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,		For The Six Months Ended June 30,	
	2008	2007	2008	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,		For The Six Months Ended June 30,	
	2008	2007	2008	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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

This combined Form 10-Q is separately filed by Public Service Enterprise Group Incorporated (PSEG), PSEG Power LLC (Power) and Public Service Electric and Gas Company (PSE&G). Information 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,

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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 compensation plans and upon payment of performance units or restricted stock units. The following table shows the effect of these stock options, restricted stock awards, performance units and restricted stock units on the weighted average number of shares outstanding used in calculating diluted EPS:

	Quarters Ended March 31,										Six
	2008				2007				2008		
		Basic		Diluted		Basic		Diluted		Basic	D
EPS Numerator: Earnings (Millions)											
Continuing Operations	$	(166)	$	(166)	$	281	$	281	$	268	$
Discontinued Operations		16		16		(6)		(6)		30	
Net (Loss) Income	$	(150)	$	(150)	$	275	$	275	$	298	$
EPS Denominator: (Thousands)											
Weighted Average Common		508,491		508,491		507,261		507,261		508,491	

Shares Outstanding											
Effect of Stock Options				457				806			
Effect of Stock Performance Units				517							
Effect of Restricted Stock				22							
Total Shares		508,491		509,487		507,261		508,067		508,491	
EPS:											
Continuing Operations	$	(0.32)	$	(0.32)	$	0.55	$	0.55	$	0.53	$
Discontinued Operations		0.03		0.03		(0.01)		(0.01)		0.06	
Net (Loss) Income	$	(0.29)	$	(0.29)	$	0.54	$	0.54	$	0.59	$

Dividend payments on common stock for the quarters ended June 30, 2008 and 2007 were $0.3225 and $0.2925 per share, respectively, and totaled $164 million and $148 million, respectively. Dividend payments on common stock for the six months ended June 30, 2008 and 2007 were $0.645 and $0.585 per share, respectively, and totaled approximately $328 million and $296 million, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 5. Commitments and Contingent Liabilities

Guaranteed Obligations

Power

Power contracts for electricity, natural gas, oil, coal, pipeline capacity, transportation and emission allowances and engages in risk management activities through ER&T. These activities primarily involve the purchase and sale of energy and related products under transportation, physical, financial and forward contracts at fixed and variable prices. These transactions are executed with numerous counterparties and brokers. Counterparties and brokers may require guarantees, cash or cash-related instruments to be deposited on these transactions as described below.

Power has unconditionally guaranteed payments by its subsidiaries, ER&T and PSEG Power New York Inc. (Power New York), in commodity-related transactions to support current exposure, interest and other costs on sums due and payable in the ordinary course of business. These payment guarantees are provided to counterparties in order to obtain credit. Under these agreements, guarantees cover lines of credit between entities and are often reciprocal in nature. The exposure between counterparties can move in either direction. The face value of the guarantees outstanding as of June 30, 2008 and December 31, 2007 was $1.7 billion and $1.5 billion, respectively.

In order for Power to incur a liability for the face value of the outstanding guarantees, ER&T and Power New York would have to fully utilize the credit granted to them by every counterparty to whom Power has provided a guarantee and all of ER&T s and Power New York s contracts would have to be out-of-the-money (if the contracts are terminated, Power would owe money to the counterparties). The probability of all contracts at ER&T and Power New York being simultaneously out-of-the-money is highly unlikely due to offsetting positions within the portfolio. For this reason, the current exposure at any point in time is a more meaningful representation of the potential liability to Power under these guarantees if ER&T and/or Power New York were to default. This current exposure consists of the net of accounts receivable and accounts payable and the forward value on open positions, less any margins posted. The current exposure from such liabilities was $670 million and $521 million as of June 30, 2008 and December 31, 2007, respectively.

Power is subject to counterparty collateral calls related to commodity contracts and is subject to certain creditworthiness standards as guarantor under performance guarantees for ER&T s agreements. Changes in commodity prices, including fuel, emissions allowances and electricity, can have a material impact on margin requirements under such contracts, which are posted and received primarily in the form of letters of credit. Power also routinely enters into futures and options transactions for electricity and natural gas as part of its operations. Generally, such futures contracts require a deposit of cash margin with brokers, the amount of which is subject to change based on market movement and in accordance with exchange rules. As of June 30, 2008 and December 31, 2007, Power had the following margin posted and received to satisfy collateral obligations:

	As of June 30, 2008	As of December 31, 2007
	(Millions)	
Letters of Credit Margin Posted	$ 1,515	$ 188
Letters of Credit Margin Received	$ 8	$ 42

Net Cash Margin Deposited	$	541	$	166

Power has established a policy of netting fair value cash collateral receivables and payables with the corresponding net derivative balances. As a result, Power has offset net cash margin deposits of $418 million and $86 million against its corresponding net derivative contract positions as of June 30, 2008 and December 31, 2007, respectively. The remaining balance of net cash margin deposited shown above is primarily included in Accounts Receivable on Power s Condensed Consolidated Balance Sheets.

In the event of a deterioration of Power s credit rating to below investment grade, which would represent a two level downgrade from its current ratings, many of these agreements allow the counterparty to demand that ER&T provide further performance assurance. Transactions that are margined and monitored

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

separately from physical trading activity may not be subject to change in the event of a downgrade to Power s rating. As of June 30, 2008, if Power were to lose its investment grade rating and, assuming all counterparties to which ER&T is out-of-the-money were contractually entitled to demand, and demanded, performance assurance, ER&T could be required to post additional collateral in an amount equal to $1 billion. Power believes that it could obtain the necessary liquidity to post such collateral.

In addition to amounts discussed above, Power had posted $37 million in letters of credit as of June 30, 2008 and December 31, 2007 to support various other contractual and environmental obligations.

Environmental Matters

PSEG, Power and PSE&G

Passaic River

The U.S. Environmental Protection Agency (EPA) has determined that a six-mile stretch of the Passaic River in the area of Newark, New Jersey is a facility within the meaning of that term under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA).

PSE&G and certain of its predecessors conducted industrial operations at properties adjacent to the Passaic River facility. The operations included one operating electric generating station (Essex Site), one former generating station and four former manufactured gas plants (MGPs). PSE&G s costs to clean up former MGPs are recoverable from utility customers through the Societal Benefits Clause (SBC). PSE&G has sold the site of the former generating station and obtained releases and indemnities for liabilities arising out of the site in connection with the sale. The Essex Site was transferred to Power in August 2000. Power assumed any environmental liabilities of PSE&G associated with the electric generating stations that PSE&G transferred to it, including the Essex Site.

In 2003, the EPA notified 41 potentially responsible parties (PRPs), including Power and PSE&G, that it was expanding its assessment of the Passaic River Study Area to the entire 17-mile tidal reach of the lower Passaic River. The EPA further indicated, with respect to PSE&G, that it believed that hazardous substances had been released from the Essex Site and a former MGP located in Harrison, New Jersey (Harrison Site), which also includes facilities for PSE&G s ongoing gas operations. The EPA estimated that its study would require five to eight years to complete and would cost $20 million, of which it would seek to recover $10 million from the PRPs, including Power and PSE&G.

In 2006, the EPA notified the PRPs that the cost of its study will greatly exceed the $20 million initially estimated and after discussion, 73 PRPs, including Power and PSE&G, have agreed to assume responsibility for the study pursuant to an Administrative Order on Consent and to divide the associated costs among themselves according to a mutually agreed-upon formula. The PRP group is presently executing the study. The percentage allocable to Power and PSE&G varies depending on the number of PRPs who have agreed to divide the costs but it currently approximates 6%, approximately 80% of which is attributable to PSE&G s former MGPs and approximately 20% to Power s generating station. Power has provided notice to insurers concerning this potential claim.

In June 2007, the EPA announced a draft Focused Feasibility Study (FFS) that proposes six options with estimated costs ranging from $900 million to $2.3 billion to address contamination cleanup in the lower eight miles of the Passaic River in addition to a No Action alternative. The work contemplated by the FFS is not subject to the Administrative Order on Consent or the cost sharing agreement. The EPA is reviewing comments received on the draft FFS.

CERCLA and the New Jersey Spill Compensation and Control Act (Spill Act) authorize federal and state trustees for natural resources to assess damages against persons who have discharged a hazardous substance, causing an injury to natural resources. Pursuant to the Spill Act, the New Jersey Department of Environmental Protection (NJDEP) requires persons conducting remediation to characterize injuries to natural resources and to address those injuries through restoration or damages. The NJDEP has regulations in effect concerning site investigation and remediation that require an ecological evaluation of potential damages to natural resources in connection with an environmental investigation of contaminated sites. In 2003, PSEG, PSE&G and 56 other PRPs received a Directive and Notice to Insurers from the NJDEP that

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directed the PRPs to arrange for a natural resource damage assessment and interim compensatory restoration of natural resource injuries along the lower Passaic River and its tributaries pursuant to the Spill Act. The NJDEP alleged in the Directive that it had determined that hazardous substances had been discharged from the Essex Site and the Harrison Site. The NJDEP announced that it had estimated the cost of interim natural resource injury restoration activities along the lower Passaic River to approximate $950 million. In August 2007, the National Oceanic and Atmospheric Administration of the United States Department of Commerce sent a letter to PSE&G and other companies identified as PRPs notifying them that it intended to perform an assessment of injuries to natural resources and inviting the PRPs to participate. The PRPs have not agreed to participate in either of these natural resource damage initiatives.

In June 2008, an agreement was announced between the EPA and two PRP s for removal of a portion of the contaminated sediment in the Passaic. The work will cost an estimated $80 million. The two PRP s have reserved their rights to seek contribution for the removal costs from the other PRPs, including PSEG. PSEG cannot predict what further actions, if any, or the costs or the timing thereof, that may be required with respect to the Passaic River. However, such costs could be material.

Newark Bay Study Area

The EPA sent PSEG and 11 other entities notices that the EPA considered each of the entities to be a PRP with respect to contamination in the Newark Bay Study Area, which it defined as Newark Bay and portions of the Hackensack River, the Arthur Kill and the Kill Van Kull. The notice letter requested that the PRPs participate and fund the EPA-approved study in the Newark Bay Study Area and encouraged the PRPs to contact Occidental Chemical Corporation (OCC) to discuss participating in the Remedial Investigation/Feasibility Study (RI/FS) that OCC is conducting in the Newark Bay Study Area. The EPA considers the Newark Bay Study Area, along with the Passaic River Study Area, to be part of the Diamond Alkali Superfund Site. The notice states the EPA s belief that hazardous substances were released from sites owned by PSEG and located on the Hackensack River. The sites included two operating electric generating stations (Hudson and Kearny sites) and one former MGP. PSE&G s costs to clean up former MGPs are recoverable from utility customers through the SBC. The Hudson and Kearny sites were transferred to Power in August 2000. Power assumed any environmental liabilities of PSE&G associated with the electric generating stations that PSE&G transferred to it, including the Hudson and Kearny sites. Power has provided notice to insurers concerning this potential claim. PSEG cannot predict what further actions, if any, or the costs or the timing thereof, that may be required with respect to the Newark Bay Study Area. However, such costs could be material.

Other

In June 2007, the State of New Jersey filed multiple lawsuits in New Jersey Superior Court against parties, including PSE&G, who were alleged to be responsible for injuries to natural resources in New Jersey. Included in these lawsuits was a claim against PSE&G and others arising out of PSE&G s former Camden Coke facility, and a claim against PSE&G and others arising out of the Global Landfill matter. PSE&G has responded to the complaint in the natural resource damages case arising out of the former Camden Coke site and is in the process of remediating that site under its MGP program, discussed below. In March 2008, Power executed an Amended Consent Decree, which obligates the settling parties (including PSE&G) to implement remediation of the Global Landfill site and resolves the natural resource damages claim. A motion for entry of the Amended Consent Decree by the court in the Global Landfill matter was filed by the State of New Jersey in late June 2008. PSEG, Power and PSE&G cannot predict what further actions, if any, or the costs or the timing thereof, that may be required with respect to the Passaic River, Newark Bay or other natural resource damages claims; however, such costs could be material.

PSE&G

MGP Remediation Program

PSE&G is working with the NJDEP under a program to assess, investigate and remediate environmental conditions at PSE&G s former MGP sites (Remediation Program). To date, 38 sites have been identified as

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sites requiring some level of remedial action. In addition, the NJDEP has announced initiatives to accelerate the investigation and subsequent remediation of the riverbeds underlying surface water bodies that have been impacted by hazardous substances from adjoining sites. In 2005, the NJDEP initiated a program on the Delaware River aimed at identifying the 10 most significant sites for cleanup. One of the sites identified is PSE&G s former Camden Coke facility located in Camden. The Remediation Program is periodically reviewed, and the estimated costs are revised by PSE&G based on regulatory requirements, experience with the program and available remediation technologies.

As of December 31, 2007, PSE&G s estimate to remediate all MGP sites to completion, as well as the anticipated costs to address MGP-related material discovered in three rivers adjacent to two former MGP sites, resulted in a range between $639 million and $812 million through 2021. During the second quarter of 2008, the estimate for one MGP site was revised. Based on that revision, the remaining costs of remediating all sites to completion could range between $648 million and $828 million through 2021, which represents the increased estimated cost of $20 million less $11 million of costs incurred in 2008. Since no amount within the range was considered to be most likely, PSE&G recorded a liability of $648 million as of June 30, 2008. Of this amount, $45 million was recorded in Other Current Liabilities and $603 million was reflected in Environmental Costs in Noncurrent Liabilities. The costs associated with the MGP Remediation Program have historically been recovered through the SBC charges to PSE&G ratepayers. As such, PSE&G has a Regulatory Asset recorded which is equivalent to the accrued liability.

Power

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

The PSD/NSR regulations, promulgated under the Clean Air Act, require major sources of certain air pollutants to obtain permits, install pollution-control technology and obtain offsets, in some circumstances, when those sources undergo a major modification, as defined in the regulations. The federal government may order companies that are not in compliance with the PSD/NSR regulations to install the best available control technology at the affected plants and to pay monetary penalties of up to $27,500 for each day of continued violation.

On November 30, 2006, Power reached an agreement with the EPA and the NJDEP to achieve emissions reductions targets consistent with an earlier consent decree that resolved allegations of non- compliance with PSD/NSR programs at Power s Mercer, Hudson and Bergen generating stations. Under this agreement and the consent decree, Power is required to undertake a number of technology projects, plant modifications and operating procedure changes at Hudson and Mercer designed to meet targeted reductions in emissions of sulfur dioxide (SO_2), nitrogen oxide (NO_x), particulate matter and mercury.

Pursuant to this program, Power has installed selective catalytic reduction equipment at Mercer at a cost of $122 million. The cost of implementing the balance of the agreement is estimated at $475 million to $525 million for Mercer, to be completed by May 2010, and $700 million to $750 million for Hudson, to be completed by the end of 2010. Fossil also purchased and retired emissions allowances by July 31, 2007, paid a $6 million civil penalty and has agreed to contribute $3 million for programs to reduce particulate emissions from diesel engines in New Jersey. Two particulate emissions reduction projects are in development to meet the agreement criteria. In May 2007, Mercer Units 1 and 2 commenced construction of the back-end emission control projects. In February 2008, Hudson Unit 2 commenced construction of the back-end emission control projects.

Mercury Regulation

In March 2005, the EPA established a New Source Performance Standard limit for nickel emissions from oil-fired electric generating units, and a cap-and-trade program for mercury emissions from coal-fired electric generating units,

with a first phase cap of 38 tons per year (tpy) in 2010 and a second phase cap of 15 tpy in 2018 (Clean Air Mercury Rule). The United States Court of Appeals for the District of Columbia Circuit issued a decision in February 2008 rejecting the EPA s mercury emissions program. As a result of this decision, the EPA is required to develop emissions standards for mercury and nickel emissions that do not rely on a cap-and-trade program. The full impact, if any, of this development is uncertain until the EPA

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issues the new emissions standards. Compliance with the new mercury standards, however, is not expected to have a material impact on Power s operations in New Jersey and Connecticut given the stringent mercury-control requirements applicable in those states, as described below.

New Jersey and Connecticut have standards for the reduction of emissions of mercury from coal-fired electric generating units. The regulations in New Jersey required the units to meet certain emissions limits or reduce emissions by approximately 90% by December 15, 2007, unless a one-year extension was granted by NJDEP.

Under the New Jersey regulations, companies that are parties to multi-pollutant reduction agreements are permitted to postpone such reductions on half of their coal-fired electric generating capacity until December 15, 2012. With respect to Power s New Jersey facilities, half of the reductions that were required by December 15, 2007 are expected to be achieved through the installation of carbon injection technology at both Mercer Units, which was completed in January 2007. Because there is some uncertainty as to whether the system can consistently achieve the required reductions, Power has applied for and received from NJDEP approval of a one-year extension through a facility-specific control plan that includes the installation of baghouses at the Mercer Units in 2008. Installation is scheduled to be completed by the end of 2008. At its Hudson plant, Power anticipates compliance consisting of the installation of a baghouse by the end of 2010.

The mercury-control technologies are also part of Power s multi-pollutant reduction agreement, which resulted from earlier agreements that resolved issues arising out of the PSD/NSR air pollution control programs discussed above.

Mercury emissions control standards effective in July 2008 in Connecticut require coal-fired power plants in Connecticut to achieve either an emissions limit or a 90% mercury removal efficiency through technology installed to control mercury emissions. Power anticipates compliance at its Bridgeport Harbor Station resulting from the installation of a baghouse which was placed in operation in January 2008.

In February 2007, Pennsylvania finalized its state-specific requirements to reduce mercury emissions from coal-fired electric generating units. The Keystone and Conemaugh generating stations will be positioned by 2010 to meet Phase I of the Pennsylvania mercury rule by benefiting from reductions realized from the installation of controls for compliance with SO_2 and NO_x reductions. Phase 2 of the mercury rule will be addressed after a full evaluation of Phase 1 reductions.

Some uncertainty exists regarding the feasibility of achieving the reductions in mercury emissions required by the New Jersey regulations and Connecticut statute. However, the estimated costs of technology believed to be capable of meeting these emissions limits at Power s coal-fired units in Connecticut, New Jersey and Pennsylvania have been incurred or are included in Power s capital expenditure forecast. Total estimated costs for each project are between $150 million and $200 million. The costs for Mercer and Hudson are included in the cost estimates referred to in the PSD/NSR discussion above.

Emission Fees

Section 185 of the Clean Air Act requires states (or in the absence of state action, the EPA) in severe and extreme non-attainment areas to adopt a penalty fee for major stationary sources if the area fails to attain the one-hour ozone National Ambient Air Quality Standard (NAAQS) set by the EPA. In June 2007, the U.S. Court of Appeals for the District of Columbia Circuit ruled against the EPA, which had sought to vacate imposition of fees for NO_x emissions as part of the one-hour standard for ozone attainment implementation. Power operates electric generation stations, major stationary sources, in the New Jersey-Connecticut severe non-attainment area that failed to meet the required NAAQS. Neither the EPA nor the states in the non-attainment areas in which Power operates have initiated the

process for imposing fees in compliance with the court ruling; however, preliminary analysis suggests that penalty fees will be approximately $6 million annually. This analysis could change if the EPA or the states issue additional guidance addressing the imposition of fees, or if Power is able to reduce its emissions of NO_x in the future below the statutory threshold through the installation of control technologies at one or more of Power s generation stations.

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New Jersey Industrial Site Recovery Act (ISRA)

Potential environmental liabilities related to subsurface contamination at certain generating stations have been identified. In the second quarter of 1999, in anticipation of the transfer of PSE&G s generation-related assets to Power, a study was conducted pursuant to ISRA, which applied to the sale of certain assets. Power had a $50 million liability as of each of June 30, 2008 and December 31, 2007 related to these obligations, which is included in Environmental Costs on Power s and PSEG s Condensed Consolidated Balance Sheets.

Permit Renewals

In June 2001, the NJDEP issued a renewed New Jersey Pollutant Discharge Elimination System (NJPDES) permit for Salem, expiring in July 2006, allowing for the continued operation of Salem with its existing cooling water intake system. A renewal application prepared in accordance with the Federal Water Pollution Control Act (FWPCA) Section 316(b) and the Phase II 316(b) rule was filed in January 2006 with the NJDEP, which allows the station to continue operating under its existing NJPDES permit until a new permit is issued. Power s application to renew Salem s NJPDES permit demonstrates that the station satisfies FWPCA Section 316(b) and meets the Phase II 316(b) rule s performance standards for reduction of impingement and entrainment through the station s existing cooling water intake technology and operations plus implemented restoration measures. The application further demonstrates that even without the benefits of restoration, the station meets the Phase II 316(b) rule s site-specific determination standards, both on a comparison of the costs and benefits of new intake technology as well as a comparison of the costs to implement the technology at the facility to the cost estimates prepared by the EPA.

In January 2007, the U.S. Court of Appeals for the Second Circuit issued its decision in litigation of the Phase II 316(b) regulations brought by several environmental groups, the Attorneys General of six Northeastern states, including New Jersey, the Utility Water Act Group and several of its members, including Power. The court remanded major portions of the regulations and determined that Section 316(b) of the FWPCA does not support the use of restoration and the site-specific cost-benefit test. The court instructed the EPA to reconsider the definition of best technology available without comparing the costs of the best performing technology to its benefits. Prior to this decision, Power had used restoration and/or a site-specific cost-benefit test in applications it had filed to renew the permits at its once-through cooled plants, including Salem, Hudson and Mercer.

In May 2007, Power and other industry petitioners filed with the Second Circuit Court a request for a rehearing, which was denied. The parties, including Power, requested U.S. Supreme Court review of the matter. In April 2008, the U.S. Supreme Court granted the request of industry petitioners, including Power, to review the question of whether Section 316(b) of the FWPCA allows EPA to compare costs with benefits in determining the best technology available for minimizing adverse environmental impact at cooling water intake structures. Oral argument will occur in the Court s 2008-2009 term, which begins in October 2008. It is anticipated that the Court will render a decision during that term.

Although the rule applies to all of Power s electric generating units that use surface waters for once-through cooling purposes, the impact of the rule and the decision of the Second Circuit Court cannot be determined for all of Power s facilities. Depending on the final decision of the U.S. Supreme Court, and subsequent actions by the EPA to promulgate a revised rule, the Second Circuit s decision could have a material impact on Power s ability to renew its New Jersey and Connecticut permits at its larger once-through cooled plants, including Salem, Hudson, Mercer, Bridgeport and, possibly, Sewaren and New Haven, without making significant upgrades to their existing intake structures and cooling systems. If the NJDEP and the Connecticut Department of Environmental Protection were to require installation of closed-cycle cooling or its equivalent at these once-through cooled facilities, the related costs and impacts would be material to Power and would require economic review to determine whether to continue operations.

For example, Power s application to renew its Salem permit, filed in February 2006 with the NJDEP, estimated the costs associated with cooling towers for Salem to be approximately $1 billion, of which Power s share would be approximately $575 million. Potential costs associated with any closed-cycle cooling requirements are not included in Power s forecasted capital expenditures.

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New Generation and Development

Power

Power increased its generating capacity at Hope Creek and Salem Unit 2 in 2008. Phase I of the Hope Creek turbine replacement project increased the nominal capacity of the unit by 10 MW in 2005. Initial testing indicates that Phase II added approximately 125 MW of nominal capacity in the second quarter of 2008. Final performance testing will be conducted later this year. Phase I of the Salem Unit 2 turbine upgrade increased Power s share of the nominal capacity by 14 MW in 2003. Phase II was completed and put in operation in the second quarter of 2008, concurrent with steam generator replacement and increased Power s share of the nominal capacity by approximately 11 MW. Final performance testing will be conducted later this year. Power s total expenditures for these projects were $212 million (including Interest Capitalized During Construction of $24 million).

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

Power and PSE&G

PSE&G obtains its electric supply requirements through the annual New Jersey BGS auctions for customers who do not purchase electric supply from third-party suppliers. PSE&G enters into the Supplier Master Agreement (SMA) with the winners of these BGS auctions within three business days following the BPU s approval. PSE&G has entered into contracts with Power, as well as with other winning BGS suppliers, to purchase BGS for PSE&G s anticipated load requirements. The winners of the auction are responsible for fulfilling all the requirements of a PJM Interconnection L.L.C. (PJM) Load Serving Entity including capacity, energy, ancillary services, transmission and any other services required by PJM. BGS suppliers assume any customer migration risk and must satisfy New Jersey s renewable portfolio standards.

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

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

	Auction Year			
	2005	**2006**	**2007**	**2008**
36 Month Terms Ending	May 2008	May 2009	May 2010	May 2011(a)
Load (MW)	2,840	2,882	2,758	2,840
$ per kWh	$ 0.06541	$ 0.10251	$ 0.09888	$ 0.1115

(a) Prices set in the

February 2008 BGS Auction became effective on June 1, 2008 when the 2005 Auction Year agreements expired.

PSE&G has a full requirements contract with Power to meet the gas supply requirements of PSE&G s gas customers. The contract extends through March 31, 2012, and year-to-year thereafter. Power has entered into hedges for a portion of these anticipated BGSS obligations, as permitted by the BPU. The BPU permits recovery of the cost of gas hedging up to 115 billion cubic feet or approximately 80% of PSE&G s residential gas supply annually through the BGSS tariff. For additional information, see Note 14. Related-Party Transactions.

The BPU is conducting an audit of the gas procurement practices of all four New Jersey gas utilities, including PSE&G. The outcome of this proceeding cannot be predicted.

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Minimum Fuel Purchase Requirements

Power

Coal

Power purchases coal and oil for certain of its fossil generation stations through various long-term commitments. As of June 30, 2008, the total minimum purchase requirements included in these commitments amounted to approximately $1 billion through 2012.

Uranium

Power has several long-term purchase contracts for the supply of nuclear fuel for the Salem and Hope Creek nuclear generating stations. Power has inventory and commitments to purchase sufficient quantities of uranium concentrates to meet 100% of its total estimated requirements through 2011 and approximately 60% of its estimated requirements for 2012. Additionally, Power has commitments for uranium hexafluoride to meet 100% of its estimated requirements for 2011 and 92% for 2012. These commitments, based on current market prices, which have increased substantially over the past two to three years, total $562 million ($395 million Power s estimated share). Power s policy is to maintain certain levels of concentrates and uranium hexafluoride in inventory and to make periodic purchases to support such levels. As such, the commitments referred to above include estimated quantities to be purchased that are in excess of contractual minimum quantities.

Power also has commitments that provide 100% of its uranium enrichment requirements through 2011 and 35% for 2012, totaling $273 million ($184 million Power s estimated share).

Power has commitments that provide 100% of the fabrication of fuel assemblies for reloads required through 2011 for Salem and through 2012 for Hope Creek that total $114 million ($84 million Power s estimated share). Exelon Generation has informed Power that the Peach Bottom plant has inventory and commitments to purchase sufficient quantities of uranium (concentrates and uranium hexafluoride) to meet 100% of its total estimated requirements through 2010. Additionally, Power has been informed that Exelon Generation has commitments covering approximately 100% of its estimated requirements for 2011 and 47% for 2012.

Natural Gas

Power has entered into various multi-year contracts for firm transportation and storage capacity for natural gas, primarily to meet its gas supply obligations to PSE&G. As of June 30, 2008, the total minimum requirements under these contracts were approximately $900 million through 2012.

These purchase obligations are consistent with Power s strategy to enter into contracts for its fuel supply in comparable volumes to its sales contracts.

The generation facilities of PSEG Texas, LP (PSEG Texas), a wholly owned subsidiary of Global, have entered into gas supply agreements for their anticipated fuel requirements to satisfy obligations under their forward energy sales contracts. As of June 30, 2008, the plants had fuel purchase commitments totaling $105 million to support all of their contracted energy sales.

Regulatory Proceedings

PSEG and PSE&G

Electric Discount and Energy Competition Act (Competition Act)

In April 2007, PSE&G and Transition Funding were served with a copy of a purported class action complaint (Complaint) in New Jersey Superior Court challenging the constitutional validity of certain provisions of the Competition Act, seeking injunctive relief against continued collection from PSE&G s electric customers of the Transition Bond charge (TBC) of Transition Funding, as well as recovery of TBC amounts previously collected. Notice of the filing of the Complaint was also provided to New Jersey s Attorney General. Under New Jersey law, the Competition Act, enacted in 1999, is presumed constitutional.

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In July 2007, the same plaintiff filed an amended Complaint to also seek injunctive relief from continued collection of related taxes as well as recovery of such taxes previously collected. In July 2007, PSE&G filed a motion to dismiss the amended Complaint, or, in the alternative, for summary judgment. In October 2007, PSE&G s and Transition Funding s motion to dismiss the Amended Complaint was granted. In November 2007, the plaintiff filed a notice of appeal with the Appellate Division of the New Jersey Superior Court. Briefing of the appeal has been completed.

In July 2007, the same plaintiff also filed a petition with the BPU requesting review and adjustment to PSE&G s recovery of the same charges. In September 2007, PSE&G filed a motion with the BPU to dismiss the petition. PSE&G s motion to dismiss the BPU petition is pending.

Investment Tax Credits (ITC)

The Internal Revenue Service (IRS) has issued several private letter rulings (PLRs) that concluded that the refunding of excess deferred tax and ITC balances to utility customers was permitted only over the related assets regulatory lives, which for PSE&G, was terminated upon New Jersey s electric industry deregulation in 1999. Based on this fact, in 1999, PSE&G reversed the deferred tax and ITC liability relating to the generation assets that were transferred to Power, and recorded a $235 million reduction of the extraordinary charge due to such restructuring of the industry in New Jersey. In May 2006, the IRS issued a PLR to PSE&G, which concluded that none of the generation ITC could be passed to utility customers without violating its normalization rules. In March 2008, the Treasury issued final regulations that confirmed that none of the generation-related ITC could be passed to utility customers without violating the normalization rules. PSE&G has advised the BPU of these regulations and awaits the BPU s determination on this matter. While the issuance of the regulations is a favorable development for PSE&G, no assurance can be given as to final outcome of this issue.

BPU Deferral Audit

The BPU Energy and Audit Division conducts audits of deferred balances under various adjustment clauses. A draft Deferral Audit Phase II report relating to the 12-month period ended July 31, 2003 was released by the consultant to the BPU in April 2005. The draft report addresses the SBC, Market Transition Charge (MTC) and Non-Utility Generation deferred balances. The BPU released the report in May 2005.

While the consultant to the BPU found that the Phase II deferral balances complied in all material respects with the BPU Orders regarding such deferrals, the consultant noted that the BPU Staff had raised certain questions with respect to the reconciliation method PSE&G had employed in calculating the overrecovery of its MTC and other charges during the Phase I and Phase II four-year transition period. The amount in dispute is $114 million, which if required to be refunded to customers with interest through June 2008, would be $129 million.

At PSE&G s request, the matter was transmitted to the Office of Administrative Law for the development of an evidentiary record and an initial decision. The BPU granted the request in February 2007. In May 2007, PSE&G filed a motion for Summary Judgment requesting dismissal of the matter. In September 2007, the Administrative Law Judge issued an initial decision denying PSE&G s motion to dismiss the matter and ordering the filing of testimony and evidentiary hearings. Hearings were held in July 2008 with briefs scheduled to be filed in the fall of 2008. The BPU Staff and New Jersey Division of Rate Counsel have both asserted in briefs that the disputed amount should be refunded to customers.

While PSE&G believes the MTC methodology it used was fully litigated and resolved by the prior BPU Orders in its previous electric base rate case, deferral audit and deferral proceedings, PSE&G cannot predict the outcome of this proceeding.

New Jersey Clean Energy Program

The BPU has approved a funding requirement for each New Jersey utility applicable to its Renewable Energy and Energy Efficiency programs for the years 2005 to 2008. The sum of PSE&G s electric and gas funding requirement was $72 million and $62 million for the six months ended June 30, 2008 and 2007, respectively. The remaining liability has been recorded with an offsetting Regulatory Asset, since the costs

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associated with this program are expected to be recovered from PSE&G ratepayers through the SBC. The liability for the funding requirement as of June 30, 2008 and December 31, 2007 was $75 million and $149 million, respectively.

Energy Holdings

Leveraged Lease Investments

In November 2006, the IRS issued its Revenue Agent s Report with respect to its audit of PSEG s Federal corporate income tax returns for tax years 1997 through 2000, which disallowed all deductions associated with certain lease transactions that are similar to a type that the IRS publicly announced its intention to challenge. In addition, the IRS Report proposed a 20% penalty for substantial understatement of tax liability. In February 2007, PSEG filed a protest of these findings with the Office of Appeals of the IRS.

In April 2008, the IRS issued its Revenue Agent s Report for tax years 2001 through 2003, which disallowed all deductions associated with lease transactions similar to those disallowed in its 1997 through 2000 Report. As in its prior report, the IRS proposed a 20% penalty. PSEG prepared a protest to this report which was filed with the Office of Appeals of the IRS.

As of June 30, 2008 and December 31, 2007, Resources total gross investment in such transactions was $1 billion and $1.5 billion, respectively.

PSEG has been in discussions with the Office of Appeals of the IRS concerning the deductions that have been disallowed. PSEG believes that its tax position related to these transactions was proper based on applicable statutes, regulations and case law in effect at the time that the deductions were taken.

There are several tax cases involving other taxpayers with similar leverage lease investments that are pending. To date, three cases have been decided at the trial court level, two of which were decided in favor of the government. An appeal of one of these decisions was recently affirmed. The third case involves a jury verdict that is currently being challenged by both parties on inconsistency grounds.

PSEG believes that its leasing transactions are fully consistent with Resources long-standing business model and its focus on energy-related assets of the type which PSEG has traditionally owned and operated. Based on the status of discussions with the IRS, and considering developments in other cases, PSEG currently anticipates that it will pay $300 million to $350 million in taxes, interest and penalties claimed by the IRS for the 1997 2000 audit cycle later in 2008, and subsequently commence litigation to recover a refund.

Earnings Impact

As a result of the recent court decisions regarding these types of leveraged lease transactions, PSEG evaluated its unrecognized tax benefits under FIN 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109 (FIN 48), and recorded an after-tax increase to the interest reserve of $135 million in the second quarter of 2008. This charge is recorded in Income Tax Expense in PSEG s Condensed Consolidated Statements of Operations.

Assuming all rental payments are made pursuant to the original lease agreement, and there are no changes in tax legislation and rates, the total cash and income included in a leveraged lease transaction will not change over the lease term. However, the timing of the cash flow can change due to changes in the timing of tax deductions. Changes in the timing of cash flows affect the overall return, or yield, that is recorded as income at a constant rate throughout the

lease term. If there is a change in cash flow timing, pursuant to FSP 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction , the lease must be recalculated from inception assuming the new lease yield. Differences between the current gross lease investment and the gross lease investment per the recalculated lease must be recognized immediately in income.

PSEG has recalculated its lease transactions, incorporating potential cash payments (discussed below) consistent with the FIN 48 reserve position, and recorded an after-tax charge of $355 million in the second quarter of 2008. This charge is reflected as a reduction in Operating Revenues of $485 million with a partially

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offsetting reduction in Income Tax Expense of $130 million in PSEG s Condensed Consolidated Statements of Operation. The $355 million will be recognized as income over the remaining term of the affected leases.

The aggregate reserves recorded as of June 30, 2008 represents PSEG s view of most of the financial statement exposure related to these lease transactions.

Cash Impact

If the IRS disallowance of tax benefits associated with all of these lease transactions was sustained, approximately $1,166 million would become currently payable as of June 30, 2008. This is composed of $957 million of deferred tax liabilities that have been recorded under leveraged lease accounting through June 30, 2008 and cumulative interest on this deficiency of $209 million, after-tax. In addition, as of June 30, 2008, penalties of $147 million have been proposed by the IRS. Interest and penalties grow at the rate of $15 million per quarter. In December 2007, PSEG deposited $100 million with the IRS to defray potential interest costs associated with this disputed tax liability. In the event PSEG is successful in its defense of its position, the deposit is fully refundable with interest. A resolution of this matter, consistent with the reserves established under FIN 48, could result in additional tax and interest payments approximating $900 million to $950 million, including the amounts for the 1997 2000 audit cycle discussed above.

The actions described above concerning the leveraged lease investments are not expected to violate any covenant or result in a default under either Energy Holdings credit facility or Senior Notes indenture.

Note 6. Financial Risk Management

The operations of PSEG, Power and PSE&G are exposed to market risks from changes in commodity prices, foreign currency exchange rates, interest rates and equity prices that could affect their results of operations and financial conditions. PSEG, Power and PSE&G manage exposure to these market risks through their regular operating and financing activities and, when deemed appropriate, hedge these risks through the use of derivative financial instruments. PSEG, Power and PSE&G use the term hedge to mean a strategy designed to manage risks of volatility in prices or rate movements on certain assets, liabilities or anticipated transactions and by creating a relationship in which gains or losses on derivative instruments are expected to counterbalance the gains or losses on the assets, liabilities or anticipated transactions exposed to such market risks. Each of PSEG, Power and PSE&G uses derivative instruments as risk management tools consistent with its respective business plan and prudent business practices.

Derivative Instruments and Hedging Activities

Energy Contracts

Power

Power actively trades energy and energy-related products, including electricity, natural gas, electric capacity, firm transmission rights (FTRs), coal, oil and emission allowances in the spot, forward and futures markets, primarily in PJM, New York and New Jersey and natural gas in the producing region.

Power maintains a strategy of entering into positions to optimize the value of its portfolio and reduce earnings volatility of generation assets, gas supply contracts and its electric and gas supply obligations. Power engages in physical and financial transactions in the electricity wholesale markets and executes an overall risk management strategy seeking to mitigate the effects of adverse movements in the fuel and electricity markets. These contracts also involve financial transactions including swaps, options and futures. There have been significant increases in

commodity prices over the last year. The resultant changes in market values for energy and related contracts that qualify for hedge accounting have resulted in significant increases to Accumulated Other Comprehensive Loss. For additional information, see Note 5. Commitments and Contingent Liabilities. For contracts not qualifying for hedge accounting, Power marks its derivative energy contracts to market in accordance with SFAS 133 Accounting for Derivative Instruments and Hedging Activities, (SFAS 133) with changes in fair value charged to the Consolidated Statements of Operations. Wherever possible, fair values for these contracts are obtained from quoted market sources. For contracts where no quoted market exists, modeling techniques are employed using assumptions reflective of current

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market rates, yield curves and forward prices, as applicable, to interpolate certain prices. The effect of using such modeling techniques is not material to Power s financial results.

The availability and price of energy commodities are subject to fluctuations from factors such as weather, environmental policies, changes in supply and demand, state and federal regulatory policies, market conditions, transmission availability and other events. Power manages its risk of fluctuations of energy price and availability through derivative instruments, such as forward purchase or sale contracts, swaps, options, futures and FTRs.

Cash Flow Hedges

Power uses forward sale and purchase contracts, swaps and FTR contracts to hedge forecasted energy sales from its generation stations and to hedge related load obligations. Power also enters into swaps and futures transactions to hedge the price of fuel to meet its fuel purchase requirements. These derivative transactions are designated and effective as cash flow hedges under SFAS 133. As of June 30, 2008, the fair value of these hedges was $(1.5) billion. These hedges resulted in an $(870) million after-tax impact on Accumulated Other Comprehensive Loss. As of December 31, 2007, the fair value of these hedges was $(427) million. These hedges, along with realized losses on hedges of $(4) million retained in Accumulated Other Comprehensive Loss, resulted in a $(250) million after-tax impact on Accumulated Other Comprehensive Loss. During the 12 months ending June 30, 2009, $(478) million of after-tax unrealized losses on these commodity derivatives is expected to be reclassified to earnings with another $(282) million of after-tax unrealized losses to be reclassified to earnings for the 12 months ending June 30, 2010. Ineffectiveness associated with these hedges, as defined in SFAS 133, was a loss of $4 million at June 30, 2008. The expiration date of the longest dated cash flow hedge is in 2011.

Other Derivatives

Power also enters into certain other contracts that are derivatives, but do not qualify for cash flow hedge accounting under SFAS 133. Most of these contracts are used for fuel purchases for generation requirements and for electricity purchases for contractual sales obligations and a portion is used in Power s Nuclear Decommissioning Trust Funds (NDT). Therefore, the changes in fair market value of these derivative contracts are recorded in Energy Costs, Operating Revenues, Other Income or Other Deductions, as appropriate, on the Consolidated Statements of Operations. The net fair value of these instruments was $39 million and $(10) million as of June 30, 2008 and December 31, 2007, respectively.

Energy Holdings

Cash Flow Hedges

Energy Holdings uses forward sale and purchase contracts and swaps to hedge forecasted energy sales from one of its generation stations. Energy Holdings also enters into swap transactions to hedge the price of fuel. These derivative transactions are designated and effective as cash flow hedges under SFAS 133. As of June 30, 2008, the fair value of these hedges was $(1) million. During the 12 months ending June 30, 2009, substantially all of the after-tax unrealized losses on these commodity derivatives are expected to be reclassified to earnings. There was no ineffectiveness associated with these hedges, as defined in SFAS 133. These hedges resulted in an after-tax impact of less than $(1) million on Accumulated Other Comprehensive Loss. The expiration date of the longest dated cash flow hedge is in 2009.

Other Derivatives

The generation facilities of PSEG Texas enter into electricity forward and capacity sales contracts to sell a portion of their 2,000 MW capacity with the balance sold into the daily spot market. They also enter into gas purchase contracts to specifically match the generation requirements to support the electricity forward sales contracts. Although these contracts fix the amount of revenue, fuel costs and cash flows, and thereby provide financial stability to PSEG Texas, these contracts are, based on their terms, derivatives that do not meet the specific accounting criteria in SFAS 133 to qualify for the normal purchases and normal sales

exception, or to be designated as a hedge for accounting purposes. As a result, these contracts must be recorded at fair value through the Consolidated Statements of Operations. The net fair value of the open positions was $12 million and $63 million as of June 30, 2008 and December 31, 2007, respectively.

During March and April of 2008, in connection with the sale of SAESA, Energy Holdings purchased six four-month options to sell Chilean Pesos and receive U.S. Dollars at strike prices between 470 and 480 Chilean Pesos to one U.S. Dollar for a combined notional amount of $300 million. These options were purchased to protect the expected sales proceeds of SAESA from a devaluation of the Chilean Peso prior to the anticipated sale. After the announcement in June 2008 that an agreement was signed to sell SAESA, Energy Holdings sold all six options, resulting in a $5 million after-tax gain which is included in Income from Discontinued Operations on the Condensed Consolidated Statement of Operations of PSEG for the quarter and six months ended June 30, 2008. See Note 3. Discontinued Operations and Dispositions.

Interest Rates

PSEG, Power and PSE&G

PSEG, Power and PSE&G are subject to the risk of fluctuating interest rates in the normal course of business. PSEG s policy is to manage interest rate risk through the use of fixed and floating rate debt and interest rate derivatives.

Fair Value Hedges

PSEG and Power

PSEG uses an interest rate swap to convert Power s fixed-rate debt of $250 million of 3.75% Senior Notes due April 2009 into variable-rate debt. The interest rate swap is designated and effective as a fair value hedge. The fair value changes of the interest rate swap are fully offset by the fair value changes in the underlying debt. As of June 30, 2008 and December 31, 2007, the fair value of the hedge was $1 million and $(2) million, respectively.

Cash Flow Hedges

PSEG and PSE&G

PSEG and PSE&G use interest rate swaps and other interest rate derivatives to manage their exposures to the variability of cash flows, primarily related to variable-rate debt instruments. The interest rate derivatives used are designated and effective as cash flow hedges. Except for PSE&G s cash flow hedges, the fair value changes of these derivatives are initially recorded in Accumulated Other Comprehensive Loss. As of June 30, 2008, the fair value of these cash flow hedges was $(3) million and $(7) million at PSE&G and Energy Holdings, respectively. As of December 31, 2007, the fair value of these cash flow hedges was $(4) million and $(7) million at PSE&G and Energy Holdings, respectively. The $(3) million and $(4) million at PSE&G as of June 30, 2008 and December 31, 2007, are not included in Accumulated Other Comprehensive Loss, as they are deferred as Regulatory Assets and are expected to be recovered from PSE&G s customers. During the next 12 months, $(4) million of unrealized losses (net of taxes) on interest rate derivatives in Accumulated Other Comprehensive Loss is expected to be reclassified at PSEG. As of June 30, 2008, there was no hedge ineffectiveness associated with these hedges.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Note 7. Comprehensive Income (Loss), Net of Tax

	Power (A)	PSE&G	Other (B)	Consolidated Total
		(Millions)		
For the Quarter Ended June 30, 2008:				
Net Income (Loss)	$ 240	$ 52	$ (442)	$ (150)
Other Comprehensive Loss	(388)		(72)	(460)
Comprehensive (Loss) Income	$ (148)	$ 52	$ (514)	$ (610)
For the Quarter Ended June 30, 2007:				
Net Income	$ 184	$ 63	$ 28	$ 275
Other Comprehensive Income	30		29	59
Comprehensive Income	$ 214	$ 63	$ 57	$ 334
For the Six Months Ended June 30, 2008:				
Net Income (Loss)	$ 515	$ 189	$ (406)	$ 298
Other Comprehensive Loss.	(660)		(20)	(680)
Comprehensive (Loss) Income	$ (145)	$ 189	$ (426)	$ (382)
For the Six Months Ended June 30, 2007:				
Net Income	$ 397	$ 195	$ 12	$ 604
Other Comprehensive (Loss) Income	(125)		20	(105)
Comprehensive Income	$ 272	$ 195	$ 32	$ 499

(A) Changes at Power primarily relate to changes in SFAS 133 unrealized

gains and losses on derivative contracts that qualify for hedge accounting in 2008 and 2007, as detailed below.

(B) Other consists of activity at PSEG (as parent company), Energy Holdings, Services and intercompany eliminations. Changes for 2008 and 2007 primarily relate to foreign currency translation adjustments at Global, as detailed below.

Accumulated Other Comprehensive Income (Loss)

	Balance as of December 31, 2007	Power	PSE&G	Other	Balance as of June 30, 2008
			(Millions)		
For the Six Months Ended June 30, 2008:					
Derivative Contracts	$ (259)	$ (619)	$	$	$ (878)
Pension and OPEB Plans	(167)	1			(166)
Currency Translation Adjustment	107			(19)	88
NDT Funds	97	(42)			55
Other	6			(1)	5

	$ (216)	$ (660)	$	$ (20)	$ (896)

	Balance as of December 31, 2006	Power	PSE&G	Other	Balance as of June 30, 2007
			(Millions)		
For the Six Months Ended June 30, 2007:					
Derivative Contracts	$ (114)	$ (145)	$	$ 1	$ (258)
Pension and OPEB Plans	(214)	6		1	(207)
Currency Translation Adjustment	110			17	127
NDT Funds	108	14			122
Other	2			1	3
	$ (108)	$ (125)	$	$ 20	$ (213)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 8. Changes in Capitalization

Power

In each of June 2008 and March 2008, Power paid a cash dividend to PSEG of $125 million.

PSE&G

In May 2008, PSE&G redeemed its outstanding $157 million of 6.375% First and Refunding Mortgage Bonds Remarketable Series YY Due 2023 Mandatorily Tendered 2008. PSE&G paid approximately $32 million in cash to settle the remarketing option held by the remarketing dealer.

In April 2008, PSE&G issued $400 million of 5.30% Medium-Term Notes, Series E due May 1, 2018.

In March 2008, PSE&G issued $300 million of Floating Rate (3-month Libor + 0.875%) Bonds due 2010.

As of December 31, 2007, PSE&G had $494 million of variable rate pollution control bonds outstanding which serviced and secured a like amount of insured tax-exempt variable rate bonds of the Pollution Control Authority of Salem County (Salem County Authority). Through April 2008, PSE&G purchased $494 million of the Salem County Authority bonds which were either being held by the broker/dealer or tendered by bondholders upon conversion of the bonds to a weekly interest rate mode. These purchases were recorded as a reduction to PSE&G s Long-Term Debt included in its Condensed Consolidated Balance Sheets. PSE&G intends to hold these bonds until they can be remarketed or refinanced.

In June 2008 and March 2008, Transition Funding repaid $37 million and $40 million, respectively, of its transition bonds.

In June 2008, PSE&G Transition Funding II LLC repaid $5 million of its transition bonds.

Energy Holdings

In March 2008, Energy Holdings repurchased $5 million of the $530 million then outstanding 8.50% Senior Notes due 2011.

In February 2008, Energy Holdings repaid at maturity $207 million of its 8.625% Senior Notes.

In January 2008, Energy Holdings redeemed its outstanding $400 million of 10% Senior Notes due 2009.

During the first six months of 2008, Energy Holdings paid $48 million in premiums related to the early redemption of its outstanding debt.

During the first six months of 2008, Energy Holdings subsidiaries repaid $22 million of non-recourse debt, primarily related to the PSEG Texas generation facilities.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 9. Other Income and Deductions

	Power	PSE&G	Other (A)	Consolidated Total
		(Millions)		
Other Income:				
For the Quarter Ended June 30, 2008:				
Interest and Dividend Income	$ 2	$ 1	$ 3	$ 6
NDT Fund Realized Gains	78			78
NDT Interest and Dividend Income	13			13
Other		1		1
Total Other Income	$ 93	$ 2	$ 3	$ 98
For the Quarter Ended June 30, 2007:				
Interest and Dividend Income	$ 10	$ 3	$ (5)	$ 8
NDT Fund Realized Gains	31			31
NDT Interest and Dividend Income	13			13
Minority Interest			2	2
Other	1	2	1	4
Total Other Income	$ 55	$ 5	$ (2)	$ 58
For the Six Months Ended June 30, 2008:				
Interest and Dividend Income	$ 5	$ 4	$ 4	$ 13
NDT Fund Realized Gains	147			147
NDT Interest and Dividend Income	24			24
Other	3	3	1	7
Total Other Income	$ 179	$ 7	$ 5	$ 191
For the Six Months Ended June 30, 2007:				
Interest and Dividend Income	$ 15	$ 6	$ (2)	$ 19
NDT Fund Realized Gains	65			65
NDT Interest and Dividend Income	25			25
Change in Derivative Fair Value			1	1
Arbitration Award (Konya-Ilgin)			9	9
Minority Interest			2	2

Other		1		4		4		9
Total Other Income	$	106	$	10	$	14	$	130

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

	Power		PSE&G		Other (A)		Consolidated Total	
				(Millions)				
Other Deductions:								
For the Quarter Ended June 30, 2008:								
NDT Fund Realized Losses and Expenses	$	53	$		$		$	53
NDT Fund Unrealized Losses		1						1
Other-Than-Temporary Impairment of Investments		33						33
Total Other Deductions	$	87	$		$		$	87
For the Quarter Ended June 30, 2007:								
NDT Fund Realized Losses and Expenses	$	19	$		$		$	19
Foreign Currency Losses						2		2
Other-Than-Temporary Impairment of Investments		14						14
Other		1		1				2
Total Other Deductions	$	34	$	1	$	2	$	37
For the Six Months Ended June 30, 2008:								
Donations	$		$	1	$		$	1
NDT Fund Realized Losses and Expenses		107						107
NDT Fund Unrealized Losses		1						1
Loss on Early Extinguishment of Debt						1		1
Other-Than-Temporary Impairment of Investments		70						70
Other						1		1
Total Other Deductions	$	178	$	1	$	2	$	181
For the Six Months Ended June 30, 2007:								
Donations	$		$	1	$	5	$	6
NDT Fund Realized Losses and Expenses		36						36
Foreign Currency Losses						3		3
Loss on Disposition of Assets		2						2
Other-Than-Temporary Impairment of Investments		24						24
Other		1		1				2
Total Other Deductions	$	63	$	2	$	8	$	73

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Note 10. Pension and Other Postretirement Benefits (OPEB)

PSEG

PSEG sponsors several qualified and nonqualified pension plans and OPEB plans covering PSEG s and its participating affiliates current and former employees who meet certain eligibility criteria. The following table provides the components of net periodic benefit costs relating to all qualified and nonqualified pension and OPEB plans on an aggregate basis. OPEB costs are presented net of the federal subsidy expected for prescription drugs under the Medicare Prescription Drug Improvement and Modernization Act of 2003.

	Pension Benefits Quarters Ended June 30,		OPEB Quarters Ended June 30,		Pension Benefits Six Months Ended June 30,		O Six Mo Ju
	2008	2007	2008	2007	2008	2007	2008
				(Millions)			
Components of Net Periodic Benefit Costs:							
Service Cost.	$ 20	$ 21	$ 3	$ 4	$ 39	$ 42	$ 7
Interest Cost	57	54	18	18	114	108	36
Expected Return on Plan Assets	(73)	(72)	(3)	(3)	(145)	(144)	(7)
Amortization of Net							
Transition Obligation			7	7			14
Prior Service Cost	3	3	3	3	5	6	6
Loss	3	5	(1)	2	6	10	(1)
Net Periodic Benefit Costs	10	11	27	31	19	22	55
Effect of Regulatory Asset			5	5			10
Total Benefit Costs	$ 10	$ 11	$ 32	$ 36	$ 19	$ 22	$ 65

PSEG, Power and PSE&G

Pension costs and OPEB costs for PSEG and its subsidiaries are detailed as follows:

	Pension Benefits Quarters Ended June 30,		OPEB Quarters Ended June 30,		Pension Benefits Six Months Ended June 30,		OPEB Six Months Ended June 30,	
	2008	2007	2008	2007	2008	2007	2008	2007
	(Millions)							
Power	$ 3	$ 3	$ 3	$ 4	$ 6	$ 6	$ 6	$ 8
PSE&G	4	5	28	30	8	10	57	60
Energy Holdings	1	1			1	1		
Services	2	2	1	2	4	5	2	3
Total PSEG Consolidated Benefit Costs	$ 10	$ 11	$ 32	$ 36	$ 19	$ 22	$ 65	$ 71

PSEG may contribute up to $75 million into its qualified pension plans and postretirement healthcare plan during the remaining calendar year 2008.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 11. Income Taxes

An analysis of the tax provision expense is as follows:

	Power	PSE&G	Other (A)	Consolidated Total
		(Millions)		
For the Quarter Ended June 30, 2008:				
Income (Loss) Before Income Taxes	$ 405	$ 80	$ (437)	$ 48
Tax Computed at the Statutory Rate	142	28	(153)	17
Increase (Decrease) Attributable to Flow Through of Certain Tax Adjustments:				
State Income Taxes after Federal Benefit	26	6	37	69
Uncertain Tax Positions	1	(2)	118	117
Other	(4)	(4)	19	11
Total Income Tax Expense	$ 165	$ 28	$ 21	$ 214
Effective Income Tax Rate	40.7 %	35.0 %	N/A	N/A
For the Quarter Ended June 30, 2007:				
Income Before Income Taxes	$ 318	$ 104	$ 30	$ 452
Tax Computed at the Statutory Rate	111	36	10	157
Increase (Decrease) Attributable to Flow Through of Certain Tax Adjustments:				
State Income Taxes after Federal Benefit	18	8	(1)	25
Foreign Operations			(11)	(11)
Uncertain Tax Positions	2		1	3
Other		(3)		(3)
Total Income Tax Expense (Benefit)	$ 131	$ 41	$ (1)	$ 171
Effective Income Tax Rate	41.2 %	39.4 %	N/A	37.8 %

For the Six Months Ended June 30, 2008:				
Income (Loss) Before Income Taxes	$ 867	$ 282	$ (433)	$ 716
Tax Computed at the Statutory Rate	303	99	(152)	250
Increase (Decrease) Attributable to Flow Through of Certain Tax Adjustments:				
State Income Taxes after Federal Benefit	55	21	35	111
Uncertain Tax Positions	1	(22)	101	80
Other	(7)	(5)	19	7
Total Income Tax Expense	$ 352	$ 93	$ 3	$ 448
Effective Income Tax Rate	40.6 %	33.0 %	N/A	62.6 %
For the Six Months Ended June 30, 2007:				
Income Before Income Taxes	$ 692	$ 335	$ 6	$ 1,033
Tax Computed at the Statutory Rate	242	117	2	361
Increase (Decrease) Attributable to Flow Through of Certain Tax Adjustments:				
State Income Taxes after Federal Benefit	41	24	(4)	61
Foreign Operations			2	2
Uncertain Tax Positions	3		6	9
Other		(1)	(1)	(2)
Total Income Tax Expense	$ 286	$ 140	$ 5	$ 431
Effective Income Tax Rate	41.3 %	41.8 %	83.3 %	41.7 %

(A) PSEG s other activities include amounts applicable to PSEG (as parent corporation)

that primarily relate to financing and certain administrative and general costs and amounts applicable to Energy Holdings (as parent company) that reflect interim period distortion due to asset sales and other one-time adjustments.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Each of PSEG, Power and PSE&G provide deferred taxes at the enacted statutory tax rate for all temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities irrespective of the treatment for rate-making purposes. Management believes that it is probable that the accumulated tax benefits that previously have been treated as a flow-through item to PSE&G customers will be recovered from PSE&G s customers in the future. Accordingly, an offsetting Regulatory Asset was established. As of June 30, 2008, PSE&G had a Regulatory Asset of $421 million representing the tax costs expected to be recovered through rates based upon established regulatory practices, which permit recovery of current taxes payable. This amount was determined using the enacted federal income tax rate of 35% and state income tax rate of 9%.

PSEG and its subsidiaries adopted FIN 48 effective January 1, 2007, which prescribes a model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return.

On December 17, 2007, PSEG made a tax deposit with the IRS in the amount of $100 million to defray interest costs associated with disputed tax assessments associated with certain lease investments (see Note 5. Commitments and Contingent Liabilities). The $100 million deposit is fully refundable and is recorded as a reduction to the Unrecognized Tax Benefit liability on PSEG s Condensed Consolidated Balance Sheets.

As a result of the recent activity regarding certain types of lease transactions as described in Note 5. Commitments and Contingent Liabilities, PSEG evaluated its unrecognized tax benefits under FIN 48, and recorded a gross increase to the unrecognized tax benefits of $856 million in the second quarter of 2008. As $229 million of this amount relates to an increase to the interest reserve, the after-tax amount of $135 million is recorded in Income Tax Expense.

It is reasonably possible that total unrecognized tax benefits at PSEG will decrease by $23 million within the next 12 months due to agreement with the IRS s position relative to various items included in Federal income tax returns for years 2001-2003. This amount includes a $4 million liability for Power, a $3 million benefit for PSE&G, a $27 million liability for Energy Holdings and a $5 million benefit for PSEG parent.

As a result of a change in accounting method for the capitalization of indirect costs, during the first six months of 2008, PSEG reduced the net amount of its unrecognized tax benefits by $83 million, approximately $45 million of which related to PSE&G. Because the IRS agreed with PSEG s change in accounting method, it is reasonably possible that PSEG s claim related to this matter will be settled with the IRS in the next 12 months, resulting in an increase in the unrecognized tax benefits.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 12. Financial Information by Business Segments

Information related to the segments of PSEG and its subsidiaries is detailed below:

	Power	PSE&G	Resources	Global	Other (A)	Consolidated
			(Millions)			
For the Quarter Ended June 30, 2008:						
Total Operating Revenues	$ 1,623	$ 1,858	$ (457)	$ 226	$ (689)	$ 2,561
Income (Loss) From Continuing Operations	240	52	(470)	18	(6)	(166)
Income from Discontinued Operations, net of tax				16		16
Net Income (Loss)	240	52	(470)	34	(6)	(150)
Preferred Securities Dividends		(1)			1	
Segment Earnings (Loss)	240	51	(470)	34	(5)	(150)
Gross Additions to Long-Lived Assets	210	200	1	1	4	416
For the Quarter Ended June 30, 2007:						
Total Operating Revenues	$ 1,305	$ 1,748	$ 35	$ 199	$ (580)	$ 2,707
Income (Loss) From Continuing Operations	187	63	15	33	(17)	281
Loss from Discontinued Operations,	(3)			(3)		(6)

net of tax												
Net Income (Loss)		184		63		15		30		(17)		275
Preferred Securities Dividends				(1)						1		
Segment Earnings (Loss)		184		62		15		30		(16)		275
Gross Additions to Long-Lived Assets		197		166		1		12		8		384
<u>For the Six Months Ended June 30, 2008:</u>												
Total Operating Revenues	$	3,998	$	4,476	$	(426)	$	334	$	(2,018)	$	6,364
Income (Loss) From Continuing Operations		515		189		(456)		33		(13)		268
Income from Discontinued Operations, net of tax								30				30
Net Income (Loss)		515		189		(456)		63		(13)		298
Preferred Securities Dividends				(2)						2		
Segment Earnings (Loss)		515		187		(456)		63		(11)		298
Gross Additions to Long-Lived Assets		384		345		1		3		6		739
<u>For the Six Months Ended June 30, 2007:</u>												
Total Operating Revenues	$	3,454	$	4,234	$	79	$	301	$	(1,853)	$	6,215

Income (Loss) From Continuing Operations	406	195	31	6	(36)	602
(Loss) Income from Discontinued Operations, net of tax	(9)			11		2
Net Income (Loss)	397	195	31	17	(36)	604
Preferred Securities Dividends		(2)			2	
Segment Earnings (Loss)	397	193	31	17	(34)	604
Gross Additions to Long-Lived Assets	323	296	1	28	11	659
As of June 30, 2008:						
Total Assets	$ 8,811	$ 14,774	$ 2,468	$ 2,309	$ (28)	$ 28,334
Investments in Equity Method Subsidiaries	$ 16	$	$	$ 213	$	$ 229
As of December 31, 2007:						
Total Assets	$ 8,336	$ 14,637	$ 2,992	$ 2,334	$	$ 28,299
Investments in Equity Method Subsidiaries	$ 14	$	$	$ 208	$	$ 222

(A) PSEG s other activities include amounts applicable to PSEG (as parent corporation)

and Energy Holdings (as parent company) and EGDC and intercompany eliminations, primarily relating to intercompany transactions between Power and PSE&G. No gains or losses are recorded on any intercompany transactions; rather, all intercompany transactions are at cost or, in the case of the BGS and BGSS contracts between Power and PSE&G, at rates prescribed by the BPU. For a further discussion of the intercompany transactions between Power and PSE&G, see Note 14. Related-Party Transactions. The net losses primarily relate to financing and certain administrative and general

costs at PSEG,
as parent
corporation.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Note 13. Fair Value Measurements

PSEG, Power and PSE&G

Effective January 1, 2008, PSEG, Power and PSE&G adopted SFAS 157 except for non-financial assets and liabilities as described in FSP FAS 157-2 and discussed in Note 2. Recent Accounting Standards. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and establishes a fair value hierarchy that distinguishes between assumptions based on market data obtained from independent sources and those based on an entity s own assumptions. The hierarchy prioritizes the inputs to fair value measurement into three levels:

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

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

Level 3 measurements use unobservable inputs for assets or liabilities, are based on the best information available and might include an entity s own data. In some valuations, the inputs used may fall into different levels of the hierarchy. In these cases, the financial instrument s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These consist mainly of various FTRs, other longer term capacity and transportation contracts and certain commingled securities.

In addition to establishing a measurement framework, SFAS 157 nullifies the guidance of EITF 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities, which did not allow an entity to recognize an unrealized gain or loss at the inception of a derivative instrument unless the fair value of that instrument was obtained from a quoted market price in an active market or was otherwise evidenced by comparison to other observable current market transactions or based on a valuation technique incorporating observable market data. Under EITF 02-3, PSEG Texas had a deferred inception loss of $34 million, pre-tax, as of December 31, 2007 related to a five-year capacity contract at its generation facilities, which was being amortized at $11 million per year through 2010. In accordance with the provisions of SFAS 157, PSEG Texas recorded a cumulative effect adjustment of $22 million after-tax to January 1, 2008 Retained Earnings in its Condensed Consolidated Balance Sheet associated with the implementation of SFAS 157.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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The following table presents information about PSEG s, Power s, and PSE&G s respective assets and liabilities measured at fair value on a recurring basis at June 30, 2008, including the fair value measurements and the levels of inputs used in determining those fair values. Amounts shown for PSEG include the amounts shown for Power and PSE&G.

	Recurring Fair Value Measurements as of June 30, 2008				
Description	Total as of June 30, 2008	Cash Collateral Netting (F)	Quoted Market Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(Millions)		
PSEG					
Assets:					
Derivative Contracts:					
Energy Contracts (A)	$ 393	$	$	$ 310	$ 83
Other Commodity Contracts (B)	$ 58	$	$	$ 8	$ 50
Interest Rate Swaps (C)	$ 2	$	$	$ 2	$
NDT Funds (D)	$ 1,254	$	$ 568	$ 654	$ 32
Rabbi Trusts (D)	$ 137	$	$ 13	$ 110	$ 14
Other Long-Term Investments (E)	$ 3	$	$ 3	$	$
Liabilities:					
Derivative Contracts:					
Energy Contracts (A)	$ 1,047	$ (418)	$	$ 1,488	$ (23)
Other Commodity Contracts (B)	$ 136	$	$	$ 44	$ 92
Interest Rate Swaps (C)	$ 11	$	$	$ 11	$
Power					
Assets:					
Derivative Contracts:					
Energy Contracts (A)	$ 398	$	$	$ 315	$ 83
NDT Funds (D)	$ 1,254	$	$ 568	$ 654	$ 32
Rabbi Trusts (D)	$ 28	$	$ 3	$ 22	$ 3
Liabilities:					
Derivative Contracts:					
Energy Contracts (A)	$ 1,051	$ (418)	$	$ 1,492	$ (23)
PSE&G					

Assets:										
Derivative Contracts:										
Other Commodity Contracts (B)	$	3	$		$		$		$	3
Rabbi Trusts (D)	$	48	$		$	4	$	39	$	5
Liabilities:										
Other Commodity Contracts (B)	$	92	$		$		$		$	92
Interest Rate Swaps (C)	$	3	$		$		$	3	$	

(A) Whenever possible, fair values for energy contracts are obtained from quoted market sources in active markets. When this pricing is unavailable, contracts are valued using broker or dealer quotes or auction prices. For contracts where no observable market exists, modeling techniques are employed using assumptions reflective of current market rates, yield curves and forward prices, as

applicable, to interpolate certain prices.

(B) Other commodity contracts primarily include more complex agreements for which limited pricing information is available. These contracts are valued using modeling techniques and assumptions reflective of contractual terms, current market rates, forward price curves, discount rates and risk factors, as applicable.

(C) Interest rate swaps are valued using quoted prices on commonly quoted intervals, which are interpolated for periods different than the quoted intervals, as inputs to a

market valuation model. Market inputs can generally be verified and model selection does not involve significant management judgment.

(D) The NDT Funds and the Rabbi Trusts maintain investments in various equity and fixed income securities classified as "available for sale" under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." These securities are valued using quoted market prices, broker or dealer

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quotations, or alternative pricing sources with reasonable levels of price transparency. All fair value measurements for the fund securities are provided by the trustees of these funds. Most equity securities are priced utilizing the principal market close price or in some cases midpoint, bid or ask price (primarily Level 1). Fixed income securities are priced using an evaluated pricing approach or the most recent exchange or quoted bid (primarily Level 2). Short-term investments are valued based upon internal matrices using observable market prices or market parameters such as time-to- maturity, coupon rate, quality rating and current yield (primarily Level 2). Certain commingled cash equivalents included in temporary investment funds are measured with significant unobservable inputs and internal assumptions (primarily Level 3). The NDT Funds exclude net receivables/payables of $76 million related to pending security sales/purchases.

(E) Other long-term investments consist of equity securities and are valued using a market based approach based on quoted market prices.

(F) Cash collateral netting represents collateral amounts netted against derivative assets and liabilities as permitted under FIN 39-1. For further discussion, see Note 2. Recent Accounting Standards.

A reconciliation of the beginning and ending balances of Level 3 derivative contracts and securities follows:

Changes in Level 3 Assets and (Liabilities) Measured at Fair Value on a Recurring Basis for the Quarter Ending June 30, 2008

		Total Gains or (Losses) Realized/Unrealized			
	Balance as of April 1, 2008	Included in Income (A)	Included in Regulatory Assets /Liabilities (B)	Purchases and (Sales)	Balance as of June 30, 2008
			(Millions)		
PSEG Derivative Assets	$ 77	$ 15	$ 1	40	$ 133
PSEG Derivative Liabilities	$ (77)	$ 27	$ (19)	$	$ (69)
PSEG NDT Funds	$ 27	$	$	$ 5	$ 32
PSEG Rabbi Trust Funds	$ 14	$	$	$	$ 14
Power Derivative Assets	$ 14	$ 29	$	$ 40	$ 83
Power Derivative Liabilities	$ (4)	$ 27	$	$	$ 23
Power NDT Funds	$ 27	$	$	$ 5	$ 32
Power Rabbi Trust Funds	$ 3	$	$	$	$ 3
PSE&G Derivative Assets	$ 2	$	$ 1	$	$ 3
PSE&G Derivative Liabilities	$ (73)	$	$ (19)	$	$ (92)
PSE&G Rabbi Trust Funds	$ 5	$	$	$	$ 5

		Total Gains or (Losses) Realized/Unrealized			
	Balance as of January 1, 2008	Included in Income (C)	Included in Regulatory Assets /Liabilities (B)	Purchases and (Sales)	Balance as of June 30, 2008
			(Millions)		
PSEG Derivative Assets	$ 44	$ 38	$	$ 51	$ 133
PSEG Derivative Liabilities	$ (49)	$ 20	$ (40)	$	$ (69)
PSEG NDT Funds	$ 27	$ (1)	$	$ 6	$ 32
PSEG Rabbi Trust Funds	$ 16	$	$	$ (2)	$ 14
Power Derivative Assets	$ 13	$ 19	$	$ 51	$ 83
Power Derivative Liabilities	$ 3	$ 20	$	$	$ 23
Power NDT Funds	$ 27	$ (1)	$	$ 6	$ 32
Power Rabbi Trust Funds	$ 3	$	$	$	$ 3
PSE&G Derivative Assets	$ 3	$	$	$	$ 3
PSE&G Derivative Liabilities	$ (52)	$	$ (40)	$	$ (92)
PSE&G Rabbi Trust Funds	$ 6	$	$	$ (1)	$ 5

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(A) PSEG s gains and losses are mainly attributable to changes in derivative assets and liabilities of which $27 million is included in Operating Revenues and $15 million is included in Other Comprehensive Income. Of the $27 million in Operating Revenues, $(14) million (unrealized) is at PSEG Texas and $41 million (unrealized) is at Power. The $15 million included in Other Comprehensive Income is at Power.

(B) Mainly includes losses on PSE&G s derivative contracts that are not included in either earnings or Other Comprehensive Income, as they are deferred as a Regulatory Asset and are

expected to be recovered from PSE&G s customers.

(C) PSEG s gains and losses are mainly attributable to changes in derivative assets and liabilities of which $50 million is included in Operating Revenues and $8 million is included in Other Comprehensive Income. Of the $50 million in Operating Revenues, $19 million (unrealized) is at PSEG Texas and $31 million (unrealized) is at Power. The $8 million included in Other Comprehensive Income is at Power.

As of June 30, 2008, PSEG carried approximately $653 million of net assets that are measured at fair value on a recurring basis, of which approximately $110 million were measured using unobservable inputs and classified as level 3 within the fair value hierarchy. These Level 3 net assets represent less than 1% of PSEG s total assets and there were no significant transfers in or out of Level 3 during the six months ended June 30, 2008.

Note 14. Related-Party Transactions

The majority of the following discussion relates to intercompany transactions. These transactions were properly recognized on each company s stand-alone financial statements and were eliminated during the consolidation process in accordance with GAAP when preparing PSEG s Condensed Consolidated Financial Statements.

BGS and BGSS Contracts

Power and PSE&G

PSE&G has entered into a requirements contract with Power under which Power provides the gas supply services needed to meet PSE&G s BGSS and other contractual requirements through March 2012 and year-to-year thereafter.

Power has also entered into contracts to supply energy, capacity and ancillary services to PSE&G through the BGS auction process.

The amounts which Power charged to PSE&G for BGS and BGSS are presented below:

	Power s Billings for the			
	Quarters Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Millions)			
BGS	$ 335	$ 263	$ 607	$ 480
BGSS	$ 345	$ 315	$ 1,396	$ 1,364

As of June 30, 2008 and December 31, 2007, Power had net receivables from PSE&G of $262 million and $451 million, respectively, primarily related to the BGS and BGSS contracts.

In addition, as of June 30, 2008, PSE&G had a receivable from Power of $292 million and as of December 31, 2007, PSE&G had a payable to Power of $55 million related to gas supply hedges Power entered into for BGSS.

Services

Power and PSE&G

Services provides and bills administrative services to Power and PSE&G. In addition, Power and PSE&G have other payables to Services, including amounts related to certain common costs, such as pension

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and OPEB costs, which Services pays on behalf of each of the operating companies. The billings for administrative services and payables are presented below:

	Services Billings for the Quarters Ended June 30,		Services Billings for the Six Months Ended June 30,		Payable to Services as of	
	2008	2007	2008	2007	June 30, 2008	December 31, 2007
	(Millions)					
Power	$ 42	$ 34	$ 82	$ 67	$ 22	$ 24
PSE&G	$ 71	$ 58	$ 133	$ 107	$ 40	$ 57

These transactions were properly recognized on each company s stand-alone financial statements and were eliminated when preparing PSEG s Condensed Consolidated Financial Statements. PSEG, Power and PSE&G believe that the costs of services provided by Services approximate market value for such services.

Tax Sharing Agreements

PSEG, Power and PSE&G

Power and PSE&G had payables to PSEG related to taxes as follows:

	Payable to PSEG as of	
	June 30, 2008	December 31, 2007
	(Millions)	
Power	$ 2	$ 43
PSE&G	$ 7	$ 5

In addition to these tax payable amounts, as of June 30, 2008 Power had a $4 million current payable to PSEG and as of December 31, 2007 Power had an $8 million current receivable from PSEG related to unrecognized tax positions. As of June 30, 2008, PSE&G had a $48 million current receivable from PSEG and as of December 31, 2007 PSE&G had a $3 million current tax payable to PSEG for unrecognized tax positions.

Affiliate Loans and Advances

PSEG and Power

As of June 30, 2008 and December 31, 2007, Power had a demand note payable of $400 million and $238 million, respectively, to PSEG for short-term funding needs.

PSE&G and Services

As of each of June 30, 2008 and December 31, 2007, PSE&G had advanced working capital to Services of $33 million. This amount is included in Other Noncurrent Assets on PSE&G s Condensed Consolidated Balance Sheets.

Power and Services

As of each of June 30, 2008 and December 31, 2007, Power had advanced working capital to Services of $17 million. This amount is included in Other Noncurrent Assets on Power s Condensed Consolidated Balance Sheets.

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Other

PSEG and Power

As of June 30, 2008, Power had a net payable to PSEG of less than $1 million. As of December 31, 2007, Power had a net payable to PSEG of $5 million related to amounts that PSEG had paid to suppliers on Power s behalf.

PSEG and PSE&G

As of June 30, 2008 and December 31, 2007, PSE&G had net receivables from PSEG of $3 million and $11 million, respectively, related to amounts that PSEG had collected on PSE&G s behalf.

Note 15. Guarantees of Debt

Power

Each series of Power s Senior Notes and Pollution Control Notes is fully and unconditionally and jointly and severally guaranteed by Fossil, Nuclear and ER&T. The following table presents condensed financial information for the guarantor subsidiaries, as well as Power s non-guarantor subsidiaries.

	Power	Guarantor Subsidiaries	Other Subsidiaries	Consolidating Adjustments	Consolidated Total
			(Millions)		
For the Quarter Ended June 30, 2008:					
Operating Revenues	$	$ 1,905	$ 32	$ (314)	$ 1,623
Operating Expenses	3	1,461	32	(313)	1,183
Operating Income	(3)	444		(1)	440
Equity Earnings (Losses) of Subsidiaries	249	(10)		(239)	
Other Income	34	106		(47)	93
Other Deductions		(87)			(87)
Interest Expense	(53)	(21)	(13)	46	(41)
Income Tax Benefit (Expense)	13	(183)	3	2	(165)
Net Income (Loss)	$ 240	$ 249	$ (10)	$ (239)	$ 240
For the Quarter Ended June 30, 2007:					
Operating Revenues	$	$ 1,558	$ 27	$ (280)	$ 1,305

Operating Expenses		1,223	28	(282)	969
Operating Income (Loss).		335	(1)	2	336
Equity Earnings (Losses) of Subsidiaries	188	(10)		(178)	
Other Income	52	65		(62)	55
Other Deductions	(1)	(34)		1	(34)
Interest Expense	(55)	(33)	(12)	61	(39)
Income Tax Expense (Benefit)		(135)	6	(2)	(131)
Loss from Discontinued Operations, net of tax			(3)		(3)
Net Income (Loss)	$ 184	$ 188	$ (10)	$ (178)	$ 184
For the Six Months Ended June 30, 2008:					
Operating Revenues	$	$ 4,532	$ 59	$ (593)	$ 3,998
Operating Expenses	5	3,578	59	(593)	3,049
Operating (Loss) Income	(5)	954			949
Equity Earnings (Losses) of Subsidiaries	530	(20)		(510)	
Other Income	73	207		(101)	179
Other Deductions		(178)			(178)
Interest Expense	(106)	(49)	(28)	100	(83)
Income Tax Benefit (Expense)	23	(384)	8	1	(352)
Net Income (Loss)	$ 515	$ 530	$ (20)	$ (510)	$ 515

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	Power	Guarantor Subsidiaries	Other Subsidiaries	Consolidating Adjustments	Consolidated Total
			(Millions)		
For the Six Months Ended June 30, 2007:					
Operating Revenues	$	$ 3,959	$ 54	$ (559)	$ 3,454
Operating Expenses		3,237	52	(560)	2,729
Operating Income		722	2	1	725
Equity Earnings (Losses) of Subsidiaries	405	(22)		(383)	
Other Income	101	131		(126)	106
Other Deductions	(1)	(63)		1	(63)
Interest Expense	(109)	(68)	(23)	124	(76)
Income Tax Benefit (Expense)	1	(295)	9	(1)	(286)
Loss from Discontinued Operations, net of tax			(9)		(9)
Net Income (Loss)	$ 397	$ 405	$ (21)	$ (384)	$ 397
For the Six Months Ended June 30, 2008:					
Net Cash (Used In) Provided By Operating Activities	$ (1,349)	$ 835	$ (31)	$ 1,011	$ 466
Net Cash Provided By (Used In) Investing Activities	$ 1,599	$ (928)	$ (3)	$ (1,040)	$ (372)
Net Cash (Used In) Provided By Financing Activities	$ (250)	$ 99	$ 34	$ 29	$ (88)
For the Six Months Ended June 30, 2007:					
Net Cash Provided	$ 145	$ 972	$ (41)	$ (282)	$ 794

By (Used In) Operating Activities									
Net Cash Provided By (Used In) Investing Activities	$	430	$	(219)	$	(36)	$	(347)	$