PSEG POWER LLC
Form 10-Q
August 03, 2009

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, 2009
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
001-34232	PSEG POWER LLC (A Delaware Limited Liability Company) 80 Park Plaza T25 Newark, New Jersey 07102-4194 973 430-7000 http://www.pseg.com	22-3663480
001-00973	PUBLIC SERVICE ELECTRIC AND GAS COMPANY (A New Jersey Corporation) 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 the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

Public Service Enterprise Group Incorporated	Yes S	No £
PSEG Power LLC	Yes £	No £
Public Service Electric and Gas Company	Yes £	No £

(Cover continued on next page)

(Cover continued from previous page)

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, 2009, Public Service Enterprise Group Incorporated had outstanding 505,981,904 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, 2009, 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 6. 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, law, policies and regulation, including market structures and rules, and reliability standards

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

changes in federal and/or state environmental requirements 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,

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

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 investment performance of our decommissioning and defined benefit plan trust funds and changes in discount rates and funding requirements, and
- changes in technology and/or increased customer conservation.

Additional information concerning these factors is set forth in Part II under Item 1A. Risk Factors.

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. While we may elect to update forward-looking statements from time to time, we specifically disclaim any obligation to do so, even if internal estimates change, unless otherwise required by applicable securities laws.

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

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Millions, except Share Data)
(Unaudited)

	For The Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
OPERATING REVENUES	$ 2,561	$ 2,550	$ 6,482	$ 6,342
OPERATING EXPENSES				
Energy Costs	1,067	1,535	3,135	3,654
Operation and Maintenance	628	620	1,303	1,247
Depreciation and Amortization	203	191	410	383
Taxes Other Than Income Taxes	26	27	70	70
Total Operating Expenses	1,924	2,373	4,918	5,354
OPERATING INCOME	637	177	1,564	988
Income from Equity Method Investments	9	7	19	19
Impairment on Equity Method Investments	(8)		(8)	
Other Income	91	97	162	190
Other Deductions	(44)	(56)	(99)	(113)
Other Than Temporary Impairments	(1)	(32)	(61)	(70)
Interest Expense	(133)	(146)	(278)	(299)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	551	47	1,299	715
Income Tax Expense	(240)	(213)	(544)	(446)
INCOME (LOSS) FROM CONTINUING OPERATIONS	311	(166)	755	269
Income from Discontinued Operations, net of tax expense of $5 and $13 for the three and six months ended 2008		16		29
NET INCOME (LOSS)	$ 311	$ (150)	$ 755	$ 298

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (THOUSANDS):								
BASIC		505,990		508,491		505,988		508,491
DILUTED		506,936		509,487		506,812		509,483
EARNINGS PER SHARE:								
BASIC								
INCOME (LOSS) FROM CONTINUING OPERATIONS	$	0.61	$	(0.32)	$	1.49	$	0.53
NET INCOME (LOSS)	$	0.61	$	(0.29)	$	1.49	$	0.59
DILUTED								
INCOME (LOSS) FROM CONTINUING OPERATIONS	$	0.61	$	(0.32)	$	1.49	$	0.53
NET INCOME (LOSS)	$	0.61	$	(0.29)	$	1.49	$	0.59
DIVIDENDS PAID PER SHARE OF COMMON STOCK	$	0.3325	$	0.3225	$	0.6650	$	0.6450

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Millions)
(Unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 393	$ 321
Accounts Receivable, net of allowances of $69 and $66 in 2009 and 2008, respectively	1,271	1,398
Unbilled Revenues	303	454
Fuel	730	938
Materials and Supplies	343	317
Prepayments	465	150
Restricted Funds	10	118
Derivative Contracts	259	237
Other	60	66
Total Current Assets	3,834	3,999
PROPERTY, PLANT AND EQUIPMENT	21,519	20,818
Less: Accumulated Depreciation and Amortization	(6,620)	(6,385)
Net Property, Plant and Equipment	14,899	14,433
NONCURRENT ASSETS		
Regulatory Assets	6,022	6,352
Long-Term Investments	2,309	2,695
Nuclear Decommissioning Trust (NDT) Funds	1,059	970
Other Special Funds	140	133
Goodwill	16	16
Other Intangibles	108	53
Derivative Contracts	154	160
Other	219	238
Total Noncurrent Assets	10,027	10,617
TOTAL ASSETS	$ 28,760	$ 29,049

See Notes to Condensed Consolidated Financial Statements.

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PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Millions)
(Unaudited)

	June 30, 2009	December 31, 2008
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$ 746	$ 1,033
Commercial Paper and Loans	333	19
Accounts Payable	941	1,227
Derivative Contracts	310	356
Accrued Interest	100	99
Accrued Taxes	206	8
Clean Energy Program	159	142
Obligation to Return Cash Collateral	96	102
Other	430	424
Total Current Liabilities	3,321	3,410
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	4,046	3,865
Regulatory Liabilities	396	355
Asset Retirement Obligations	595	576
Other Postretirement Benefit (OPEB) Costs	968	975
Accrued Pension Costs	877	1,196
Clean Energy Program	451	532
Environmental Costs	730	743
Derivative Contracts	106	164
Long-Term Accrued Taxes	856	1,241
Other	130	125
Total Noncurrent Liabilities	9,155	9,772
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 6)		
CAPITALIZATION		
LONG-TERM DEBT		
Long-Term Debt	6,515	6,621
Securitization Debt	1,250	1,342

Project Level, Non-Recourse Debt	40	42
Total Long-Term Debt	7,805	8,005
SUBSIDIARY S PREFERRED STOCK WITHOUT MANDATORY REDEMPTION	80	80
STOCKHOLDERS EQUITY		
Common Stock, no par, authorized 1,000,000,000 shares; issued, 2009 and 2008 533,556,660 shares	4,772	4,756
Treasury Stock, at cost, 2009 27,571,375 shares; 2008 27,538,762 shares	(587)	(581)
Retained Earnings	4,204	3,773
Accumulated Other Comprehensive Loss		(177)
Total Common Stockholders Equity	8,389	7,771
Noncontrolling Interest Equity Investments	10	11
Total Capitalization	16,284	15,867
TOTAL LIABILITIES AND CAPITALIZATION	$ 28,760	$ 29,049

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions)
(Unaudited)

	For the Six Months Ended June 30,	
	2009	**2008**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 755	$ 298
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	410	387
Amortization of Nuclear Fuel	57	48
Provision for Deferred Income Taxes (Other than Leases) and ITC	139	90
Non-Cash Employee Benefit Plan Costs	173	84
Lease Transaction Charges, net of tax		490
Leveraged Lease Income, Adjusted for Rents Received and Deferred Taxes	(364)	(23)
Gain on Sale of Investments	(99)	(1)
Undistributed Earnings from Affiliates	(11)	(37)
Net Realized and Unrealized Gains on Energy Contracts and Other Derivatives	(71)	(50)
Over (Under) Recovery of Electric Energy Costs (BGS and NTC) and Gas Costs	8	(66)
Over (Under) Recovery of Societal Benefits Charge (SBC)	47	(12)
Cost of Removal	(23)	(20)
Net Realized (Gains) Losses and Expense from NDT Funds	(3)	5
Net Change in Certain Current Assets and Liabilities	307	(585)
Employee Benefit Plan Funding and Related Payments	(409)	(30)
Other	(127)	45
Net Cash Provided By Operating Activities	789	623
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(816)	(739)
Proceeds from the Sale of Capital Leases and Investments	510	41
Proceeds from NDT Funds Sales	1,475	1,257
Investment in NDT Funds	(1,491)	(1,271)
Restricted Funds	108	
NDT Funds Interest and Dividends	21	24
Other	(17)	(14)
Net Cash Used In Investing Activities	(210)	(702)

CASH FLOWS FROM FINANCING ACTIVITIES				
Net Change in Commercial Paper and Loans		314		854
Issuance of Long-Term Debt		209		700
Redemptions of Long-Term Debt		(320)		(1,263)
Repayment of Non-Recourse Debt		(283)		(22)
Redemption of Securitization Debt		(87)		(82)
Net Premium Paid on Early Extinguishment of Debt				(80)
Cash Dividends Paid on Common Stock		(336)		(328)
Other		(4)		3
Net Cash Used In Financing Activities		(507)		(218)
Effect of Exchange Rate Change				1
Net Increase (Decrease) in Cash and Cash Equivalents		72		(296)
Cash and Cash Equivalents at Beginning of Period		321		380
Cash and Cash Equivalents at End of Period	$	393	$	84
Supplemental Disclosure of Cash Flow Information:				
Income Taxes Paid	$	613	$	454
Interest Paid, Net of Amounts Capitalized	$	254	$	279

See Notes to Condensed Consolidated Financial Statements.

PSEG POWER LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Millions)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
OPERATING REVENUES	$ 1,301	$ 1,623	$ 3,675	$ 3,998
OPERATING EXPENSES				
Energy Costs	563	867	2,025	2,456
Operation and Maintenance	271	275	529	514
Depreciation and Amortization	48	41	95	79
Total Operating Expenses	882	1,183	2,649	3,049
OPERATING INCOME	419	440	1,026	949
Other Income	86	93	156	179
Other Deductions	(44)	(55)	(94)	(108)
Other Than Temporary Impairments		(32)	(60)	(70)
Interest Expense	(39)	(41)	(82)	(83)
INCOME BEFORE INCOME TAXES	422	405	946	867
Income Tax Expense	(165)	(165)	(371)	(352)
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	$ 257	$ 240	$ 575	$ 515

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

PSEG POWER LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(Millions)
(Unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 20	$ 20
Accounts Receivable	362	472
Accounts Receivable Affiliated Companies, net	499	732
Short-Term Loan to Affiliate	142	
Fuel	730	938
Materials and Supplies	247	233
Derivative Contracts	230	225
Restricted Funds	10	21
Prepayments	40	53
Other	2	11
Total Current Assets	2,282	2,705
PROPERTY, PLANT AND EQUIPMENT	7,770	7,441
Less: Accumulated Depreciation and Amortization	(2,068)	(1,960)
Net Property, Plant and Equipment	5,702	5,481
NONCURRENT ASSETS		
Nuclear Decommissioning Trust (NDT) Funds	1,059	970
Goodwill	16	16
Other Intangibles	99	43
Other Special Funds	28	27
Derivative Contracts	145	143
Other	75	74
Total Noncurrent Assets	1,422	1,273
TOTAL ASSETS	$ 9,406	$ 9,459

LIABILITIES AND MEMBER S EQUITY

CURRENT LIABILITIES

Long-Term Debt Due Within One Year	$	$ 250
Accounts Payable	513	752
Short-Term Loan from Affiliate		3
Derivative Contracts	300	338
Accrued Interest	38	35
Other	159	155
Total Current Liabilities	1,010	1,533
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	567	335
Asset Retirement Obligations	347	334
Other Postretirement Benefit (OPEB) Costs	124	118
Derivative Contracts	62	111
Accrued Pension Costs	277	374
Environmental Costs	54	54
Long-Term Accrued Taxes	4	16
Other	59	47
Total Noncurrent Liabilities	1,494	1,389
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 6)		
LONG-TERM DEBT		
Total Long-Term Debt	2,862	2,653
MEMBER S EQUITY		
Contributed Capital	2,000	2,000
Basis Adjustment	(986)	(986)
Retained Earnings	2,976	2,988
Accumulated Other Comprehensive Income (Loss)	50	(118)
Total Member s Equity	4,040	3,884
TOTAL LIABILITIES AND MEMBER S EQUITY	$ 9,406	$ 9,459

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

PSEG POWER LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions)
(Unaudited)

	For the Six Months Ended June 30, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 575	$ 515
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	95	79
Amortization of Nuclear Fuel	57	48
Interest Accretion on Asset Retirement Obligations	13	12
Provision for Deferred Income Taxes and ITC	79	70
Net Realized and Unrealized Gains on Energy Contracts and Other Derivatives	(76)	(68)
Non-Cash Employee Benefit Plan Costs	39	12
Net Realized (Gains) Losses and (Income) Expense from NDT Funds	(3)	5
Net Change in Certain Current Assets and Liabilities:		
Fuel, Materials and Supplies	194	(43)
Margin Deposit Asset	(60)	(389)
Margin Deposit Liability	114	14
Accounts Receivable	296	(54)
Accounts Payable	(187)	139
Accounts Receivable/Payable-Affiliated Companies, net	233	138
Accrued Interest Payable	3	
Other Current Assets and Liabilities	(42)	(31)
Employee Benefit Plan Funding and Related Payments	(111)	(1)
Other	(19)	20
Net Cash Provided By Operating Activities	1,200	466
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(425)	(384)
Short-Term Loan Affiliated Company, net	(142)	
Proceeds from NDT Funds Sales	1,475	1,257
NDT Funds Interest and Dividends	21	24
Investment in NDT Funds	(1,491)	(1,271)
Restricted Funds	11	13
Other	(5)	(11)

Net Cash Used In Investing Activities		(556)		(372)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of Recourse Long-Term Debt		209		
Cash Dividend Paid		(600)		(250)
Redemption of Long-term Debt		(250)		
Short-Term Loan Affiliated Company, net		(3)		162
Net Cash Used In Financing Activities		(644)		(88)
Net Increase in Cash and Cash Equivalents				6
Cash and Cash Equivalents at Beginning of Period		20		11
Cash and Cash Equivalents at End of Period	$	20	$	17
Supplemental Disclosure of Cash Flow Information:				
Income Taxes Paid	$	312	$	261
Interest Paid, Net of Amounts Capitalized	$	78	$	80

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
(Millions)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
OPERATING REVENUES	$ 1,643	$ 1,858	$ 4,378	$ 4,476
OPERATING EXPENSES				
Energy Costs	979	1,213	2,838	3,006
Operation and Maintenance	344	320	739	680
Depreciation and Amortization	144	139	293	282
Taxes Other Than Income Taxes	26	27	70	70
Total Operating Expenses	1,493	1,699	3,940	4,038
OPERATING INCOME	150	159	438	438
Other Income	4	2	5	7
Other Deductions	(1)		(2)	(1)
Interest Expense	(80)	(81)	(159)	(162)
INCOME BEFORE INCOME TAXES	73	80	282	282
Income Tax Expense	(29)	(28)	(114)	(93)
NET INCOME	44	52	168	189
Preferred Stock Dividends	(1)	(1)	(2)	(2)
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	$ 43	$ 51	$ 166	$ 187

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

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Millions)
(Unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 23	$ 91
Accounts Receivable, net of allowances of $69 in 2009 and $65 in 2008, respectively	875	909
Unbilled Revenues	303	454
Materials and Supplies	69	61
Prepayments	391	45
Restricted Funds		1
Deferred Income Taxes	54	52
Total Current Assets	1,715	1,613
PROPERTY, PLANT AND EQUIPMENT	12,623	12,258
Less: Accumulated Depreciation and Amortization	(4,232)	(4,122)
Net Property, Plant and Equipment	8,391	8,136
NONCURRENT ASSETS		
Regulatory Assets	6,022	6,352
Long-Term Investments	173	158
Other Special Funds	48	46
Other	92	101
Total Noncurrent Assets	6,335	6,657
TOTAL ASSETS	$ 16,441	$ 16,406

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

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Millions)
(Unaudited)

	June 30, 2009	December 31, 2008
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$ 492	$ 248
Commercial Paper and Loans	333	19
Accounts Payable	327	336
Accounts Payable Affiliated Companies, net	415	763
Accrued Interest	56	58
Accrued Taxes	3	3
Clean Energy Program	159	142
Derivative Contracts	10	14
Obligation to Return Cash Collateral	96	102
Other	242	227
Total Current Liabilities	2,133	1,912
NONCURRENT LIABILITIES		
Deferred Income Taxes and ITC	2,591	2,533
Other Postretirement Benefit (OPEB) Costs	798	813
Accrued Pension Costs	447	634
Regulatory Liabilities	396	355
Clean Energy Program	451	532
Environmental Costs	676	689
Asset Retirement Obligations	246	240
Derivative Contracts	28	53
Long-Term Accrued Taxes	88	82
Other	29	31
Total Noncurrent Liabilities	5,750	5,962
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 6)		
CAPITALIZATION		
LONG-TERM DEBT		
Long-Term Debt	3,164	3,463

Securitization Debt		1,250		1,342
Total Long-Term Debt		4,414		4,805
Preferred Stock Without Mandatory Redemption, $100 par value, 7,500,000 authorized; issued and outstanding, 2009 and 2008 795,234 shares		80		80
STOCKHOLDERS EQUITY				
Common Stock; 150,000,000 shares authorized; issued and outstanding, 2009 and 2008 132,450,344 shares		892		892
Contributed Capital		420		170
Basis Adjustment		986		986
Retained Earnings		1,763		1,597
Accumulated Other Comprehensive Income		3		2
Total Stockholders Equity		4,064		3,647
Total Capitalization		8,558		8,532
TOTAL LIABILITIES AND CAPITALIZATION	$	16,441	$	16,406

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

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions)
(Unaudited)

	For The Six Months Ended June 30,	
	2009	**2008**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 168	$ 189
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	293	282
Provision for Deferred Income Taxes and ITC	51	23
Non-Cash Employee Benefit Plan Costs	118	65
Cost of Removal	(23)	(20)
Employee Benefit Plan Funding and Related Payments	(255)	(28)
Under Recovery of Electric Energy Costs (BGS and NTC)	(45)	(12)
Over (Under) Recovery of Gas Costs	53	(54)
Over (Under) Recovery of SBC	47	(12)
Net Changes in Certain Current Assets and Liabilities:		
Accounts Receivable and Unbilled Revenues	184	128
Materials and Supplies	(8)	(10)
Prepayments	(346)	(304)
Accrued Taxes	1	(26)
Accounts Payable	(9)	74
Accounts Receivable/Payable-Affiliated Companies, net	(316)	(191)
Obligation to Return Cash Collateral	(6)	178
Other Current Assets and Liabilities	4	(6)
Other	(6)	6
Net Cash (Used In) Provided By Operating Activities	(95)	282
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(379)	(345)
Other	(9)	
Net Cash Used In Investing Activities	(388)	(345)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Short-Term Debt	314	135

Issuance of Long-Term Debt				700
Redemption of Long-Term Debt		(60)		(651)
Redemption of Securitization Debt		(87)		(82)
Contributed Capital		250		
Deferred Issuance Costs				(4)
Premium Paid on Early Retirement of Debt				(32)
Preferred Stock Dividends		(2)		(2)
Net Cash Provided By Financing Activities		415		64
Net (Decrease) Increase In Cash and Cash Equivalents		(68)		1
Cash and Cash Equivalents at Beginning of Period		91		32
Cash and Cash Equivalents at End of Period	$	23	$	33
Supplemental Disclosure of Cash Flow Information:				
Income Taxes Paid	$	41	$	40
Interest Paid, Net of Amounts Capitalized	$	153	$	153

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

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

Note 1. Organization and Basis of Presentation

Organization

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

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

Nuclear Regulatory Commission (NRC) and the states in which they operate.

PSE&G which is an operating public utility engaged principally in the transmission of electricity and distribution of electricity and natural gas in certain areas of New Jersey. PSE&G is subject to regulation by the New Jersey Board of Public Utilities (BPU) and the FERC.

PSEG Energy Holdings, L.L.C. (Energy Holdings) which owns and operates primarily domestic projects engaged in the generation of energy and has invested in energy-related leveraged leases through its direct wholly owned subsidiaries. Certain Energy Holdings subsidiaries are subject to regulation by the FERC and the states in which they operate. Energy Holdings is also exploring opportunities for investment in renewable generation projects.

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

Basis of Presentation

The respective financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) applicable to Quarterly Reports on Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements (Notes) should be read in conjunction with, and update and supplement matters discussed in, PSEG s, Power s and PSE&G s respective Annual Report on Form 10-K for the year ended December 31, 2008 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

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, 2008.

Reclassifications

Certain reclassifications were made to the prior period financial statements in accordance with new accounting guidance adopted in 2009. Minority interests of $11 million were reclassified from Other

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Noncurrent Liabilities to Noncontrolling Interests in PSEG s Condensed Consolidated Balance Sheet as of December 31, 2008.

In addition, other-than-temporary impairments related to Power s credit losses on available-for-sale debt securities in its Nuclear Decommissioning Trust (NDT) Funds were reclassified from Other Deductions to a separate line caption in the Condensed Consolidated Statement of Operations of PSEG and Power, for the three and six months ended June 30, 2008.

Certain reclassifications have also been made to the prior period financial statements to conform to the current presentation.

Operating results for Bioenergie S.p.A. (Bioenergie) were reclassified to Income (Loss) from Discontinued Operations in the Consolidated Statements of Operations of PSEG for the three and six months ended June 30, 2008. See Note 3. Discontinued Operations and Dispositions.

Income from Equity Method Investments, as well as any impairments or gain/losses on the sale of equity method investments which were reflected in Operating Revenues and Operating Expenses prior to the fourth quarter of 2008, have been reclassified to below Operating Income in the Consolidated Statements of Operations of PSEG for the three and six months ended June 30, 2008 since these equity method investments are no longer an integral part of the business.

Note 2. Recent Accounting Standards

The following is a summary of new accounting guidance adopted in 2009 and guidance issued but not yet adopted that could impact our businesses. The new accounting guidance adopted in 2009 did not have a material impact on our financial statements.

Accounting standards adopted in 2009

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

changes financial accounting and reporting of business combination transactions,

applies to all transactions and events in which an entity obtains control of one or more businesses of an acquiree,

- requires all assets acquired and liabilities assumed in a business combination to be measured at their acquisition date fair value, with limited exceptions, and

- requires acquisition-related costs and certain restructuring costs to be recognized separately from the business combination.

We adopted SFAS 141(R) effective January 1, 2009. Any new business combination transactions will be accounted for under this guidance.

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

- changes the financial reporting relationship between a parent and non-controlling interests,

- requires all entities to report non-controlling interests in subsidiaries as a separate component of equity in the consolidated financial statements,

- requires net income attributable to the

non-controlling
interest to be
shown on the
face of the
income
statement in
addition to net
income
attributable to
the controlling
interest, and

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

applies prospectively, except for presentation and disclosure requirements, which are applied retrospectively.

We adopted SFAS 160 effective January 1, 2009 and revised the balance sheet and income statement presentations as required by the standard. The income statement impact was immaterial.

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

requires an entity to disclose an understanding of:

- how and why it uses derivatives,
- how derivatives and related hedged items are accounted for, and
- the overall impact of derivatives on an entity s financial statements.

We adopted SFAS 161 effective January 1, 2009. For additional information / disclosures, see Note 8. Financial Risk Management Activities.

SFAS No. 165, Subsequent Events (SFAS 165)

establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued and

requires the disclosure of the date through which subsequent events have been evaluated and whether that date is the date on which the financial statements were issued or the date on which the financial statements were available to be issued.

We adopted SFAS 165 effective for our second quarter 2009 reporting. We evaluated any subsequent events through July 31, 2009, which is the date the financial statements were issued.

FASB Staff Position (FSP) FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2)

revises recognition guidance in determining whether a debt security is other-than-temporarily impaired. A debt security is considered other-than-temporarily impaired in either of the following circumstances if the fair value is less than the amortized cost:

- An entity has an intent to sell the security, or it is more likely than not that an entity will be required to sell the security prior to the recovery of its amortized cost basis or

- an entity does not expect to recover the entire amortized cost basis of the security.

provides further guidance to determine the amount of impairment to be recorded in earnings (credit-related loss) and/ or Accumulated Other Comprehensive Income/(Loss) (non-credit related loss).

We adopted FSP FAS 115-2 and FAS 124-2 effective April 1, 2009 and recorded a cumulative-effect adjustment to reclassify $12 million of non-credit losses, net-of-tax, from retained earnings to Accumulated Other Comprehensive Income (Loss). The expanded disclosures related to FSP FAS 115-2 and FAS 124-2 are included in Note 4. Available-for-Sale Securities.

FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1)

requires a publicly traded company to disclose the following information, in the notes to the financial statements:

¡ fair value of its financial instruments in interim and annual reporting periods, together with the related carrying amounts,

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

- methods and significant assumptions used to estimate the fair value, and
- changes in methods and significant assumptions, if any.

We adopted FSP FAS 107-1 and APB 28-1 effective April 1, 2009. For additional information / disclosures, see Note 9. Fair Value Measurements.

FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4)

provides guidance:

- to determine if there has been a significant decrease in the volume and level of activity for the asset or liability and
- to estimate fair values, when transactions or quoted prices are not determinative of fair value.

requires management to use judgment to

determine whether a market is distressed or not orderly, even if there has been a significant decrease in the volume and level of activity for the asset or liability.

We adopted FSP FAS 157-4 effective April 1, 2009. For additional information / disclosures, see Note 9. Fair Value Measurements.

Accounting standards to be adopted effective for third quarter 2009 reporting

SFAS No. 168, ***The FASB Accounting Standards Codification*** **and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168)**

issued by the FASB in June 2009,

the single source of authoritative non-governmental U.S. GAAP other than the SEC rules, regulations, interpretive releases and the SEC staff guidance,

does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place, and will not have any impact on our financial condition or results of operations. We are currently evaluating the impact to our financial reporting process which includes providing accounting references in our SEC filings and other documents. We anticipate eliminating specific accounting references and replacing them with more general topical references.

Accounting standard to be adopted effective for 2009 year-end reporting

FSP FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1)

issued by the FASB in December 2008,

requires additional disclosures about the fair value of plan assets of a defined benefit pension or other postretirement plan, including:

- how investment allocation decisions are made by management,

- major categories of plan assets,
- significant concentrations of risk within plan assets, and

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

¡ inputs and valuation techniques used to measure the fair value of plan assets and effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period.

We do not anticipate that this guidance will have a material impact on our financial statements.

Accounting standards to be adopted effective January 1, 2010

SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167)

issued by the FASB in June 2009,

removes the exception from applying consolidation guidance to qualifying special-purpose entities,

requires ongoing assessment of the Company s involvement in the activities of a Variable Interest Entity (VIE), and amends the criteria in determination of a primary beneficiary, such that a primary beneficiary would be an enterprise with

- the power to direct the activities of a VIE that most significantly impact the economic performance of a VIE and
- the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE.

We are currently evaluating the impact of this standard on our financial statements.

Note 3. Discontinued Operations and Dispositions

Discontinued Operations

Bioenergie

In November 2008, Energy Holdings sold its 85% ownership interest in Bioenergie for $40 million. The sale resulted in an after-tax loss of $15 million. Net cash proceeds, after realization of tax benefits, were approximately $70 million.

Bioenergie s operating results for the quarter and six months ended June 30, 2008, which were reclassified to Discontinued Operations, are summarized below:

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
	Millions	
Operating Revenues	$ 11	$ 22
Income Before Income Taxes	$	$ 1
Net Loss	$	$ (1)

SAESA Group

In July 2008, Energy Holdings sold its investment in the SAESA Group for a total of $1.3 billion, including the assumption of $413 million of the consolidated debt of the group. The sale resulted in an after-tax gain of $187 million. Net cash proceeds, after Chilean and U.S. taxes of $269 million, were $612 million.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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SAESA Group s operating results for the quarter and six months ended June 30, 2008, which are included in Discontinued Operations, are summarized below:

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
	Millions	
Operating Revenues	$ 156	$ 342
Income Before Income Taxes	$ 21	$ 41
Net Income	$ 16	$ 30

Dispositions

GWF Energy LLC (GWF Energy)

In May 2009, Energy Holdings entered into a Memorandum of Understanding under which it will sell, in two separate transactions, its 60% ownership interest in GWF Energy, an equity method investment, for a total purchase price of $70 million. As a result, Energy Holdings recorded an after- tax impairment charge of $3 million.

Energy Holdings completed the first stage of the sale in June 2009, selling a 10.1% interest in GWF Energy for approximately $7 million. The sale of Energy Holdings remaining 49.9% interest is subject to certain conditions, including the execution of a new power purchase agreement (PPA) with its customer and the related approval of the PPA by the California Public Utilities Commission.

PPN Power Generating Company Limited (PPN)

In May 2009, Energy Holdings sold its 20% ownership interest in PPN, which owns and operates a 330 MW generation facility in India for approximately book value.

Leveraged Leases

In the first six months of 2009, Energy Holdings sold its interest in nine leveraged leases with a combined book value of approximately $369 million, including seven international leases for which the IRS has disallowed deductions taken in prior years. Total proceeds for the sales were approximately $460 million and resulted in an after-tax gain of $35 million. Proceeds from these transactions are being used to reduce Energy Holdings tax exposure related to these lease investments. For additional information see Note 6. Commitments and Contingent Liabilities.

Other

In May 2009, Energy Holdings sold its 6.5% interest in the Midland Cogeneration Venture LP (MCV) for an after-tax gain of $2 million.

Note 4. Available-for-Sale Securities

NDT Funds

In accordance with NRC regulations, entities owning an interest in nuclear generating facilities are required to determine the costs and funding methods necessary to decommission such facilities upon termination of operation. As a general practice, each nuclear owner places funds in independent external trust accounts it maintains to provide for decommissioning.

Power maintains the external master nuclear decommissioning trust which contains two separate funds: a qualified fund and a non-qualified fund. Section 468A of the Internal Revenue Code limits the amount of

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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money that can be contributed into a qualified fund. In the most recent study of the total cost of decommissioning, Power s share related to its five nuclear units was estimated at approximately $2.1 billion, including contingencies. The liability for decommissioning recorded on a discounted basis as of June 30, 2009 was approximately $309 million and is included in the Asset Retirement Obligation (ARO). The trust funds are managed by third-party investment advisors who operate under investment guidelines developed by Power s NDT Investment Committee.

Power classifies investments in the NDT Funds as available-for-sale under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, (SFAS 115). The following tables show the fair values and gross unrealized gains and losses for the securities held in the NDT Funds.

	As of June 30, 2009			
	Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
	Millions			
Equity Securities	$ 441	$ 88	$ (2)	$ 527
Debt Securities				
Government Obligations	296	4	(4)	296
Other Debt Securities	212	14	(20)	206
Total Debt Securities	508	18	(24)	502
Other Securities	30			30
Total Available-for-Sale Securities	**$ 979**	**$ 106**	**$ (26)**	**$ 1,059**

	As of December 31, 2008			
	Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
	Millions			
Equity Securities	$ 386	$ 32	$ (5)	$ 413
Debt Securities				
Government Obligations	192	3		195
Other Debt Securities	284	6		290
Total Debt Securities	476	9		485

Other Securities		72		1		(1)		72
Total Available-for-Sale Securities	**$**	**934**	**$**	**42**	**$**	**(6)**	**$**	**970**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table shows the value of securities in the NDT Funds that have been in an unrealized position for less than 12 months, or for 12 months or longer.

	As of June 30, 2009 Greater Than 12 Months		As of June 30, 2009 Less Than 12 Months		As of December 31, 2008 Less Than 12 Months*	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			Millions			
Equity Securities (A)	$	$	$ 43	$ (2)	$ 85	$ (5)
Debt Securities						
Government Obligations (B)			148	(4)		
Other Debt Securities (C)	57	(13)	86	(7)		
Total Debt Securities	57	(13)	234	(11)		
Other Securities						(1)
Total Available-for-Sale Securities	**$ 57**	**$ (13)**	**$ 277**	**$ (13)**	**$ 85**	**$ (6)**

* There were no gross unrealized losses as of December 31, 2008 for 12 months or longer.

(A) Equity Securities Investments in marketable equity securities within the NDT fund are primarily investments in common stocks within a broad range of industries and sectors. The unrealized losses are distributed over several hundred companies with an impairment duration of three months or less and a severity that is generally ten percent or less than cost. The Company does not consider these securities to be other-than-temporarily impaired as of June 30, 2009.

(B) Debt Securities (Government) Unrealized losses on Power s NDT investments in US Treasury obligations and Federal Agency mortgage-backed securities were caused by interest rate changes. Since these investments are guaranteed by the US government or an agency of the US government, it is not expected that these securities will settle for less that their amortized cost basis, assuming the Company does not intend to sell nor will they be more likely than not required to sell. The Company does not consider these securities to be other-than-temporarily impaired as of June 30, 2009.

(C) Debt Securities (Corporate) Power s investments in corporate bonds are primarily with investment grade securities. It is not expected that these securities would settle at less than their amortized cost. Since the Company does not intend to sell these securities nor will they be more likely than not required to sell, the company does not consider these debt securities to be other-than-temporarily impaired as of June 30, 2009.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	Millions			
Proceeds from Sales	$ 917	$ 634	$ 1,475	$ 1,257
Net Realized Gains (Losses):				
Gross Realized Gains	$ 82	$ 78	$ 127	$ 147
Gross Realized Losses	(65)	(51)	(111)	(103)
Net Realized Gains	**$ 17**	**$ 27**	**$ 16**	**$ 44**

Net realized gains disclosed in the above table were recognized in Other Income and Other Deductions in Power s Consolidated Statement of Operations. Net unrealized gains of $40 million (after-tax) were recognized in Accumulated Other Comprehensive Income in Power s Consolidated Balance Sheet as of June 30, 2009.

The available-for-sale debt securities held as of June 30, 2009 had the following maturities:

$5 million less than one year,

$64 million after one through five years,

$96 million after five through 10 years,

$58 million after 10 through 15 years, and

$16 million after 15 through 20 years, and $263 million over 20 years.

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

Power periodically assesses individual securities whose fair value is less than amortized cost to determine whether the investments are considered to be other-than-temporarily impaired. For equity securities, management considers the ability and intent to hold for a reasonable time to permit recovery in addition to the severity and duration of the loss. For fixed income securities, management considers its intent to sell or requirement to sell a security prior to expected recovery. In those cases where a sale is expected, any impairment would be recorded through earnings. For fixed income securities where there is no intent to sell or likely requirement to sell, management evaluates whether credit loss is a component of the impairment. If so, that portion is recorded through earnings while the noncredit loss component is recorded through Other Comprehensive Income (OCI). In 2009, other-than-temporary impairments of $60 million were recognized on securities in the NDT Funds. Any subsequent recoveries in the value of these securities are recognized in OCI. The assessment of fair market value compared to cost is applied on a weighted average basis taking into account various purchase dates and initial cost detail of the securities.

Rabbi Trusts

PSEG maintains certain unfunded nonqualified benefit plans; assets have been set aside in grantor trusts commonly known as Rabbi Trusts to provide supplemental retirement and deferred compensation benefits to certain of its and its subsidiaries key employees.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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PSEG classifies investments in the Rabbi Trusts as available for sale under SFAS 115. The following tables show the fair v