasions when circumstances require. The Board met nine times in 2005, and, on average, the meetings lasted approximately three hours. Directors spend additional time preparing for Board and committee meetings they attend and they are called upon for counsel between meetings. In addition, during 2005, Caroline Dorsa, E. James Ferland, Albert R. Gamper, Jr. and Conrad K. Harper served on the board of directors of PSE&G. Mr. Ferland also served on the boards of directors of Energy Holdings, Power and Services. The PSE&G board met nine times in 2005. Committee membership and membership on the PSE&G board is shown in the biographies under "Election of Directors."

The Corporate Governance Principles adopted by the Board of Directors provide that it will meet periodically on a regular basis at least twice each year in executive session without management in attendance. In such cases, the Board designates a non-management director to chair the meeting who is the independent Committee Chair most closely associated with the business at hand. During 2005, four executive sessions were held with only independent directors present. In addition, the Audit Committee, the Corporate Governance Committee and the Organization and Compensation Committee each meet periodically with only independent directors present.

Under the Corporate Governance Principles, each director is expected to attend all Board meetings and all meetings of committees of which such director is a member, as well as the Annual Meeting of Stockholders. Meeting materials are provided to Board and Committee members prior to meetings, and members are expected to review such materials prior to each meeting.

Under the retirement policy for directors, directors who have never been employees of the PSEG group of companies and directors who are former chief executive officers of PSEG may not serve as directors beyond the Annual Meeting of Stockholders following their seventy-second birthday. Directors who are former employees, other than chief executive officers, may not serve as directors beyond the Annual Meeting of Stockholders following termination of active employment with the PSEG group of companies. In addition, directors must submit a letter of resignation upon a change in primary employment.

As set forth in the Corporate Governance Principles, stockholders and other interested parties may communicate directly with the Board, including the independent directors of PSEG, by writing to Edward J. Biggins, Jr., Secretary of PSEG, at Public Service Enterprise Group Incorporated, 80 Park Plaza, T4B, P.O. Box 1171, Newark, New Jersey 07101-1171, and indicating who should receive the communication. Unless the context otherwise requires, the Secretary will provide the communication to the Chair of the Board Committee most closely associated with the nature of the request.

## **Committees of the Board**

The committees of the Board and their principal functions are as follows:

### *Audit Committee*

Assists the Board in fulfilling its responsibility for oversight of the integrity of PSEG's financial statements, and the quality and integrity of the accounting, auditing and financial reporting practices of PSEG, with open and free access to all information of PSEG and its subsidiaries. Solely responsible for the appointment, termination, compensation and oversight of the work of the independent auditor. The independent auditor reports directly to the Audit Committee. Reviews independence of independent auditor, services provided by them, their fees and peer review reports of their performance. Pre-approves the services provided and fees paid to the independent auditor for all services provided to PSEG and its subsidiaries. Reviews with the independent auditor, management and internal auditors the annual audited and quarterly financial statements and evaluates the acceptability and quality of such financial statements and PSEG's accounting, reporting and auditing practices. Generally discusses earnings press releases, financial information and earnings guidance provided to analysts and rating agencies, as well as policies with

respect to risk assessment and risk management. Recommends to the Board of Directors the inclusion of the audited financial statements in PSEG's Annual Report on Form 10-K. Resolves any disagreements which may arise between management and the independent auditor regarding financial reporting.

Annually reviews and assesses the Audit Committee Charter. Provides oversight of the internal audit and environmental, health and safety audit functions of PSEG. Reviews annual audit reports of both independent and internal auditors, as well as environmental health and safety auditors. Reviews planned scope of future audits. Ascertains implementation of auditors' recommendations. Reviews internal auditing procedures and internal accounting controls. Reviews adequacy and implementation of policies and practices relating to accounting, financial reporting, internal auditing, operating controls, business conduct compliance program (including environmental health and safety compliance) and business ethics. Meets privately with representatives of the independent auditor, internal auditors and environmental auditors. Reviews the status of pending material litigation, as well as legal and business conduct compliance. Reviews compliance with legal and regulatory requirements.

The Audit Committee is comprised of three or more independent directors, as defined by the Board, who are generally knowledgeable in financial matters, including at least one member with accounting or financial management expertise. In addition to meeting the requirements for being an independent director, members may receive no direct or indirect compensation from PSEG or its subsidiaries, other than as a director or committee member, and may not be affiliated with PSEG or its subsidiaries, in accordance with applicable legal requirements.

The Board determines annually, and upon a change in Audit Committee composition, the independence, financial literacy and financial expertise of the Audit Committee members and makes written affirmation to the NYSE in accordance with its rules. In accordance with the rules of the SEC and the NYSE, PSEG maintains an Audit Committee consisting solely of directors who are independent of management. Also, in accordance with the NYSE rules, the Board has determined that all members of the Audit Committee are financially literate and, in addition, that each member of the Audit Committee possesses financial expertise, as defined in NYSE rules. The Board of Directors further has determined that each of the members of PSEG's Audit Committee, Albert R. Gamper, Jr., Caroline Dorsa, William V. Hickey, Shirley Ann Jackson, Thomas A. Renyi and Richard J. Swift (a member until October 1, 2006), is an "audit committee financial expert" as defined under the Sarbanes-Oxley Act of 2002 and the rules of the SEC.

PSEG and the Board believe that the current composition of the Audit Committee provides that Committee with the requisite expertise and experience to recommend to the Board of Directors the inclusion of PSEG's financial statements in the Annual Report on Form 10-K. The Board will consider this matter annually as a part of its ongoing governance review. The Audit Committee will also continue its assessment and enhancement of governance practices, including assurance that there exist adequate independent procedures for receipt and treatment of complaints regarding accounting, internal controls or auditing matters.

The Audit Committee meets at least four times per year, and in executive session without management present, at least three times per year. The Audit Committee held ten meetings in 2005. The Audit Committee Report appears below on page 20. The Audit Committee Charter is attached as Appendix A and posted on PSEG's website, [www.pseg.com/investor/governance](http://www.pseg.com/investor/governance). A copy is also available upon request made to PSEG.

#### *Corporate Governance Committee*

Monitors the composition of the Board to assure a reasonable balance of professional interests, business experience, financial expertise and independence. Considers qualifications of Board members and evaluates prospective nominees identified by the Corporate Governance Committee or by other Board members, management, stockholders or other sources. The Corporate Governance Committee retains for a fee third-party executive search firms to assist it in identifying and recruiting potential nominees for consideration for election to the Board. Recommends to the Board membership changes and nominees to maintain requisite balance. Also considers the amount of time that a person will likely have to devote to his or her duties as a director, including non-PSEG responsibilities as an executive officer, board member or trustee of businesses and charitable institutions, and the contribution by directors to the ongoing business of PSEG. Further evaluates the continuity current directors bring to service on the Board versus the benefit from new ideas and perspectives that new members bring to the Board. The Committee does not believe it is appropriate to set limits on outside board memberships or



the length a director's term, but monitors the above factors to attempt to assure that the Board contains an effective mix of people to best further PSEG's long-term business interests. The Corporate Governance Committee utilizes the same criteria to evaluate all potential nominees, including those recommended by stockholders or from other sources.

Periodically evaluates performance of the Board and its committees, including a review of the size, structure and composition of the Board and its committees and their governance practices and makes recommendations to the Board. Makes recommendations to the Board to improve effectiveness of the Board and its committees. Recommends to the Board the chairs and members of Board committees.

Membership consists of three or more independent directors. Meetings are held at least two times per year, and in executive session without management present at least once per year. The Corporate Governance Committee met three times in 2005. The Corporate Governance Committee Charter is posted on PSEG's website, [www.pseg.com/investor/governance](http://www.pseg.com/investor/governance). A copy is available upon request made to PSEG.

The Corporate Governance Committee will consider stockholders' recommendations for nominees for election to the Board of Directors. Such recommendations must be submitted in writing to Edward J. Biggins, Jr., Secretary, Public Service Enterprise Group Incorporated, 80 Park Plaza, T4B, P.O. Box 1171, Newark, New Jersey 07101-1171. Nominations must be accompanied by the written consent of any such person to serve if nominated and elected and by biographical material to permit evaluation of the individual recommended. In addition, the By-Laws of PSEG require that stockholder nominations must be submitted at least 90 days in advance of an Annual Meeting of Stockholders.

The Corporate Governance Committee seeks candidates for the Board of Directors with an attained position of leadership in their field of endeavor, breadth of experience and sound business judgment. It is the policy of the Board of Directors that a person who is not an employee of PSEG shall not be recommended initially to the stockholders for election as a director unless it appears that, consistent with the retirement policy for directors referred to above, such person would be available to serve as a director for at least five years.

#### *Executive Committee*

Except as otherwise provided by law, the Executive Committee has and may exercise all the authority of the Board of Directors when the Board is not in session. Membership consists of the Chairman of the Board and at least one independent director. This Committee meets only if it is impracticable to convene the full Board. It did not meet during 2005.

#### *Finance Committee*

Considers financial policies, or changes therein, before presentation to the Board of Directors. Periodically reviews and makes recommendation to the Board of Directors regarding PSEG's financial planning and significant financial decisions. Makes recommendations to the Board of Directors regarding the issuance and sale of securities and project investment and cash investment guidelines. Consists of three or more members, the majority of which are independent directors. Meets at least three times per year. The Finance Committee held four meetings in 2005.

#### *Nuclear Committee*

Provides an independent basis for evaluating the safety and effectiveness of PSEG's nuclear operations. Specific attention is provided to evaluation of overall management attention to nuclear safety, regulatory issues, other evaluations of nuclear operations and to improvement in operations. Consists of three or more independent directors and meets at least three times per year. The Nuclear Committee held three meetings in 2005.

#### *Organization and Compensation Committee*

Reviews, approves and modifies, as necessary, PSEG's executive compensation policy. Studies and makes recommendations to the Board of Directors concerning corporate organization in general and compensation for directors and certain executives. Administers the compensation program for executive officers and key employees. Makes comparative studies and reports to the Board of Directors with

respect to compensation for directors who are not officers. Reviews and makes recommendations to the Board of Directors with respect to certain incentive compensation programs for officers and other key employees and certain benefit plans for directors and officers. Reviews and approves corporate goals and objectives relevant to Chief Executive Officer (CEO) compensation, evaluates the CEO's performance in light of those goals and objectives and, with the independent Board members, determines and approves the CEO's compensation level based on this evaluation. Administers certain benefit plans for directors and officers. Annually reviews management succession and development plans and performance reviews for the CEO and certain other key members of management. Retains independent compensation consultants to assist it in designing compensation programs that are consistent with comparable industry practices.

Consists of three or more independent directors who meet at least two times per year and in executive session at least two times per year, without management present. The Organization and Compensation Committee held seven meetings in 2005. The Organization and Compensation Committee Report on Executive Compensation appears below on page 18. The Organization and Compensation Committee Charter is posted on PSEG's website, [www.pseg.com/investor/governance](http://www.pseg.com/investor/governance). A copy is also available upon request made to PSEG.

### **Code of Ethics**

PSEG has adopted its Standards of Integrity (Standards) as a code of ethics applicable to it and its subsidiaries, including PSE&G, Power and Energy Holdings. The Standards are an integral part of PSEG's business conduct compliance program and embody the commitment of PSEG and its subsidiary companies to conduct operations in accordance with the highest legal and ethical standards. The Standards apply to all PSEG directors, employees (including PSEG's, PSE&G's, Power's and Energy Holdings' respective principal executive officer, principal financial officer, principal accounting officer or Controller and persons performing similar functions), contractors and consultants, worldwide. Each such person is responsible for understanding and complying with the Standards.

The Standards establish a set of common expectations for behavior to which each employee must adhere in dealings with investors, customers, fellow employees, competitors, vendors, government officials, the media and all others who may associate their words and actions with PSEG. The Standards have been developed to provide reasonable assurance that, in conducting PSEG's business, employees behave ethically and in accordance with the law and do not take advantage of investors, regulators or customers through manipulation, abuse of confidential information or misrepresentation of material facts.

Any amendment (other than technical, administrative or non-substantive) to or a waiver from the Standards that applies to any director or PSEG's, PSE&G's, Power's or Energy Holdings' principal executive officer, principal financial officer, principal accounting officer or Controller, or persons performing similar functions and that relates to any element enumerated by the SEC, will be posted on PSEG's website, [www.pseg.com/investor/governance](http://www.pseg.com/investor/governance).

### **Proposal 1**

#### **ELECTION OF DIRECTORS**

The Board of Directors is divided into three classes of as nearly equal numbers of directors as possible. As a result of this classification of directors, one class of directors is elected each year for a three-year term. Directors whose terms expire are eligible for renomination and will be considered by the Corporate Governance Committee in accordance with its policies, which are described above under "Corporate Governance—Committees of the Board," and subject to the retirement policy for directors mentioned above.

The present terms of the three directors included in Class I of the Board of Directors, Caroline Dorsa, E. James Ferland and Albert R. Gamper, Jr., expire at the 2006 Annual Meeting. Each has been nominated to serve as a director in Class I for a three-year term, which will expire at the 2009 Annual Meeting.





In addition, effective October 1, 2006, the Board of Directors increased the size of the Board from 9 to 10 and elected Ralph Izzo a director of PSEG and President and Chief Operating Officer. Mr. Izzo's initial term as a director expires at the 2006 Annual Meeting. He has been nominated to serve as a director in Class III, for a term expiring in 2008.

Therefore, at this year's meeting, directors will be elected to fill three positions in Class I to serve until the 2009 Annual Meeting, and one director will be elected to fill one position in Class III to serve until the 2008 Annual Meeting, in each case until their respective successors are elected and qualified. All nominees, except Mr. Izzo, were elected to their present terms by the stockholders. The present term of Class II of the Board of Directors expires at the 2007 Annual Meeting and the present term of Class III expires at the 2008 Annual Meeting. Directors in Class II and Class III, except Mr. Izzo, will not be elected at the 2006 Annual Meeting.

The By-Laws of PSEG currently provide that the Board of Directors shall consist of not less than three nor more than 16 directors as shall be fixed from time to time by the Board. The number of directors is currently set at ten.

The nominees listed below were selected by the Board of Directors upon the recommendation of the Corporate Governance Committee. Proxies will be voted for these nominees, unless authority to vote for one or more of them shall have been withheld by so marking the enclosed proxy form or so indicating when voting by telephone or Internet.

If at the time of the meeting any of the nominees listed below should be unable to serve, which is not anticipated, it is the intention of the persons designated as proxies to vote, in their discretion, for other nominees, unless the number of directors constituting a full Board is reduced.

There is shown as to each nominee, and as to each director whose term of office will continue after the 2006 Annual Meeting, the period of service as a director of PSEG, age as of the date of the Annual Meeting, present committee memberships, business experience during at least the last five years and other present directorships. Beneficial ownership of PSEG Common Stock is shown under "Security Ownership of Directors, Management and Certain Beneficial Owners." During 2005, each nominee and each other director attended more than 81% of the aggregate number of Board meetings and committee meetings on which he or she served. Each nominee and each other director attended the 2005 Annual Meeting of Stockholders.

**Nominees For Election As Director**

**Class I—Nominees For Terms Expiring in 2009**

Caroline Dorsa CAROLINE DORSA has been a director since February 2003. Age 47. Member of Audit Committee, Corporate Governance Committee and Finance Committee. Director of PSE&G. Has been Vice President and Treasurer of Merck & Co., Inc., Whitehouse Station, New Jersey (discovers, develops, manufactures and markets human and animal health products) since December 1996. Was Treasurer from January 1994 to November 1996 and Executive Director of the U. S. Human Health Marketing subsidiary of Merck & Co., Inc. from June 1992 to January 1994.

E. James Ferland E. JAMES FERLAND has been a director since July 1986. Age 64. Chair of Executive Committee. Chairman of the Board and Chief Executive Officer of PSEG since October 2006. Was Chairman of the Board, President and Chief Executive Officer of PSEG from July 1986 to September 2006. Chairman of the Board and Chief Executive Officer of PSE&G since July 1986, Chairman of the Board and Chief Executive Officer of Energy Holdings since June 1989, Chairman of the Board and Chief Executive Officer of Power since June 1999 and Chairman of the Board and Chief Executive Officer of Services since November 1999.

Albert R. Gamper, Jr. ALBERT R. GAMPER, JR. has been a director since December 2000. Age 64. Chair of Audit Committee and member of Executive Committee, Finance Committee and Nuclear Committee. Director of PSE&G. Until retirement, was Chairman of the Board of CIT Group, Inc., Livingston, New Jersey (commercial finance company), from July 2004 until December 2004. Was Chairman of the Board and Chief Executive Officer of CIT Group, Inc. from September 2003 to July 2004. Was Chairman of the Board, President and Chief Executive Officer of CIT Group, Inc. from June 2002 to September 2003 and was President and Chief Executive Officer of CIT Group, Inc. from February 2002 to June 2002. Was President and Chief Executive Officer of Tyco Capital Corporation from June 2001 to February 2002. Was Chairman of the Board, President and Chief Executive Officer of CIT Group, Inc., from January 2000 to June 2001. Was President and Chief Executive Officer of CIT Group, Inc. from December 1989 to December 1999. Trustee to the Fidelity Group of Funds.

**Class III—Nominee For Term Expiring in 2008**

Ralph Izzo RALPH IZZO has been a director since October 2006. Age 48. Director of PSE&G, Energy Holdings and Power. Has been President and Chief Operating Officer of PSEG since October 2006. Was President and Chief Operating Officer of PSE&G from October 2003 to October 2006 and was a Vice President in charge of various functions, including Corporate Planning, Appliance Services and Utility Operations from March 1998 to October 2003.

**Directors Whose Terms Continue Beyond the 2006 Annual Meeting  
and Who Are Not Subject to Election this Year**

**Class II—Directors Whose Terms Expire in 2007**

Ernest H. Drew ERNEST H. DREW has been a director since January 1993. Age 69. Chair of Corporate Governance Committee and member of Executive Committee, Nuclear Committee and Organization and Compensation Committee. Until retirement, was Chief Executive Officer of Industries and Technology Group—Westinghouse Electric Corporation, from July 1997 to December 1997. Was a Member, Board of Management, Hoechst AG, Frankfurt, Germany (manufactures pharmaceuticals, chemicals, fibers, film, specialties and advanced materials) from January 1995 to June 1997. Was Chairman of the Board and Chief Executive Officer of Hoechst Celanese Corporation, Somerville, New Jersey from May 1994 until January 1995, and President and Chief Executive Officer from January 1988 until May 1994. Director of Thomas & Betts Corporation, Ashland Inc. and UQM Technologies, Inc.

William V. Hickey WILLIAM V. HICKEY has been a director since October 2001. Age 62. Member of Audit Committee, Finance Committee and Organization and Compensation Committee. Has been President and Chief Executive Officer of Sealed Air Corporation, Saddle Brook, New Jersey (manufactures food and specialty protective packaging materials and systems), since March 2000. Was President and Chief Operating Officer from December 1996 to February 2000 and, prior to that, Executive Vice President from 1994 to December 1996. Director of Sealed Air Corporation and Sensient Technologies Corporation.

Richard J. Swift RICHARD J. SWIFT has been a director since December 1994. Age 62. Chair of Nuclear Committee and member of Corporate Governance Committee. Has been Chairman of the Financial Accounting Standards Advisory Council since January 2002. Was Chairman of the Board, President and Chief Executive Officer of Foster Wheeler Ltd., Clinton, New Jersey (provides design, engineering, construction, manufacturing, management, plant operations and environmental services) from April 1994 until October 2001. Was President and Chief Operating Officer of Foster Wheeler Ltd. from December 1992 to April 1994. Director of CVS Corporation, Hubbell Incorporated, Ingersoll-Rand Limited and Kaman Corporation.

**Directors Whose Terms Continue Beyond the 2006 Annual Meeting  
and Who Are Not Subject to Election this Year**

**Class III—Directors Whose Terms Expire in 2008**

Conrad  
K. Harper  
CONRAD K. HARPER has been a director since May 1997. Age 65. Chair of Finance Committee and member of Nuclear Committee and Organization and Compensation Committee. Director of PSE&G. Of counsel to the law firm of Simpson Thacher & Bartlett LLP, New York, New York since January 2003. Was a partner from October 1996 to December 2002 and from October 1974 to May 1993. Was Legal Adviser, U.S. Department of State from May 1993 to June 1996. Director of New York Life Insurance Company.

Shirley  
Ann  
Jackson  
SHIRLEY ANN JACKSON has been a director since June 2001. Age 60. Chair of Organization and Compensation Committee and member of Audit Committee and Finance Committee. Has been President of Rensselaer Polytechnic Institute since July 1999. Was previously a director of PSEG from 1987 to 1995, prior to becoming Chair, U.S. Nuclear Regulatory Commission, from July 1995 to July 1999. Was Professor of Theoretical Physics, Rutgers University and a consultant in semiconductor theory to AT&T Bell Laboratories from 1991 to 1995. Director of FedEx Corporation, IBM Corporation, Marathon Oil Corporation, Medtronic, Inc. and the New York Stock Exchange, Inc.

Thomas  
A. Renyi  
THOMAS A. RENYI has been a director since February 2003. Age 60. Member of Audit Committee, Corporate Governance Committee, Finance Committee and Organization and Compensation Committee. Has been Chairman of the Board and Chief Executive Officer of The Bank of New York Company, Inc., New York, New York and The Bank of New York, New York, New York (provider of banking and other financial services to corporations and individuals) since February 1998. Was President and Chief Executive Officer of The Bank of New York Company, Inc. from July 1997 to January 1998 and President of The Bank of New York from March 1992 to June 1997. Was President and Chief Executive Officer of The Bank of New York from January 1996 to January 1998 and President and Chief Operating Officer from December 1994 to December 1995. Director of The Bank of New York Company, Inc. and The Bank of New York.

**SECURITY OWNERSHIP OF DIRECTORS, MANAGEMENT  
AND CERTAIN BENEFICIAL OWNERS**

**Directors and Management**

The following table sets forth, as of September 29, 2006, the record date, beneficial ownership of PSEG Common Stock, including options, by the directors and executive officers named in the table appearing under "Executive Compensation." None of these amounts exceeds 1% of the Common Stock outstanding.

Name	Amount and Nature of Beneficial Ownership
Frank Cassidy	81,983(1)
Caroline Dorsa	5,344(2)
Robert J. Dougherty, Jr.	68,921(3)
Ernest H. Drew	14,012(4)
E. James Ferland	1,285,289(5)
Albert R. Gamper, Jr.	7,671(6)
Conrad K. Harper	9,445(7)
William V. Hickey	6,594(8)
Ralph Izzo	283,478(9)
Shirley Ann Jackson	5,702(10)
Thomas M. O'Flynn	267,950(11)
Thomas A. Renyi	4,844(12)
Richard J. Swift	12,755(13)
All directors and executive officers as a group (16 persons)	2,204,392(14)

- (1) Includes the equivalent of 2,152 shares held under PSEG Thrift and Tax-Deferred Savings Plan. Includes 22,334 shares of restricted stock awarded pursuant to the 2004 LTIP. Includes options to purchase 43,000 shares, 32,000 of which are currently exercisable.
- (2) Includes 3,400 shares of restricted stock awarded pursuant to the Stock Plan for Outside Directors described below. Includes 500 shares jointly owned with husband.
- (3) Includes the equivalent of 1,193 shares held under PSEG Thrift and Tax-Deferred Savings Plan. Includes 22,334 shares of restricted stock awarded pursuant to 2004 LTIP. Includes options to purchase 11,000 shares, none of which are currently exercisable. Includes 7,034 shares jointly owned with wife.
- (4) Includes 6,800 shares of restricted stock awarded pursuant to the Stock Plan for Outside Directors described below.
- (5) Includes the equivalent of 16,371 shares held under PSEG Thrift and Tax-Deferred Savings Plan. Includes 100,734 shares of restricted stock awarded pursuant to 2004 LTIP. Includes options to purchase 866,000 shares, 821,000 of which are currently exercisable. Includes 210,000 shares held in a trust.
- (6) Includes 3,800 shares of restricted stock awarded pursuant to the Stock Plan for Outside Directors described below.

- (7) Includes 5,600 shares of restricted stock awarded pursuant to the Stock Plan for Outside Directors described below.
- (8) Includes 3,800 shares of restricted stock awarded pursuant to the Stock Plan for Outside Directors described below.
- (9) Includes the equivalent of 342 shares held under the Thrift Plan. Includes 25,001 shares of restricted stock awarded pursuant to the 2004 LTIP. Includes 47,135 held in a trust.

- (10) Includes 3,800 shares of restricted stock awarded pursuant to the Stock Plan for Outside Directors described below.
- (11) Includes the equivalent of 16 shares held under PSEG Thrift and Tax-Deferred Savings Plan. Includes 22,334 shares of restricted stock awarded pursuant to the 2004 LTIP. Includes options to purchase 188,000 shares, 177,000 of which are currently exercisable. Includes 21,000 shares held in a trust.
- (12) Includes 3,400 shares of restricted stock awarded pursuant to the Stock Plan for Outside Directors described below.
- (13) Includes 6,200 shares of restricted stock awarded pursuant to the Stock Plan for Outside Directors described below.
- (14) Includes the equivalent of 20,289 shares held under PSEG Thrift and Tax-Deferred Savings Plan. Includes options to purchase 1,407,266 shares, 1,151,733, of which are currently exercisable. Includes 261,688 shares of restricted stock. Includes 278,135 shares held in trusts.

**Certain Beneficial Owners**

The following table sets forth, as of September 29, 2006, beneficial ownership by any person or group known to PSEG to be the beneficial owner of more than five percent of PSEG Common Stock. According to the Schedules 13G filed by these owners with the SEC, these securities were acquired in the ordinary course of business and were not acquired for the purpose of and do not have the effect of changing or influencing the control of PSEG and were not acquired in connection with or as a participant in any transaction having such purpose or effect.

Name and Address	Amount and Nature of Beneficial Ownership	Percent
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071-1447	22,896,300(1)	9.6%(1)

(1) As reported on Schedule 13G filed February 10, 2006.

**SECTION 16 BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

During 2005, no director or executive officer of PSEG was late in filing a Form 3, 4 or 5 in accordance with the requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended, with regard to transactions involving PSEG Common Stock.

**EXECUTIVE COMPENSATION**

The following table sets forth compensation paid or awarded to the Chief Executive Officer (CEO) and the four most highly compensated executive officers of PSEG as of December 31, 2005 for all services rendered to PSEG and its subsidiaries and affiliates during each year indicated.

**Summary Compensation Table**

Name and Principal Position	Year(1)	Annual Compensation Awards		Long-Term Compensation Awards		All Other Compensation (\$)(7)
		Salary (\$)	Bonus/Annual Incentive Award (\$)(2)	Restricted Stock (\$)(3)(4)	Options (#)(6)	
E. James Ferland	2005	1,075,965	1,332,700	6,645,900(5)	0	51,813
Chairman of the Board and Chief Executive Officer of PSEG	2004	1,081,138	753,200	949,050	135,000	6,152
	2003	1,006,227	1,440,000	0	0	6,002
Robert J. Dougherty, Jr.	2005	582,814	480,900	1,453,795(5)	0	5,252
President and Chief Operating Officer of Energy Holdings	2004	584,539	342,400	235,125	33,000	6,002
	2003	547,945	460,400	0	0	5,001
Thomas M. O'Flynn	2005	533,002	395,800	1,453,795(5)	0	10,955
Executive Vice President and Chief Financial Officer of PSEG	2004	532,809	316,100	235,125	33,000	8,202
	2003	488,170	441,000	0	0	8,005
Ralph Izzo	2005	498,133	366,300	1,648,585(5)	0	14,937
President and Chief Operating Officer of PSE&G(8)	2004	465,562	350,500	235,125	33,000	8,204
	2003	304,051	282,800	0	250,000	8,003
Frank Cassidy	2005	523,039	356,000	1,453,795(5)	0	8,652
President and Chief Operating Officer of Power	2004	488,170	131,300	235,125	33,000	5,127
	2003	468,243	306,100	0	0	5,002