PUBLIC SERVICE ENTERPRISE GROUP INC
Form 10-Q
August 01, 2007

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, 2007
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
001-00973	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
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
000-32503	PSEG ENERGY HOLDINGS L.L.C. (A New Jersey Limited Liability Company) 80 Park Plaza T20 Newark, New Jersey 07102-4194 973 430-7000 http://www.pseg.com	42-1544079

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Public Service Enterprise Group Incorporated	Large accelerated filer S	Accelerated filer £	Non-accelerated filer £
Public Service Electric and Gas Company	Large accelerated filer £	Accelerated filer £	Non-accelerated filer S
PSEG Power LLC	Large accelerated filer £	Accelerated filer £	Non-accelerated filer S
PSEG Energy Holdings L.L.C.	Large accelerated filer £	Accelerated filer £	Non-accelerated filer S

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 27, 2007, Public Service Enterprise Group Incorporated had outstanding 254,283,335 shares of its sole class of Common Stock, without par value.

As of July 27, 2007, Public Service Electric and Gas Company had issued and outstanding 132,450,344 shares of Common Stock, without nominal or par value, all of which were privately held, beneficially and of record by Public Service Enterprise Group Incorporated.

PSEG Power LLC and PSEG Energy Holdings L.L.C. are wholly owned subsidiaries of Public Service Enterprise Group Incorporated and meet the conditions set forth in General Instruction H(1) (a) and (b) of Form 10-Q and are filing their respective Quarterly Reports on Form 10-Q with the reduced disclosure format authorized by General Instruction H.

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FORWARD-LOOKING STATEMENTS

Certain of the matters discussed in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those anticipated. Such statements are based on management s beliefs as well as assumptions made by and information currently available to management. When used herein, the words anticipate, intend, estimate, believe, expect, plan, hypothetical, potential, forecast, of such words and similar expressions are intended to identify forward-looking statements. Public Service Enterprise Group Incorporated (PSEG), Public Service Electric and Gas Company (PSE&G), PSEG Power LLC (Power) and PSEG Energy Holdings L.L.C. (Energy Holdings) undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The following review should not be construed as a complete list of factors that could affect forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements discussed above, factors that could cause actual results to differ materially from those contemplated in any forward-looking statements include, among others, the following:

changes in energy policies and regulation, including market rules;

ability to attain satisfactory regulatory results;

ability to maintain operating performance and cash flow from investments at projected levels;

inability to effectively manage portfolios of electric generation assets, gas supply contracts and electric and gas supply obligations;

continued market based rate authority, including any necessary mitigation measures;

energy transmission constraints or lack thereof and the availability of transmission facilities;

adverse changes in the market for energy, capacity, natural gas, coal, nuclear fuel, emissions credits, congestion credits and other commodity prices, especially during significant price movements for natural gas and power;

changes in the electric industry, including changes to regional transmission organizations and power pools;

changes in the number of market participants and the risk profiles of such participants;

adverse or unanticipated weather conditions that significantly impact costs and/or operations;

environmental regulations that significantly impact operations;

governmental and industry responses to global climate change;

changes in demand including the effects of conservation efforts and energy efficiency;

timing and success of efforts to develop generation, transmission and distribution projects;

credit, commodity, interest rate, counterparty and other financial market risks;

liquidity and the ability to access capital and maintain adequate credit ratings;

changes in rates of return on overall debt and equity markets that could adversely impact the value of pension and other postretirement benefits assets and liabilities and the Nuclear Decommissioning Trust Funds;

effectiveness of risk management and internal control systems;

ability to realize tax benefits and favorably resolve tax audit claims;

ability to attract and retain management and other key employees;

changes in political conditions;

changes in technology that

make generation, transmission and/or distribution assets less competitive;

continued availability of insurance coverage at commercially reasonable rates;

involvement in lawsuits, including liability claims and commercial disputes;

acquisitions, divestitures, mergers, restructurings or strategic initiatives that change PSEG s, PSE&G s, Power s and Energy Holdings strategy or structure;

general economic conditions, including inflation or deflation;

changes in tax laws and regulations;

substantial competition in the domestic and worldwide energy markets;

margin posting requirements, especially during significant price movements for natural gas and power;

availability of fuel and timely transportation at reasonable prices;

delays, cost escalations or unsuccessful construction and development;

changes in regulation and safety and security measures at nuclear facilities;

changes in foreign currency exchange rates;

deterioration in the credit of lessees and their ability to adequately service lease rentals;

changes to accounting standards or accounting principles generally accepted in the U.S., which may require adjustments to financial statements;

ability to recover investments or service debt as a result of any of the risks or uncertainties mentioned herein; and

acts of war or terrorism.

Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements and PSEG, PSE&G, Power and Energy Holdings 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, PSEG, PSE&G, Power and Energy Holdings or their respective business prospects, financial condition or results of operations. Undue reliance should not be placed on these forward-looking statements in making any investment decision. Each of PSEG, PSE&G, Power and Energy Holdings expressly disclaims 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. In making any investment decision regarding PSEG s, PSE&G s, Power s and Energy Holdings securities, PSEG, PSE&G, Power and Energy Holdings are not making, and you should not infer, any representation about the likely existence of any particular future set of facts or circumstances. 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.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Quarters Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(Millions) (Unaudited)			
OPERATING REVENUES	$ 2,810	$ 2,542	$ 6,413	$ 5,989
OPERATING EXPENSES				
Energy Costs	1,389	1,338	3,427	3,483
Operation and Maintenance	592	576	1,198	1,149
Write-down of Project Investments		263		263
Depreciation and Amortization	195	201	390	401
Taxes Other Than Income Taxes	30	27	73	68
Total Operating Expenses	2,206	2,405	5,088	5,364
Income from Equity Method Investments	27	30	53	63
OPERATING INCOME	631	167	1,378	688
Other Income	58	51	129	101
Other Deductions	(37)	(16)	(73)	(43)
Interest Expense	(184)	(197)	(369)	(388)
Preferred Stock Dividends	(1)	(1)	(2)	(2)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	467	4	1,063	356
Income Tax Expense	(174)	(12)	(436)	(159)
INCOME (LOSS) FROM CONTINUING OPERATIONS	293	(8)	627	197
(Loss) Income from Discontinued Operations, including Gain on Disposal, net of tax benefit (expense) of $22,	(18)	217	(23)	215

($137), $27, and ($133) for the quarters and six months ended 2007 and 2006, respectively								
NET INCOME	$	275	$	209	$	604	$	412
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (THOUSANDS):								
BASIC		253,631		251,474		253,263		251,331
DILUTED		254,034		252,084		253,697		252,075
EARNINGS PER SHARE:								
BASIC								
INCOME FROM CONTINUING OPERATIONS	$	1.16	$	(0.03)	$	2.48	$	0.79
NET INCOME	$	1.09	$	0.83	$	2.39	$	1.64
DILUTED								
INCOME FROM CONTINUING OPERATIONS	$	1.15	$	(0.03)	$	2.47	$	0.79
NET INCOME	$	1.08	$	0.83	$	2.38	$	1.64
DIVIDENDS PAID PER SHARE OF COMMON STOCK	$	0.585	$	0.57	$	1.17	$	1.14

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007	December 31, 2006
	(Millions) (Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 170	$ 125
Accounts Receivable, net of allowances of $59 and $52 in 2007 and 2006, respectively	1,588	1,359
Unbilled Revenues	260	328
Fuel	670	847
Materials and Supplies	312	290
Prepayments	404	72
Restricted Funds	52	79
Derivative Contracts	59	128
Assets of Discontinued Operations	299	622
Assets Held for Sale		40
Other	83	45
Total Current Assets	3,897	3,935
PROPERTY, PLANT AND EQUIPMENT	19,346	18,698
Less: Accumulated Depreciation and Amortization	(6,067)	(5,831)
Net Property, Plant and Equipment	13,279	12,867
NONCURRENT ASSETS		
Regulatory Assets	5,238	5,694
Long-Term Investments	3,836	3,868
Nuclear Decommissioning Trust (NDT) Funds	1,311	1,256
Other Special Funds	155	147
Goodwill	410	406
Intangibles	52	46
Derivative Contracts	20	55
Other	260	296
Total Noncurrent Assets	11,282	11,768

TOTAL ASSETS	$ 28,458	$ 28,570

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007	December 31, 2006
	(Millions) (Unaudited)	
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$ 1,010	$ 849
Commercial Paper and Loans	345	381
Accounts Payable	1,022	960
Derivative Contracts	399	335
Accrued Interest	127	123
Accrued Taxes	104	149
Clean Energy Program	128	120
Liabilities of Discontinued Operations	133	134
Other	431	480
Total Current Liabilities	3,699	3,531
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	4,223	4,447
Regulatory Liabilities	410	646
Asset Retirement Obligations	527	509
Other Postretirement Benefit (OPEB) Costs	1,093	1,089
Accrued Pension Costs	333	327
Clean Energy Program	73	133
Environmental Costs	403	421
Derivative Contracts	234	204
Long-Term Accrued Taxes	519	
Other	154	170
Total Noncurrent Liabilities	7,969	7,946
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)		
CAPITALIZATION		
LONG-TERM DEBT		
Long-Term Debt	7,404	7,636
Securitization Debt	1,626	1,708
Project Level, Non-Recourse Debt	647	735

Debt Supporting Trust Preferred Securities	186	186
Total Long-Term Debt	9,863	10,265
SUBSIDIARIES PREFERRED SECURITIES		
Preferred Stock Without Mandatory Redemption, $100 par value, 7,500,000 authorized; issued and outstanding, 2007 and 2006 795,234 shares	80	80
COMMON STOCKHOLDERS EQUITY		
Common Stock, no par, authorized 1 billion shares; issued; 2007 266,759,842 shares; 2006 266,372,440 shares	4,710	4,661
Treasury Stock, at cost; 2007 12,692,586 shares; 2006 13,727,032 shares	(479)	(516)
Retained Earnings	2,829	2,711
Accumulated Other Comprehensive Loss	(213)	(108)
Total Common Stockholders Equity	6,847	6,748
Total Capitalization	16,790	17,093
TOTAL LIABILITIES AND CAPITALIZATION	$ 28,458	$ 28,570

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,	
	2007	2006
	(Millions) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 604	$ 412
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Gain on Disposal of Discontinued Operations, net of tax		(228)
Depreciation and Amortization	392	411
Amortization of Nuclear Fuel	48	48
Provision for Deferred Income Taxes (Other than Leases) and ITC	124	(11)
Non-Cash Employee Benefit Plan Costs	93	117
Leveraged Lease Income, Adjusted for Rents Received and Deferred Taxes	5	(3)
(Gain) Loss on Sale of Investments	(14)	255
Equity in Earnings of Affiliates Less than Dividends Received	14	(36)
Foreign Currency Transaction Loss	2	2
Unrealized Losses (Gains) on Energy Contracts and Other Derivatives	19	(22)
(Under) Over Recovery of Electric Energy Costs (BGS and NTC) and Gas Costs	(74)	45
Under Recovery of Societal Benefits Charge (SBC)	(17)	(69)
Cost of Removal	(18)	(17)
Net Realized Gains and Income from NDT Funds	(30)	(36)
Other Non-Cash Charges	3	3
Employee Benefit Plan Funding and Related Payments	(39)	(49)
Investment Income and Dividend Distributions from Partnerships	11	7
Net Change in Working Capital	(278)	7
Other	(49)	(38)
Net Cash Provided By Operating Activities	796	798
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(659)	(473)
Proceeds from Sale of Discontinued Operations	325	494
Proceeds from Sale of Property, Plant and Equipment	40	
Proceeds from the Sale of Investments and Return of Capital from Partnerships	7	187
Proceeds from NDT Funds Sales	883	720
Investment in NDT Funds	(904)	(726)

Restricted Funds	22	
NDT Funds Interest and Dividends	25	19
Other		8
Net Cash (Used In) Provided By Investing Activities	(261)	229
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Commercial Paper and Loans	(36)	470
Issuance of Long-Term Debt	350	
Issuance of Common Stock	68	34
Redemption of Long-Term Debt	(488)	(1,131)
Repayment of Non-Recourse Debt	(24)	(25)
Redemption of Securitization Debt	(78)	(74)
Redemption of Debt Underlying Trust Securities		(154)
Cash Dividends Paid on Common Stock	(296)	(286)
Other	14	(21)
Net Cash Used In Financing Activities	(490)	(1,187)
Effect of Exchange Rate Change		(2)
Net Increase (Decrease) in Cash and Cash Equivalents	45	(162)
Cash and Cash Equivalents at Beginning of Period	125	281
Cash and Cash Equivalents at End of Period	$ 170	$ 119
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid	$ 220	$ 196
Interest Paid, Net of Amounts Capitalized	$ 356	$ 371

See 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,	
	2007	2006	2007	2006
	(Millions) (Unaudited)			
OPERATING REVENUES	$ 1,748	$ 1,490	$ 4,234	$ 3,783
OPERATING EXPENSES				
Energy Costs	1,077	901	2,742	2,475
Operation and Maintenance	314	276	639	577
Depreciation and Amortization	143	150	288	302
Taxes Other Than Income Taxes	30	27	73	68
Total Operating Expenses	1,564	1,354	3,742	3,422
OPERATING INCOME	184	136	492	361
Other Income	5	8	10	12
Other Deductions	(1)	(1)	(2)	(2)
Interest Expense	(84)	(83)	(165)	(168)
INCOME BEFORE INCOME TAXES	104	60	335	203
Income Tax Expense	(41)	(26)	(140)	(91)
NET INCOME	63	34	195	112
Preferred Stock Dividends	(1)	(1)	(2)	(2)
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	$ 62	$ 33	$ 193	$ 110

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, 2007	December 31, 2006
	(Millions) (Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 33	$ 28
Accounts Receivable, net of allowances of $54 in 2007 and $46 in 2006	861	805
Unbilled Revenues	260	328
Materials and Supplies	62	50
Prepayments	339	14
Restricted Funds	7	12
Derivative Contracts	1	2
Other	41	36
Total Current Assets	1,604	1,275
PROPERTY, PLANT AND EQUIPMENT	11,364	11,061
Less: Accumulated Depreciation and Amortization	(3,913)	(3,794)
Net Property, Plant and Equipment	7,451	7,267
NONCURRENT ASSETS		
Regulatory Assets	5,238	5,694
Long-Term Investments	150	149
Other Special Funds	55	53
Other	116	115
Total Noncurrent Assets	5,559	6,011
TOTAL ASSETS	$ 14,614	$ 14,553

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, 2007	December 31, 2006
	(Millions) (Unaudited)	
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$ 175	$ 284
Commercial Paper and Loans	295	31
Accounts Payable	353	254
Accounts Payable Affiliated Companies, net	338	645
Accrued Interest	55	55
Clean Energy Program	128	120
Derivative Contracts	11	2
Other	288	322
Total Current Liabilities	1,643	1,713
NONCURRENT LIABILITIES		
Deferred Income Taxes and ITC	2,428	2,517
Other Postretirement Benefit (OPEB) Costs	897	898
Accrued Pension Costs	133	133
Regulatory Liabilities	410	646
Clean Energy Program	73	133
Environmental Costs	350	367
Asset Retirement Obligations	227	221
Derivative Contracts	26	18
Long-Term Accrued Taxes due to Affiliate	59	
Other	7	6
Total Noncurrent Liabilities	4,610	4,939
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)		
CAPITALIZATION		
LONG-TERM DEBT		
Long-Term Debt	3,352	3,003
Securitization Debt	1,626	1,708
Total Long-Term Debt	4,978	4,711

PREFERRED SECURITIES				
Preferred Stock Without Mandatory Redemption, $100 par value, 7,500,000 authorized; issued and outstanding, 2007 and 2006 795,234 shares		80		80
COMMON STOCKHOLDER S EQUITY				
Common Stock; 150,000,000 shares authorized, 132,450,344 shares issued and outstanding		892		892
Contributed Capital		170		170
Basis Adjustment		986		986
Retained Earnings		1,254		1,061
Accumulated Other Comprehensive Income		1		1
Total Common Stockholder s Equity		3,303		3,110
Total Capitalization		8,361		7,901
TOTAL LIABILITIES AND CAPITALIZATION	$	14,614	$	14,553

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, 2007	For The Six Months Ended June 30, 2006
	(Millions) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 195	$ 112
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	288	302
Provision for Deferred Income Taxes and ITC	(32)	(39)
Non-Cash Employee Benefit Plan Costs	70	83
Non-Cash Interest Expense	4	1
Employee Benefit Plan Funding and Related Payments	(30)	(27)
Over Recovery of Electric Energy Costs (BGS and NTC)	(23)	
(Under) Over Recovery of Gas Costs	(51)	45
Under Recovery of SBC	(17)	(69)
Cost of Removal	(18)	(17)
Other Non-Cash Charges	(1)	(2)
Net Change in Working Capital:		
Accounts Receivable and Unbilled Revenues	12	368
Materials and Supplies	(12)	(4)
Prepayments	(328)	(249)
Accrued Taxes		(25)
Accrued Interest		(5)
Accounts Payable	99	39
Accounts Receivable/Payable-Affiliated Companies, net	(172)	(315)
Other Current Assets and Liabilities	(35)	(77)
Other	(66)	11
Net Cash (Used In) Provided By Operating Activities	(117)	132
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(296)	(259)
Net Cash Used In Investing Activities	(296)	(259)
CASH FLOWS FROM FINANCING ACTIVITIES		

Net Change in Short-Term Debt	264	391
Issuance of Long-Term Debt	350	
Redemption of Securitization Debt	(78)	(74)
Redemption of Long-Term Debt	(113)	(322)
Deferred Issuance Costs	(3)	
Preferred Stock Dividends	(2)	(2)
Net Cash Provided by (Used In) Financing Activities	418	(7)
Net Increase (Decrease) In Cash and Cash Equivalents	5	(134)
Cash and Cash Equivalents at Beginning of Period	28	159
Cash and Cash Equivalents at End of Period	$ 33	$ 25
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid	$ 203	$ 112
Interest Paid, Net of Amounts Capitalized	$ 157	$ 160

See disclosures regarding Public Service Electric and Gas Company included in the 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,	
	2007	2006	2007	2006
	(Millions) (Unaudited)			
OPERATING REVENUES	$ 1,305	$ 1,129	$ 3,454	$ 3,096
OPERATING EXPENSES				
Energy Costs	694	669	2,182	2,156
Operation and Maintenance	241	262	479	494
Depreciation and Amortization	34	36	68	67
Total Operating Expenses	969	967	2,729	2,717
OPERATING INCOME	336	162	725	379
Other Income	55	34	106	75
Other Deductions	(34)	(14)	(63)	(33)
Interest Expense	(39)	(36)	(76)	(68)

INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		318		146		692		353
Income Tax Expense		(131)		(61)		(286)		(147)
INCOME FROM CONTINUING OPERATIONS		187		85		406		206
Loss from Discontinued Operations, net of tax benefit of $1, $6, $6 and $12 for the quarters and six months ended 2007 and 2006, respectively		(3)		(8)		(9)		(17)
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	$	184	$	77	$	397	$	189

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

PSEG POWER LLC
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007	December 31, 2006
	(Millions) (Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 6	$ 13
Accounts Receivable	606	430
Accounts Receivable Affiliated Companies, net	238	495
Short-Term Loan to Affiliate	214	
Fuel	666	846
Materials and Supplies	213	202
Energy Trading Contracts	29	55
Derivative Contracts	2	56
Assets of Discontinued Operations		325
Assets Held for Sale		40
Other	21	26
Total Current Assets	1,995	2,488
PROPERTY, PLANT AND EQUIPMENT	6,158	5,868
Less: Accumulated Depreciation and Amortization	(1,728)	(1,638)
Net Property, Plant and Equipment	4,430	4,230
NONCURRENT ASSETS		
Nuclear Decommissioning Trust (NDT) Funds	1,311	1,256
Goodwill	16	16
Other Intangibles	38	35
Other Special Funds	43	42
Energy Trading Contracts	9	10
Derivative Contracts	1	19
Other	62	50
Total Noncurrent Assets	1,480	1,428
TOTAL ASSETS	$ 7,905	$ 8,146

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

PSEG POWER LLC
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007	December 31, 2006
	(Millions) (Unaudited)	
LIABILITIES AND MEMBER S EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$ 544	$ 589
Short-Term Loan from Affiliate		54
Energy Trading Contracts	120	222
Derivative Contracts	246	90
Accrued Interest	34	34
Other	78	95
Total Current Liabilities	1,022	1,084
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	126	48
Asset Retirement Obligations	298	287
Other Postretirement Benefit (OPEB) Costs	141	138
Accrued Pension Costs	107	106
Energy Trading Contracts	6	19
Derivative Contracts	189	151
Environmental Costs	53	54
Long-Term Accrued Taxes due to Affiliate	26	
Other	13	18
Total Noncurrent Liabilities	959	821
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)		
LONG-TERM DEBT		
Total Long-Term Debt	2,818	2,818
MEMBER S EQUITY		
Contributed Capital	2,000	2,000
Basis Adjustment	(986)	(986)
Retained Earnings	2,394	2,586
Accumulated Other Comprehensive Loss	(302)	(177)

Total Member s Equity		3,106		3,423
TOTAL LIABILITIES AND MEMBER S EQUITY	$	7,905	$	8,146

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,	
	2007	2006
	(Millions) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 397	$ 189
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	68	75
Amortization of Nuclear Fuel	48	48
Interest Accretion on Asset Retirement Obligations	11	16
Provision for Deferred Income Taxes and ITC	174	38
Unrealized Losses (Gains) on Energy Contracts and Other Derivatives	16	(23)
Non-Cash Employee Benefit Plan Costs	14	22
Net Realized Gains and Income from NDT Funds	(30)	(36)
Net Change in Working Capital:		
Fuel, Materials and Supplies	169	164
Accounts Receivable	(176)	279
Accrued Interest		(7)
Accounts Payable	(40)	(301)
Accounts Receivable/Payable Affiliated Companies, net	147	290
Other Current Assets and Liabilities	(12)	47
Employee Benefit Plan Funding and Related Payments	(4)	(18)
Other	12	(62)
Net Cash Provided By Operating Activities	794	721
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(323)	(193)
Proceeds from Sale of Discontinued Operations	325	
Sales of Property, Plant and Equipment	40	
Proceeds from NDT Funds Sales	883	720
NDT Funds Interest and Dividends	25	19
Investment in NDT Funds	(904)	(726)
Short-Term Loan Affiliated Company, net	(214)	
Other	(4)	13

Net Cash Used In Investing Activities	(172)	(167)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Dividend Paid	(575)	
Redemption of Long-term Debt		(500)
Short-Term Loan Affiliated Company, net	(54)	(57)
Net Cash Used In Financing Activities	(629)	(557)
Net Decrease in Cash and Cash Equivalents	(7)	(3)
Cash and Cash Equivalents at Beginning of Period	13	8
Cash and Cash Equivalents at End of Period	$ 6	$ 5
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid	$ 74	$ 79
Interest Paid, Net of Amounts Capitalized	$ 84	$ 83

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

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PSEG ENERGY HOLDINGS L.L.C.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For The Quarters Ended June 30,		For The Six Months Ended June 30,	
	2007	2006	2007	2006
	(Millions) (Unaudited)			
OPERATING REVENUES				
Electric Generation and Distribution Revenues	$ 302	$ 304	$ 492	$ 553
Income from Leveraged and Operating Leases	32	38	65	77
Other	5	11	25	21
Total Operating Revenues	339	353	582	651
OPERATING EXPENSES				
Energy Costs	200	193	358	386
Operation and Maintenance	44	47	93	91
Write-down of Project Investments		263		263

Depreciation and Amortization	15	11	28	22
Total Operating Expenses	259	514	479	762
Income from Equity Method Investments	27	30	53	63
OPERATING INCOME (LOSS)	107	(131)	156	(48)
Other Income	3	10	18	17
Other Deductions	(3)		(4)	(7)
Interest Expense	(39)	(49)	(80)	(97)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	68	(170)	90	(135)
Income Tax (Expense) Benefit	(11)	64	(31)	54
Minority Interests in Earnings of Subsidiaries	2	(1)	2	(1)
INCOME (LOSS) FROM CONTINUING OPERATIONS	59	(107)	61	(82)
(Loss) Income from Discontinued Operations, net of tax benefit (expense) of $21, ($1), $21 and ($3) for the quarters and six months ended 2007 and 2006, respectively	(15)	(3)	(14)	4
Gain on Disposal of Discontinued Operations, net of tax expense of $142 for the quarter and six months ended 2006		228		228
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	$ 44	$ 118	$ 47	$ 150

See disclosures regarding PSEG Energy Holdings L.L.C. included in the Notes to Condensed Consolidated Financial Statements.

PSEG ENERGY HOLDINGS L.L.C.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007	December 31, 2006
	(Millions) (Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 65	$ 83
Accounts Receivable:		
Trade net of allowances of $5 and $6 in 2007 and 2006, respectively	109	95
Other Accounts Receivable	11	28
Affiliated Companies	1	
Notes Receivable:		
Affiliated Companies	30	28
Other	38	
Inventory	39	39
Restricted Funds	45	67
Assets of Discontinued Operations	299	297
Derivative Contracts	27	14
Other	6	9
Total Current Assets	670	660
PROPERTY, PLANT AND EQUIPMENT	1,597	1,553
Less: Accumulated Depreciation and Amortization	(307)	(288)
Net Property, Plant and Equipment	1,290	1,265
NONCURRENT ASSETS		
Leveraged Leases, net	2,777	2,810
Corporate Joint Ventures and Partnership Interests	861	868
Goodwill	394	390
Other Intangibles	13	11
Derivative Contracts	10	26
Other	97	134
Total Noncurrent Assets	4,152	4,239
TOTAL ASSETS	$ 6,112	$ 6,164

See disclosures regarding PSEG Energy Holdings L.L.C. included in the
Notes to Condensed Consolidated Financial Statements.

PSEG ENERGY HOLDINGS L.L.C.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007	December 31, 2006
	(Millions) (Unaudited)	
LIABILITIES AND MEMBER S EQUITY		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$ 312	$ 42
Accounts Payable:		
Trade	69	52
Affiliated Companies	11	12
Derivative Contracts	18	16
Accrued Interest	26	26
Liabilities of Discontinued Operations	133	134
Other	59	66
Total Current Liabilities	628	348
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment and Energy Tax Credits	1,701	1,910
Derivative Contracts	9	11
Long-Term Accrued Taxes due to Affiliate	434	
Other	94	97
Total Noncurrent Liabilities	2,238	2,018
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)		
MINORITY INTERESTS	25	26
LONG-TERM DEBT		
Project Level, Non-Recourse Debt	647	735
Senior Notes	942	1,149
Total Long-Term Debt	1,589	1,884
MEMBER S EQUITY		
Ordinary Unit	1,047	1,193
Retained Earnings	463	592
Accumulated Other Comprehensive Income	122	103

Total Member s Equity		1,632		1,888
TOTAL LIABILITIES AND MEMBER S EQUITY	$	6,112	$	6,164

See disclosures regarding PSEG Energy Holdings L.L.C. included in the
Notes to Condensed Consolidated Financial Statements.

PSEG ENERGY HOLDINGS L.L.C.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Six Months Ended June 30, 2007	2006
	(Millions) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 47	$ 150
Adjustments to Reconcile Net Income to Net Cash Flows from		
Operating Activities:		
Depreciation and Amortization	29	24
Demand Side Management Amortization	1	2
Deferred Income Taxes (Other than Leases)	(14)	(9)
Leveraged Lease Income, Adjusted for Rents Received and		
Deferred Income Taxes	5	(3)
Equity in Earnings of Affiliates Less than Dividends Received	14	(36)
(Gain) Loss on Sale of Investments	(14)	255
Gain on Sale of Discontinued Operations		(228)
Unrealized Gain on Investments	(3)	(1)
Foreign Currency Transaction Loss	2	2
Change in Fair Value of Derivative Financial Instruments	3	1
Other Non-Cash Charges	(1)	2
Net Changes in Working Capital:		
Accounts Receivable	(18)	2
Inventory	3	(3)
Accounts Payable	8	(11)
Accounts Receivable/Payable-Affiliated Companies, net	82	(110)
Other Current Assets and Liabilities	(5)	(38)
Investment Income and Dividend Distributions from Partnerships	11	7
Other	1	2
Net Cash Provided By Operating Activities	151	8
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(29)	(20)
Proceeds from Sale of Discontinued Operations		494
Proceeds from the Sale of Investments	7	187
Proceeds from Sale of Other Assets	2	1
Short-Term Loan Receivable Affiliated Company, net	(3)	(299)

Restricted Funds		22		(3)
Other		2		(8)
Net Cash Provided By Investing Activities		1		352
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of Non-Recourse Long-Term Debt		(24)		(25)
Repayment of Senior Notes				(309)
Return of Contributed Capital		(145)		
Other		(1)		(1)
Net Cash Used In Financing Activities		(170)		(335)
Effect of Exchange Rate Change				(2)
Net (Decrease) Increase In Cash and Cash Equivalents		(18)		23
Cash and Cash Equivalents at Beginning of Period		83		61
Cash and Cash Equivalents at End of Period	$	65	$	84
Supplemental Disclosure of Cash Flow Information:				
Income Taxes Received	$	(59)	$	(14)
Interest Paid, Net of Amounts Capitalized	$	79	$	78

See disclosures regarding PSEG Energy Holdings L.L.C. included in the
Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

This combined Form 10-Q is separately filed by Public Service Enterprise Group Incorporated (PSEG), Public Service Electric and Gas Company (PSE&G), PSEG Power LLC (Power) and PSEG Energy Holdings L.L.C. (Energy Holdings). Information contained herein relating to any individual company is filed by such company on its own behalf. PSE&G, Power and Energy Holdings 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: PSE&G, Power, Energy Holdings and PSEG Services Corporation (Services).

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 the Federal Energy Regulatory Commission (FERC).

PSE&G also owns PSE&G Transition Funding LLC (Transition Funding) and PSE&G Transition Funding II LLC (Transition Funding II), bankruptcy-remote entities that purchased certain transition property from PSE&G and issued transition bonds secured by such property. The transition property consists principally of the 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.

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 the day-to-day management of Power s portfolio. Fossil, Nuclear and ER&T are subject to regulation by FERC, and certain Fossil subsidiaries are also subject to state regulation. Nuclear is also subject to regulation by the Nuclear Regulatory Commission (NRC).

Energy Holdings

Energy Holdings has two principal, direct, wholly owned subsidiaries: PSEG Global L.L.C. (Global), which owns and operates international and domestic projects engaged in the generation and distribution 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.

Services

Services provides management and administrative and general services to PSEG and its subsidiaries. These include accounting, treasury, risk management, planning, information technology, tax, law, corporate secretarial, human resources, investor relations, corporate communications and certain other services. Services charges PSEG and its subsidiaries for the cost of work performed and services provided pursuant to the terms and conditions of intercompany service agreements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Basis of Presentation

PSEG, PSE&G, Power and Energy Holdings

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, PSE&G s, Power s and Energy Holdings respective Annual Reports on Form 10-K for the year ended December 31, 2006 and Quarterly Reports on Form 10-Q and Form 10-Q/A for the quarter ended March 31, 2007.

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, 2006.

Reclassifications

PSEG, PSE&G, Power and Energy Holdings

Certain reclassifications have been made to the prior quarter financial statements to conform to the current quarter presentation. The reclassifications relate primarily to PSE&G s determination, during the fourth quarter of 2006, that the revenues and expenses related to one of its contracts that had been recorded on a gross basis would more appropriately be recorded on a net basis in Operating Revenues based upon the provisions of Emerging Issues Task Force (EITF) 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent. Therefore, prior amounts have been reclassified, resulting in reductions of $44 million and $101 million in both Operating Revenues and Energy Costs for the quarter and six months ended June 30, 2006, respectively, for PSEG and PSE&G, with no impact on Operating Income.

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, PSE&G, Power and Energy Holdings.

Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157)

PSEG, PSE&G, Power and Energy Holdings

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. While this statement does not require any new fair value measurements, the application of this statement will change current practice for some fair value measurements.

This statement also nullifies the guidance in footnote 3 of EITF Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities (EITF 02-3). The guidance in footnote 3 applies to derivative instruments measured at fair value at initial recognition, and it precludes immediate recognition in earnings of an unrealized gain or loss, measured as the difference between the transaction price and the fair value of the

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

instrument at initial recognition, if the fair value of the instrument is determined using significant unobservable inputs. Under EITF 02-3, an entity cannot recognize an unrealized gain or loss at inception of a derivative instrument unless the fair value of that instrument is obtained from a quoted market price in an active market or is otherwise evidenced by comparison to other observable current market transactions or based on a valuation technique incorporating observable market data. SFAS 157 requires that the principles of fair value measurement apply for derivatives and other financial instruments at initial recognition and in all subsequent periods.

SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. PSEG, PSE&G, Power and Energy Holdings are currently assessing the potential impact of SFAS 157 on their respective consolidated financial positions and results of operations.

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

PSEG, PSE&G, Power and Energy Holdings

In February 2007, the FASB issued SFAS 159, which permits entities to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. An entity will report unrealized gains and losses on items where the fair value option has been elected in earnings at each subsequent reporting date. 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 about whether to elect the fair value option is applied instrument by instrument, with a few exceptions; the decision is irrevocable; and the decision is required to be applied 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 is 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, PSE&G, Power and Energy Holdings are currently assessing the potential impact of SFAS 159 on their respective consolidated financial positions and results of operations.

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

PSEG and Power

In April 2007, the FASB issued FSP 39-1, which permits 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. Currently, PSEG and Power offset derivative contracts under master netting arrangements in accordance with FIN 39, Offsetting of Amounts Related to Certain Contracts, but do not net these balances with cash collateral positions. Under this FSP, PSEG and Power would be required to net cash collateral with the corresponding net derivative balance or elect to show all fair values gross.

FSP 39-1 is effective for fiscal years beginning after November 15, 2007 and must be applied retroactively to all financial statements presented, unless it is impracticable to do so. PSEG and Power are currently evaluating the potential impact of FSP 39-1 on their respective financial positions. PSEG and Power expect no impact to their respective results of operations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following new accounting standards were adopted by PSEG, PSE&G, Power and Energy Holdings during 2007.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109 (FIN 48)

PSEG, PSE&G, Power and Energy Holdings

In July 2006, the FASB issued FIN 48, which prescribes a model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. Under FIN 48, the financial statements reflect expected future tax consequences of such positions presuming the tax authorities full knowledge of the position and all relevant facts. FIN 48 permits recognition of the benefit of tax positions only when it is more likely-than-not that the position is sustainable based on the merits of the position. It further limits the amount of tax benefit to be recognized to the largest amount of benefit that is greater than 50% likely of being realized. FIN 48 also requires explicit disclosures about uncertainties in income tax positions, including a detailed roll-forward of unrecognized tax benefits taken that do not qualify for financial statement recognition.

FIN 48 was effective January 1, 2007. In general, companies recorded the change in net assets that resulted from the application of FIN 48 as an adjustment to Retained Earnings. However, for PSE&G, because any charges to income arising from the adoption of FIN 48 should be recoverable in future rates, the offset to any incremental PSE&G liability was recorded as a Regulatory Asset rather than Retained Earnings. The following table presents the impact at January 1, 2007 on the Condensed Consolidated Balance Sheets for PSEG and its subsidiaries as a result of implementing FIN 48:

Balance Sheet	PSE&G	Power	Energy Holdings	PSEG Consolidated
			(Millions)	
Increase to Long-Term Accrued Taxes	$ 26	$ 21	$ 355	$ 402
Decrease to Accumulated Deferred Income Tax Liability	$ 15	$ 7	$ 246	$ 268
Increase to Regulatory Assets	$ 11	$	$	$ 11
Decrease to Retained Earnings	$	$ 14	$ 109	$ 123

The after-tax expense resulting from the adoption of FIN 48 for the quarter and six months ended June 30, 2007 are summarized as follows:

	Quarter Ended June 30, 2007	Six Months Ended June 30, 2007
	(Millions)	
PSEG	$ 3	$ 9
Power	$ 2	$ 3

Energy Holdings	$	1	$	6

There was no impact on earnings for PSE&G. For additional information relating to the impacts of FIN 48, see Note 11. Income Taxes.

In May 2007, the FASB issued FASB Staff Position No. FIN 48-1, which provides guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The adoption of this FSP did not have a material impact on the financial statements of PSEG, PSE&G, Power or Energy Holdings.

FSP No. FAS 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 (FSP 13-2)

PSEG and Energy Holdings

In July 2006, the FASB issued FSP 13-2, which addressed how a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affects the accounting by a lessor for that lease. The FSP amends SFAS 13, Accounting for Leases, stating that a change in the timing of the above referenced cash flows must be reviewed at least annually or more frequently, if events or circumstances indicate a change in timing is probable. If a change in timing has

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

occurred, or is projected to occur, the rate of return and the allocation of income to positive investment years must be recalculated from the inception of the lease.

The guidance in this FSP was adopted on January 1, 2007. The cumulative effect of applying the provisions of this FSP is reported as an adjustment to the beginning balance of Retained Earnings as of the date of adoption. As a result of implementing FSP 13-2, upon adoption PSEG and Energy Holdings each recognized a reduction in Investment in Leveraged Leases of $69 million, a reduction in Deferred Income Taxes of $2 million and a reduction in Retained Earnings of $67 million.

The impact to earnings resulting from the adoption of FSP 13-2 for the quarter and six months ended June 30, 2007 was an after-tax decrease of $3 million and $6 million, respectively, for both PSEG and Energy Holdings.

Note 3. Discontinued Operations, Dispositions and Impairments

Discontinued Operations

Power

Lawrenceburg Energy Center (Lawrenceburg)

On May 16, 2007, Power completed the sale of Lawrenceburg, a 1,096-megawatt, gas-fired combined cycle electric generating plant located in Lawrenceburg, Indiana, to AEP Generating Company, a subsidiary of American Electric Power Company, Inc.

The sale price for the facility and inventory was $325 million. The transaction resulted in an after-tax charge to Power s earnings of approximately $208 million and was reflected as a charge to Discontinued Operations in the fourth quarter of 2006.

Lawrenceburg s operating results for the quarter and six months ended June 30, 2007 and 2006, which were reclassified to Discontinued Operations, are summarized below:

	Quarters Ended June 30, 2007	Quarters Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
	(Millions)			
Operating Revenues	$	$ 6	$	$ 6
Loss Before Income Taxes	$ (4)	$ (14)	$ (15)	$ (29)
Net Loss	$ (3)	$ (8)	$ (9)	$ (17)

The carrying amounts of the assets of Lawrenceburg as of December 31, 2006 are summarized in the following table:

As of December 31, 2006

		(Millions)
Current Assets	$	10
Noncurrent Assets		315
Total Assets of Discontinued Operations	$	325

Energy Holdings

Electroandes S.A. (Electroandes)

In March 2007, Global announced that it is exploring a potential sale of Electroandes, a hydro-electric generation and transmission company in Peru. Global owns approximately 100% of Electroandes. Electroandes owns and operates four hydro-generation plants with total capacity of 180 megawatts and 437 miles of electric transmission lines. In June 2007, based on the strong investor interest in this project as seen in the auction process to date, Energy Holdings reclassified the investment to Discontinued Operations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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It is anticipated that a sale will close by the end of 2007, subject to regulatory approvals. As of June 30, 2007, the book value of Electroandes was approximately $166 million.

The 2007 and 2006 operating results for Global s assets in Electroandes have been reclassified to Discontinued Operations. In conjunction with the reclassification to Discontinued Operations, Electroandes recorded a $19 million income tax expense in the second quarter of 2007 related to the discontinuation of applying Accounting Principles Board (APB) Opinion No. 23, Accounting for Income Taxes Special Areas, as the income generated by Electroandes is no longer expected to be indefinitely reinvested.

Electroandes operating results for the quarter and six months ended June 30, 2007 and 2006 are summarized below:

	Quarters Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(Millions)			
Operating Revenues	$ 13	$ 15	$ 24	$ 29
Income Before Income Taxes	$ 6	$ 4	$ 7	$ 8
Net (Loss) Income	$ (15)	$ 2	$ (14)	$ 5

The carrying amounts of the assets of Electroandes as of June 30, 2007 and December 31, 2006 are summarized in the following table:

	As of June 30, 2007	As of December 31, 2006
	(Millions)	
Current Assets	$ 25	$ 25
Noncurrent Assets	274	272
Total Assets of Discontinued Operations	$ 299	$ 297
Current Liabilities	$ 8	$ 9
Noncurrent Liabilities	125	125
Total Liabilities of Discontinued Operations	$ 133	$ 134

Elektrocieplownia Chorzow Elcho Sp. Z o.o. (Elcho) and Elektrownia Skawina SA (Skawina)

On May 29, 2006, Global completed the sale of its interest in two coal-fired plants in Poland, Elcho and Skawina. Proceeds, net of transaction costs, were $476 million, resulting in a gain of $228 million net of tax expense of $142 million. The 2006 operating results for Global s assets in Poland have been reclassified to Discontinued Operations.

Elcho s and Skawina s operating results for the quarter and six months ended June 30, 2006 are summarized below:

	Quarter Ended June 30, 2006		Six Months Ended June 30, 2006	
	Elcho	Skawina	Elcho	Skawina
	(Millions)			
Operating Revenues	$ 9	$ 11	$ 39	$ 44
(Loss) Income Before Income Taxes	$ (6)	$	$ (3)	$ 2
Net (Loss) Income	$ (5)	$	$ (2)	$ 1

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 approximates the recorded book value.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Energy Holdings

Global

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

On December 22, 2006, Global entered into an agreement to sell its 34.5% interest in Tracy Biomass for approximately $7 million. The sale closed on January 26, 2007 and resulted in a 2007 pre-tax gain of approximately $7 million ($6 million after-tax).

Rio Grande Energia S. A. (RGE)

On May 10, 2006, Global entered into an agreement with Companhia Paulista de Force Luz (CPFL) to sell its 32% ownership interest in RGE, a Brazilian electric distribution company. The transaction closed on June 23, 2006 and gross proceeds of $185 million were received. The transaction resulted in a pre-tax write-down of $263 million ($177 million after-tax), primarily related to the devaluation of the Brazilian Real subsequent to Global s acquisition of its interests in RGE in 1997.

Impairment

Energy Holdings

Venezuela

PSEG has indirect ownership interests in two generating facilities in Maracay and Cagua, Venezuela that have a total capacity of 120 MW. The projects are owned and operated by Turboven Company Inc. (Turboven), an entity which is jointly-owned by Global (50%) and Corporacion Industrial de Energia (CIE). Global also has a 9% indirect interest in Turbogeneradores de Maracay through a partnership with CIE.

During Global s 2006 year-end review of its equity method investments, management concluded that due to the current political situation in Venezuela, it was probable that Global would not be able to recover all of its capitalized costs associated with its investments in Venezuela. Therefore, Global recorded a pre-tax impairment loss of approximately $7 million to write down these investments in the fourth quarter of 2006.

In January 2007, the Venezuelan government announced its intention to nationalize certain sectors of Venezuelan industry and commerce, including certain foreign-owned energy and communications companies. In a subsequent press release, Turboven was named as one of the companies that Venezuela intended to nationalize. Since these announcements, Venezuela has proceeded to nationalize certain companies. Global recently entered into preliminary valuation discussions with the government of Venezuela as part of the nationalization efforts. As of June 30, 2007, the book value of these investments was approximately $34 million. No assurances can be given as to whether Global can recover the current book value of the investments.

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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 under PSEG s stock option plans and upon payment of performance units. The following table shows the effect of these stock options and performance units on the weighted average number of shares outstanding used in calculating diluted EPS:

	Quarters Ended June 30,				S
	2007		2006		2007
	Basic	Diluted	Basic	Diluted	Basic
EPS Numerator:					
Earnings (Millions)					
Continuing Operations	$ 293	$ 293	$ (8)	$ (8)	$ 627
Discontinued Operations	(18)	(18)	217	217	(23)
Net Income	$ 275	$ 275	$ 209	$ 209	$ 604
EPS Denominator (Thousands):					
Weighted Average Common Shares Outstanding	253,631	253,631	251,474	251,474	253,263
Effect of Stock Options		403		519	
Effect of Stock Performance Units				91	
Total Shares	253,631	254,034	251,474	252,084	253,263
Earnings Per Share:					

Continuing Operations	$	1.16	$	1.15	$	(0.03)	$	(0.03)	$	2.48	$
Discontinued Operations		(0.07)		(0.07)		0.86		0.86		(0.09)	
Net Income	$	1.09	$	1.08	$	0.83	$	0.83	$	2.39	$

Dividend payments on common stock for the quarters ended June 30, 2007 and 2006 were $0.585 and $0.57 per share, respectively, and totaled approximately $148 million and $143 million respectively. Dividend payments on common stock for the six months ended June 30, 2007 and 2006 were $1.17 and $1.14 per share, respectively, and totaled approximately $296 million and $286 million, respectively.

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

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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, 2007 and December 31, 2006 was approximately $1.6 billion.

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 $462 million and $518 million as of June 30, 2007 and December 31, 2006, 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. As of June 30, 2007 and December 31, 2006, Power had the following margin posted and received to satisfy collateral obligations and support various contractual and environmental obligations, which were primarily in the form of letters of credit:

	As of June 30, 2007	As of December 31, 2006
	(Millions)	
Margin Posted	$ 197	$ 40
Margin Received	$ 49	$ 86

Power also routinely enters into exchange-traded futures and options transactions for electricity and natural gas as part of its operations. Generally, such future contracts require a deposit of cash margin, the amount of which is subject to change based on market movement and in accordance with exchange rules. As of June 30, 2007 and December 31, 2006, Power had deposited margin of approximately $220 million and $89 million, respectively. Exchange-traded transactions that are margined and monitored separately from physical trading activity may not be subject to change in the event of a downgrade to Power s rating.

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. As of June 30, 2007, 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 approximately $580 million. Power believes that it has sufficient liquidity to post such collateral, if necessary.

Energy Holdings

Energy Holdings and/or Global have guaranteed certain obligations of their subsidiaries or affiliates, including the successful completion, performance or other obligations related to certain projects.

In 2006, Global sold its investments in Poland. As of June 30, 2007 and December 31, 2006, Global was still obligated for a $6 million equity commitment guarantee at Skawina. The guarantee expires in August 2007. If payments are required, such payments are indemnified by the purchaser in accordance with the purchase agreement.

Global also has a contingent guarantee expiring in April 2011 related to debt service obligations associated with Chilquinta Energia S.A., an energy distribution company in Chile in which Global owns 50%. As of June 30, 2007 and December 31, 2006, the contingent guarantee was approximately $25 million.

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In September 2003, Energy Holdings completed the sale of PSEG Energy Technologies Inc. (Energy Technologies) and nearly all of its assets. However, Energy Holdings retained certain outstanding construction and warranty obligations related to ongoing construction projects previously performed by Energy Technologies. These construction obligations have performance bonds issued by insurance companies for which exposure is adequately supported by the outstanding letters of credit for PSEG Energy Technologies Asset Management Company LLC. As of June 30, 2007 and December 31, 2006, there were $14 million of such bonds outstanding, which are related to uncompleted construction projects. As of June 30, 2007 and December 31, 2006, there was an additional $2 million of performance guarantees related to Energy Technologies.

As of June 30, 2007 and December 31, 2006, Energy Holdings and/or Global had various other guarantees amounting to $22 million and $30 million, respectively.

Environmental Matters

PSEG, PSE&G and Power

Hazardous Substances

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). 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 NJDEP requires persons conducting remediation to characterize injuries to natural resources and to address those injuries through restoration or damages. The NJDEP adopted regulations 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.

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 PSE&G and Power, 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 approximately $20 million, of which it would seek to recover $10 million from the PRPs, including PSE&G and Power. In 2006, the EPA notified the PRPs that the cost of its study will greatly exceed the $20 million initially estimated and after discussion, approximately 70 PRPs, including PSE&G and Power, 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 percentage allocable to Power and PSE&G varies depending on the number of PRPs who have agreed to divide the costs. Currently, it is 6.25%. Power has provided notice to insurers concerning this potential claim.

In June 2007 the EPA announced a 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.

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The New Jersey Department of Environmental Protection (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 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 New Jersey Spill Compensation and Control 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.

On June 29, 2007, the State of New Jersey filed multiple lawsuits against parties, including PSE&G, who were alleged to be responsible for injuries to natural resources in New Jersey, including a site being remediated under PSE&G s MGP program. PSE&G and Power have indicated to both the EPA and NJDEP that they are willing to work with the agencies in an effort to resolve their respective claims. PSEG, PSE&G and Power cannot predict what further actions, if any, or the costs or the timing thereof, that may be required with respect to the Passaic River or natural resource damages. However, such costs could be material.

PSE&G

MGP Remediation Program

PSE&G is currently 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 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. Specifically, 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 a former MGP 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. Since the inception of the Remediation Program in 1988 through June 30, 2007, PSE&G has had expenditures of approximately $400 million.

Based on most recent estimates, the cost of remediating all sites to completion, as well as the anticipated costs to address MGP-related material discovered in two rivers adjacent to two former MGP sites, could range between $798 million and $838 million, including amounts spent to date. No amount within the range was considered to be most likely. Therefore, $398 million was accrued at June 30, 2007, which represents the difference between the low end of the total program cost estimate of $798 million and the total incurred costs through June 30, 2007 of $400 million. Of this amount, approximately $48 million was recorded in Other Current Liabilities and $350 million was reflected in Other Noncurrent Liabilities. The costs associated with the MGP Remediation Program have historically been recovered through the SBC charges to PSE&G ratepayers. As such, a $398 million Regulatory Asset was recorded.

Costs for the MGP Remediation Program were approximately $42 million for 2006. PSE&G anticipates spending $47 million in 2007, $50 million in 2008, and an average of approximately $40 million per year each year thereafter through 2016.

Power

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

The PSD/NSR regulations, promulgated under the Clean Air Act (CAA), 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 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 approximately $27,500 for each day of continued violation.

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The EPA and the NJDEP issued a demand in March 2000 under the CAA requiring information to assess whether projects completed since 1978 at the Hudson and Mercer coal-burning units were implemented in accordance with applicable PSD/NSR regulations. In January 2002, Power reached an agreement with the NJDEP and the EPA to resolve allegations of noncompliance with PSD/NSR regulations. Under that agreement, over the course of 10 years, Power agreed to install advanced air pollution controls to reduce emissions of Sulfur Dioxide (SO_2), Nitrogen Oxide (NO_x), particulate matter and mercury from the coal-burning units at the Mercer and Hudson generating stations to ensure compliance with PSD/NSR. Power also agreed to spend at least $6 million on supplemental environmental projects and pay a $1 million civil penalty. The agreement resolving the NSR allegations concerning the Hudson and Mercer coal-fired units also resolved a dispute over Bergen 2 regarding the applicability of PSD requirements and allowed construction of the unit to be completed and operations to commence.

Power subsequently notified the EPA and the NJDEP that it was evaluating the continued operation of the Hudson coal unit in light of changes in the energy and capacity markets, increases in the cost of pollution control equipment and other necessary modifications to the unit. On November 30, 2006, Power reached an agreement with the EPA and the NJDEP on an amendment to its 2002 agreement intended to achieve the emissions reductions targets of this agreement while providing more time to assess the feasibility of installing additional advanced emissions controls at Hudson.

The amended agreement with the EPA and the NJDEP, which received final approval from the U.S. District Court in New Jersey in May 2007, allows Power to continue operating Hudson and extends for four years the deadline for installing environmental controls beyond the previous December 31, 2006 deadline. Power is required to undertake a number of technology projects (selective catalytic reductions (SCRs), scrubbers, baghouses, carbon injection)), plant modifications and operating procedure changes at Hudson and Mercer designed to meet targeted reductions in emissions of NO_x, SO_2, particulate matter and mercury. In July 2007, Power notified the EPA and the NJDEP that it will proceed with the installation of the additional emissions controls at Hudson by the end of 2010.

Under the program, Power has installed SCRs at Mercer at a cost of approximately $115 million. The cost of implementing the balance of the amended agreement at Mercer and Hudson is estimated at approximately $475 million to $525 million for Mercer and at $700 million to $750 million for Hudson and will be incurred in the 2007 2010 timeframe. Pursuant to the agreement, Fossil purchased and retired emissions allowances by July 31, 2007, paid a $6 million civil penalty and will contribute approximately $3 million for programs to reduce particulate emissions from diesel engines in New Jersey. In addition, in March 2007, Fossil entered into an engineering, procurement and construction contract with a third party contractor to complete all back-end technology requirements for the Mercer station, as referenced above. A contract for the Hudson back-end technology construction was signed in July 2007.

As a result of the agreement, Power s environmental reserves include approximately $3 million to account for the particulate matter reduction program. PSEG and Power recorded the charge in Other Deductions on their respective Condensed Consolidated Statements of Operations in the fourth quarter of 2006.

Mercury Regulation

New Jersey, and Connecticut have adopted standards for the reduction of emissions of mercury from coal-fired electric generating units. The regulations in New Jersey require the units to meet certain emissions limits or reduce emissions by 90% by December 15, 2007.

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 are required by December 15, 2007 are expected to be achieved through the installation of carbon injection technology at Mercer. Installation of carbon injection technology was completed in January 2007 at both Mercer Units. If this does not meet the applicable limit, Power will apply for a facility-specific control plan. Power believes, but cannot guarantee, that this filing will allow for the continued operation of both Mercer Units while baghouses are installed. Installation of the baghouses 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.

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The mercury control technologies are also part of Power s multi-pollutant reduction agreement, which resulted from the amended 2002 agreement that resolved issues arising out of the PSD and the NSR air pollution control programs, discussed above.

Connecticut requires 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 effective in July 2008. Power anticipates compliance at its Bridgeport Harbor Station consisting of the installation of a baghouse by the end of 2007.

In February 2007, Pennsylvania finalized its State-specific requirements to reduce mercury emissions from coal-fired electric generating units. Currently, the regulations would not materially affect the costs already identified in Power s capital expenditures forecast.

The estimated costs of technology believed to be capable of meeting these emissions limits at Power s coal-fired unit in Connecticut and at its Mercer and Hudson Stations are included in Power s capital expenditures forecast. Total estimated costs for each project are between $150 million and $200 million. The Mercer and Hudson expenditures are included in the PSD/NSR discussion above.

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 applies to the sale of certain assets. Power had a $51 million liability as of June 30, 2007 and December 31, 2006, related to these obligations, which is included in Other Noncurrent Liabilities on Power s Condensed Consolidated Balance Sheets and Environmental Costs on 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 Federal Water Pollution Control Act (FWPCA) Section 316(b) and the Phase II 316(b) rule was filed in February 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.

The U.S. Court of Appeals for the Second Circuit issued a decision after Power filed its application that rejected the use of restoration and the site-specific cost-benefit test under the Phase II 316(b) rule.

On May 25, 2007 Power and other industry petitioners filed with the Second Circuit Court a request for a rehearing. In July 2007, the Second Circuit Court denied the request. The parties, including Power, may now request that the US Supreme Court review the matter. 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 court cannot be determined at this time for all of Power s facilities. Depending on the outcome of any appeals, or actions by EPA to repromulgate the rule, this 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, New Haven and Bridgeport, 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 those five once-through cooled facilities, the related costs and impacts would be material to Power s financial position, results of operations and net cash flows. For example, Power s application to renew the permit, filed in February 2006 with the NJDEP, estimated the costs associated with cooling towers for Salem to be

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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 currently forecasted capital expenditures.

Energy Holdings

Bioenergie S.p.A. (Bioenergie)

In May 2006, Global became the majority shareholder of Bioenergie (formerly known as Prisma 2000 S.p.A). Among other holdings, Bioenergie holds 100% of the stock of San Marco Bioenergie S.p.A (San Marco), owner of a 20 MW biomass generation facility in Italy. Global also assumed operational responsibility for the facility in May 2006, which was previously operated by Carlo Gavazzi Green Power pursuant to a Services Agreement with a Global subsidiary. Global s total investment in Bioenergie is approximately $70 million.

In August 2006, Global became aware that the Italian government was conducting a criminal investigation regarding allegations of violations of the San Marco facility s air permit. The scope of the investigation was subsequently expanded to include alleged violations of the facility s waste recycling and waste storage permits. The Italian government has named five individuals as targets of the criminal investigation, including three former San Marco employees and two former members of the facility s Board of Directors. San Marco has not been named as a target.

In December 2006 and January 2007, the facility was served with orders suspending its operations. San Marco has fully cooperated with the Prosecuting Attorney regarding the ongoing investigation and has implemented the corrective actions designed to prevent recurrence of the violations. On April 26, 2007, the Prosecutor issued an order returning control of the plant to San Marco. One of the units resumed commercial operations in June 2007 with the second unit anticipated to resume commercial operations in August 2007.

Electroandes

In July 2005, Electroandes received a notice from Superintendencia Nacional de Administracion Tributaria (SUNAT), the governing tax authority in Peru, claiming past due taxes for 2002 totaling approximately $2 million related to certain interest deductions. Electroandes has taken similar interest deductions subsequent to 2002. The total cumulative estimated potential amount for past due taxes, including associated interest and penalties, is approximately $10 million through June 30, 2007. Electroandes believes it has valid legal defenses to these claims, and has filed an appeal with SUNAT with respect to which it has not yet received a response; however, no assurances can be given regarding the outcome of this matter. For additional information relating to Electroandes, see Note 3. Discontinued Operations, Dispositions and Impairments.

Luz del Sur S.A.A. (LDS)

In January 2007, SUNAT filed two tax assessments against LDS totaling approximately $18 million, of which Global s share would be approximately $7 million based on its 38% interest in LDS. The assessments relate to deductions LDS claimed beginning in 2000 for certain operating fees it paid to International Technical Operators under a technical services agreement, for certain bad debt deductions and certain other matters. The assessments include interest and penalties claimed by SUNAT. LDS believes that most of such deductions were appropriate and filed an appeal in February 2007. LDS believes it has valid legal defenses to these claims and that it should be successful in contesting these material items/disallowances; however, no assurances can be given regarding the outcome of this matter.

New Generation and Development

Power

Power plans to modestly increase its generating capacity at Hope Creek in 2007 and Salem Unit 2 in 2008. Phase I of the Hope Creek turbine replacement increased the capacity by 10 MW in 2005, and Phase II

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is expected to be completed in 2007 along with the thermal power uprate and is expected to add approximately 125 MW of capacity. Phase I of the Salem Unit 2 turbine upgrade increased Power s share of the capacity by 14 MW in 2003. Phase II is currently scheduled for 2008, concurrent with steam generator replacement and is anticipated to increase Power s share of the capacity by an additional 15 MW. Power s expenditures to date for these projects approximate $187 million (including Interest Capitalized During Construction (IDC) of $21 million) with an aggregate estimated share of total costs for these projects of $213 million (including IDC of $23 million).

Completion of the projects discussed above within the estimated time frames and cost estimates cannot be assured. Construction delays, cost increases, regulatory approvals and various other factors could result in changes in the operational dates or ultimate costs to complete.

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

PSE&G and Power

PSE&G is required to obtain all 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 (LSE) 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.

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

	Term Ending			
Term	May 2007(a) 34 months	May 2008(b) 36 months	May 2009(c) 36 months	May 2010(d) 36 months
Load (MW)	2,840	2,840	2,882	2,758
$ per kWh	$ 0.05515	$ 0.06541	$ 0.10251	$ 0.09888

(a) Prices set in the February 2004 BGS auction.

(b) Prices set in the February

2005 BGS auction.

(c) Prices set in the February 2006 BGS auction.

(d) Prices set in the February 2007 BGS auction which became effective on June 1, 2007.

Power seeks to mitigate volatility in its results by contracting in advance for 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 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 13. Related-Party Transactions.

The BPU is currently 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 and Oil

Power purchases coal and oil for certain of its fossil generation stations through various long-term commitments. The coal purchase commitments through 2009 amount to approximately 91% of its average anticipated coal needs, including transportation. These commitments total approximately $882 million.

Nuclear Fuel

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 and uranium hexafluoride) to meet 100% of its total estimated requirements through 2011. Additionally, Power has commitments covering approximately 48% of its estimated requirements for 2012 and 15% from 2013 through 2016. These commitments, based on current market prices, which have increased substantially over the past two to three years, total approximately $655 million ($466 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 2010 that total approximately $257 million ($186 million Power s estimated share).

Power has commitments for the fabrication of fuel assemblies for reloads required through 2011 for Salem and through 2012 for Hope Creek that total approximately $148 million ($109 million Power s estimated share).

Natural Gas

In addition to its fuel requirements, 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, 2007, the total minimum requirements under these contracts were approximately $1 billion through 2016.

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

Energy Holdings

The Texas generation facilities have entered into gas supply agreements for their anticipated fuel requirements to satisfy obligations under their forward energy sales contracts. As of June 30, 2007, the plants have fuel purchase commitments totaling $189 million to support all of their contracted energy sales.

Operating Services Contract (OSC)

Power

On January 17, 2005, Nuclear entered into an OSC with Exelon Generation LLC (Exelon) relating to the operation of the Hope Creek and Salem nuclear generating stations. The OSC requires Exelon to provide key personnel to oversee daily plant operations at the Hope Creek and Salem nuclear generating stations and to implement a management model that Exelon has used to manage its own nuclear facilities. Nuclear continues as the license holder with exclusive legal authority to operate and maintain the plants, retains responsibility for management oversight and has full authority with respect to the marketing of its share of the output from the facilities. Exelon is entitled to receive reimbursement of its costs in discharging its obligations, an annual operating services fee of $3 million and incentive fees up to $12 million annually based on attainment of goals relating to safety, capacity factor and operation and maintenance expenses. On

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October 27, 2006, Nuclear informed Exelon that it was electing to continue the OSC for up to two years beyond the initial January 2007 period.

In December 2006, Power announced its plans to resume direct management of the Salem and Hope Creek nuclear generating stations before the expiration of the OSC. As part of this plan, on January 1, 2007, the senior management team at Salem and Hope Creek, which consisted of three senior executives from Exelon, became employees of Power. Power has continued to recruit additional employees to build its organizational structure. Power is implementing a plan to fully resume functions that Exelon currently performs, which should put Power in a position to terminate the OSC by the end of 2007.

Maintenance Agreement

Power

Power entered into a long-term contractual services agreement with a vendor in September 2003 to provide the outage and service needs for certain of Power s generating units at market rates. The contract covers approximately 25 years and could result in annual payments ranging from approximately $10 million to $50 million for services, parts and materials rendered.

Investment Tax Credits (ITC)

PSEG and PSE&G

As of June 1999, the Internal Revenue Service (IRS) had 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, were terminated upon New Jersey s electric industry deregulation. Based on this fact, PSEG and PSE&G reversed the deferred tax and ITC liability relating to PSE&G s generation assets that were transferred to Power, and recorded a $235 million reduction of the extraordinary charge in 1999 due to the restructuring of the utility industry in New Jersey. Subsequently, PSE&G was directed by the BPU to seek a PLR from the IRS to determine if the ITC included in the impairment write-down of generation assets could be credited to customers without violating the tax normalization rules of the Internal Revenue Code. PSE&G filed a PLR request with the IRS in 2002.

On May 11, 2006, the IRS issued a PLR to PSE&G. The PLR concluded that none of the generation ITC could be passed to utility customers without violating the normalization rules. On May 16, 2006, the BPU voted in favor of a special investigation and hearing before the BPU concerning PSE&G s actions leading up to receiving the PLR, specifically its failure to abide by a BPU order to withdraw the request. An order detailing such special investigation has not yet been issued and no investigation has begun.

On October 13, 2006, the Appellate Division of the Superior Court of New Jersey granted PSE&G s motion to dismiss PSE&G s appeal of the BPU s order to withdraw the PLR since PSE&G has already received the PLR. The court also determined that if the BPU seeks to take future action against PSE&G based on the alleged violation of its order, PSE&G can restart the appeal.

While the holding in the PLR is favorable for PSE&G, an outstanding Treasury regulation project could overturn the holding in the PLR if the Treasury were to alter a position set out in certain December 21, 2005 proposed regulations. PSEG and PSE&G cannot determine the final outcome of this matter until the final Treasury regulations are issued.

BPU Deferral Audit

PSEG and PSE&G

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 (NUG) deferred balances. The BPU released the report on May 13, 2005.

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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 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 approximately $130 million.

On January 31, 2007, PSE&G requested that the matter be transmitted to the Office of Administrative Law for the development of an evidentiary record and an initial decision. The BPU granted the request on February 7, 2007. On May 25, 2007, PSE&G filed a Motion for Summary Judgment requesting dismissal of the matter which is pending. Briefs were filed by the New Jersey Public Advocate s Division of Rate Counsel (Rate Counsel) and the BPU Staff on July 16, 2007 and July 17, 2007, respectively. In its filing, Rate Counsel opposed PSE&G s motion and continued to support the refunding of the $130 million in dispute with customers. The BPU Staff also asserts that $130 million should be refunded to ratepayers. PSE&G s Reply Brief is due August 24, 2007.

While PSE&G believes the MTC methodology it used was fully litigated and resolved, without exception, by the BPU and other intervening parties in its previous electric base rate case, deferral audit and deferral proceeding that were approved by the BPU in its order on April 22, 2004, and that such order is non-appealable, PSE&G cannot predict the impact of the outcome of this proceeding.

New Jersey Clean Energy Program

PSE&G

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 $62 million and $50 million for the six months ended June 30, 2007 and 2006, respectively. The remaining liability has been recorded at a discounted present value with an offsetting Regulatory Asset, since the costs 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, 2007 and December 31, 2006 was $201 million and $253 million, respectively.

Leveraged Lease Investments

PSEG and Energy Holdings

On November 16, 2006, the IRS issued a report with respect to its audit of PSEG s corporate tax returns for tax years 1997 through 2000, which disallowed all deductions associated with certain of Resources lease transactions that are similar to a type that the IRS publicly announced its intention to challenge. In addition, the IRS imposed a 20% penalty for substantial understatement of tax liability. In February 2007, PSEG filed a protest to the Office of Appeals of the IRS. As of June 30, 2007 and December 31, 2006, Resources total gross investment in such transactions was approximately $1.5 billion.

If all deductions associated with these lease transactions, entered into by PSEG between 1997 and 2002, are successfully challenged by the IRS, it could have a material adverse impact on PSEG s and Energy Holdings financial position, results of operations and net cash flows and could impact future returns on these transactions. PSEG believes that its tax position related to these transactions is proper based on applicable statutes, regulations and case law and will aggressively contest the IRS disallowance. PSEG believes that it is more likely than not that it will prevail with respect to the IRS challenge, although no assurances can be given.

If the IRS disallowance of tax benefits associated with all of these lease transactions was sustained, approximately $828 million of PSEG s deferred tax liabilities that have been recorded under leveraged lease accounting through June 30, 2007 would become currently payable. In addition, as of June 30, 2007 interest of approximately $145 million, after-tax, and penalties of $160 million may become payable, with potential additional interest and penalties of approximately $16 million accruing quarterly. Energy Holdings management has assessed the probability of various outcomes to this matter and recorded the tax effect to be realized in accordance with FIN 48.

For additional information and guidance for leveraged leases, see Note 2. Recent Accounting Standards.

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Note 6. Financial Risk Management Activities

PSEG, PSE&G, Power and Energy Holdings

The operations of PSEG, PSE&G, Power and Energy Holdings 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, PSE&G, Power and Energy Holdings 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, PSE&G, Power and Energy Holdings 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, PSE&G, Power and Energy Holdings uses derivative instruments as risk management tools consistent with its respective business plan and prudent business practices.

Derivative Instruments and Hedging Activities

Commodity Contracts

Power

Power actively transacts in 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 the Northeastern and Mid Atlantic United States.

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, futures and FTRs. During the six months ended June 30, 2007, higher market prices for electricity and capacity have resulted in additional unrealized losses on many of these contracts leading to an increase in Accumulated Other Comprehensive Loss (OCL). Power marks its derivative energy- related contracts to market in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , as amended (SFAS 133) with changes in fair value charged to the Condensed 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 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.

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, 2007, the fair value of these hedges was $(432) million and resulted in $(254) million after-tax recorded in OCL. As of December 31, 2006, the fair value of these hedges was $(166) million. These hedges, along with realized losses on hedges of $(19) million retained in OCL, resulted in a $(108) million after-tax balance in OCL. The increase of $146 million in OCL during the six months ended June 30, 2007 was caused mainly by higher electricity market prices. During the 12 months ending June 30, 2008, $144 million after-tax of net unrealized losses on these commodity derivatives is expected to be reclassified to earnings. Approximately $83 million of after-tax unrealized losses on these commodity derivatives in OCL is expected to be reclassified to earnings for the 12 months ending June 30, 2009. Ineffectiveness associated with these hedges, as defined in SFAS 133, was $(2) million at June 30, 2007. The expiration date of the longest dated cash flow hedge is in 2010.

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Other Derivatives

Power also enters into certain other contracts that are derivatives, but do not qualify for hedge accounting under SFAS 133. These contracts are used primarily for fuel purchases for generation and BGSS requirements and for electricity purchases for contractual sales obligations and a minor portion is used in Power s Nuclear Decommissioning Trust Funds. 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 Condensed Consolidated Statements of Operations. The net fair value of these instruments as of June 30, 2007 was $(18) million. The net fair value of these instruments as of December 31, 2006 was $(2) million.

Energy Holdings

Other Derivatives

The Texas generation facilities enter into electricity forward and capacity sales contracts to sell portions of their 2,000 MW capacity through 2010, with the balance sold into the daily spot market. The Texas generation facilities 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 the Texas generation facilities, 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. The net fair value of the open positions was approximately $34 million and $38 million as of June 30, 2007 and December 31, 2006, respectively.

Interest Rates

PSEG, PSE&G, Power and Energy Holdings

PSEG, PSE&G, Power and Energy Holdings 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

In March 2004, Power issued $250 million of 3.75% Senior Notes due April 2009. PSEG used an interest rate swap to convert Power s fixed-rate debt 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, 2007 and December 31, 2006, the fair value of the hedge was $(8) million and $(9) million, respectively.

Cash Flow Hedges

PSEG, PSE&G and Energy Holdings

PSEG, PSE&G and Energy Holdings 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 Income/Loss. As of June 30, 2007, the fair value of these cash flow hedges was $(2) million and $2 million at PSE&G and Energy Holdings, respectively. As of December 31, 2006, the fair value of these cash flow hedges was $(4) million, primarily at PSE&G. The $(2) million and $(4) million at PSE&G as of June 30, 2007 and December 31, 2006, respectively, is not included in Accumulated Other Comprehensive Income/Loss, as it is deferred as a Regulatory Asset and is expected to be recovered from PSE&G s customers. During the next 12 months, less than $1 million of unrealized losses (net of taxes) on interest rate derivatives in OCL is expected to be reclassified at PSEG. As of June 30, 2007, there was no hedge ineffectiveness associated with these hedges.

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Foreign Currencies

Energy Holdings

Global is exposed to foreign currency risk and other foreign operation risks that arise from investments in foreign subsidiaries and affiliates. A key component of its risks is that some of its foreign subsidiaries and affiliates have functional currencies other than the consolidated reporting currency, the U.S. Dollar. Additionally, Global and certain of its foreign subsidiaries and affiliates have entered into monetary obligations and maintain receipts/receivables in U.S. Dollars or currencies other than their own functional currencies. Global, a U.S. Dollar functional currency entity, is primarily exposed to changes in the Peruvian Nuevo Sol and the Chilean Peso and to a lesser extent, the Euro. Changes in valuation of these currencies can impact the value of Global s investments, results of operations, financial condition and cash flows. Global has attempted to limit potential foreign exchange exposure by entering into revenue contracts that adjust for changes in foreign exchange rates. Global may also use foreign currency forward, swap and option agreements to manage risk related to certain foreign currency fluctuations.

Although the Chilean Peso and the Peruvian Nuevo Sol had originally depreciated relative to the U.S. Dollar after Global s initial investments, the currencies have appreciated significantly over the past few years. The net cumulative foreign currency revaluations have increased the total amount of Energy Holdings Member s Equity by $151 million as of June 30, 2007.

Hedges of Net Investments in Foreign Operations

Energy Holdings

In March 2004 and April 2004, Energy Holdings entered into four cross-currency interest rate swap agreements. The swaps are designed to hedge the net investment in a foreign subsidiary associated with the exposure in the U.S. Dollar to Chilean Peso exchange rate. The fair value of the cross-currency swaps was $(26) million and $(25) million as of June 30, 2007 and December 31, 2006, respectively. The change in fair value of the majority of the swaps is recorded in Cumulative Translation Adjustment within OCL. As a result, Energy Holdings Member s Equity was reduced by $24 million as of June 30, 2007.

Note 7. Comprehensive Income (Loss), Net of Tax

	PSE&G	Power	Energy Holdings	Other(A)	Consolidated Total
			(Millions)		
For the Quarter Ended June 30, 2007:					
Net Income (Loss)	$ 63	$ 184	$ 44	$ (16)	$ 275
Other Comprehensive Income		30	28	1	59
Comprehensive Income (Loss)	$ 63	$ 214	$ 72	$ (15)	$ 334
For the Quarter Ended June					

30, 2006:										
Net Income (Loss)	$	34	$	77	$	118	$	(20)	$	209
Other Comprehensive Income (Loss)				46		189		(1)		234
Comprehensive Income (Loss)	$	34	$	123	$	307	$	(21)	$	443
For the Six Months Ended June 30, 2007:										
Net Income (Loss)	$	195	$	397	$	47	$	(35)	$	604
Other Comprehensive (Loss) Income				(125)		19		1		(105)
Comprehensive Income (Loss)	$	195	$	272	$	66	$	(34)	$	499
For the Six Months Ended June 30, 2006:										
Net Income (Loss)	$	112	$	189	$	150	$	(39)	$	412
Other Comprehensive Income				179		191				370
Comprehensive Income (Loss)	$	112	$	368	$	341	$	(39)	$	782

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Accumulated Other Comprehensive Income (Loss)

	Balance as of December 31, 2006	PSE&G	Power	Energy Holdings	Other (A)	Balance as of June 30, 2007
			(Millions)			
For the Six Months Ended June 30, 2007:						
Derivative Contracts	$ (114)	$	$ (145)	$ 2	$ (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)	$ 19	$ 1	$ (213)

	Balance as of December 31, 2005	PSE&G	Power	Energy Holdings	Other (A)	Balance as of June 30, 2006
			(Millions)			
For the Six Months Ended June 30, 2006:						
Derivative Contracts	$ (626)	$	$ 179	$ 59	$	$ (388)
Pension and OPEB Plans	(11)					(11)
Currency Translation Adjustment	(44)			132		88
NDT Funds	72					72
Other						
	$ (609)	$	$ 179	$ 191	$	$ (239)

(A) Other primarily

consists of activity at PSEG (as parent company), Services and intercompany eliminations.

Note 8. Changes in Capitalization

PSEG

On May 15, 2007, PSEG redeemed the outstanding $375 million of its Floating Rate Notes Due 2008 at 100% of the principal amount.

For the six months ended June 30, 2007, PSEG issued 837,788 shares of its common stock in connection with settling stock options for approximately $36 million.

For the six months ended June 30, 2007, PSEG issued 387,402 shares of its common stock under its Dividend Reinvestment Program and its Employee Stock Purchase Program for approximately $32 million.

PSE&G

On January 2, 2007, PSE&G repaid at maturity $113 million of its 6.25% Series WW First and Refunding Mortgage Bonds.

On May 14, 2007, PSE&G issued $350 million of 5.80% Secured Medium Term Notes Series E due 2037. The proceeds were used to reduce short-term debt.

In June 2007 and March 2007, PSE&G Transition Funding LLC (Transition Funding) repaid approximately $36 million and $38 million, respectively, of its transition bonds.

In June 2007, PSE&G Transition Funding II LLC (Transition Funding II) repaid approximately $4 million of its transition bonds.

Power

In March and June 2007, Power paid cash dividends to PSEG of $125 million and $450 million, respectively.

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Energy Holdings

In March 2007, Energy Holdings made a cash distribution to PSEG of $145 million in the form of a return of capital.

During the first six months of 2007, Energy Holdings subsidiaries repaid approximately $24 million of non-recourse debt, including $22 million by Global, primarily related to the Texas generation facilities, $1 million by Resources and $1 million by EGDC.

Note 9. Other Income and Deductions

	PSE&G	Power	Energy Holdings	Other(A)	Consolidated Total
			(Millions)		
Other Income:					
For the Quarter Ended June 30, 2007:					
Interest and Dividend Income	$ 3	$ 10	$ 2	$ (7)	$ 8
NDT Fund Realized Gains		31			31
NDT Interest and Dividend Income		13			13
Minority Interest				2	2
Other	2	1	1		4
Total Other Income	$ 5	$ 55	$ 3	$ (5)	$ 58
For the Quarter Ended June 30, 2006:					
Interest and Dividend Income	$ 3	$ 3	$ 7	$ (1)	$ 12
NDT Fund Realized Gains		22			22
NDT Interest and Dividend Income		9			9
Change in Derivative Fair Value			1		1
Other	5		2		7
Total Other Income	$ 8	$ 34	$ 10	$ (1)	$ 51
For the Six Months Ended June 30, 2007:					
Interest and Dividend Income	$ 6	$ 15	$ 5	$ (7)	$ 19
NDT Fund Realized Gains		65			65
NDT Interest and Dividend Income		25			25
Arbitration Award (Konya-Ilgin)			9		9

Change in Derivative Fair Value						1				1
Minority Interest								2		2
Other		4		1		3				8
Total Other Income	$	10	$	106	$	18	$	(5)	$	129
<u>For the Six Months Ended June 30, 2006:</u>										
Interest and Dividend Income	$	6	$	7	$	9	$	(3)	$	19
NDT Fund Realized Gains				49						49
NDT Interest and Dividend Income				19						19
Foreign Currency Gains						2				2
Change in Derivative Fair Value						2				2
Other		6				4				10
Total Other Income	$	12	$	75	$	17	$	(3)	$	101

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	PSE&G	Power	Energy Holdings	Other(A)	Consolidated Total
			(Millions)		
Other Deductions:					
For the Quarter Ended June 30, 2007:					
NDT Fund Realized Losses and Expenses	$	$ 19	$	$	$ 19
Other-Than-Temporary Impairment of Investments		14			14
Foreign Currency Losses			2		2
Change in Derivative Fair Value			1		1
Loss on Disposition of Assets		1			1
Other	1			(1)	
Total Other Deductions	$ 1	$ 34	$ 3	$ (1)	$ 37
For the Quarter Ended June 30, 2006:					
Donations	$ 1	$	$	$	$ 1
NDT Fund Realized Losses and Expenses		13			13
Foreign Currency Losses			2		2
Change in Derivative Fair Value			1		1
Minority Interest				1	1
Loss on Disposition of Assets		1			1
Other			(3)		(3)
Total Other Deductions	$ 1	$ 14	$	$ 1	$ 16
For the Six Months Ended June 30, 2007:					
Donations	$ 1	$	$	$ 5	$ 6
NDT Fund Realized Losses and Expenses		36			36
Other-Than-Temporary Impairment of Investments		24			24
Foreign Currency Losses			3		3
Change in Derivative Fair Value			1		1
Loss on Disposition of Assets		2			2
Other	1	1		(1)	1

Total Other Deductions	$	2	$	63	$	4	$	4	$	73
For the Six Months Ended June 30, 2006:										
Donations	$	2	$		$		$		$	2
NDT Fund Realized Losses and Expenses				32						32
Foreign Currency Losses						3				3
Change in Derivative Fair Value						3				3
Minority Interest								1		1
Loss on Disposition of Assets				1						1
Other						1				1
Total Other Deductions	$	2	$	33	$	7	$	1	$	43

(A) Other consists of reclassifications for minority interests in PSEG s consolidated results of operations and intercompany eliminations at PSEG (as parent company).

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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 Mor Ju
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
				(Millions)			
Components of Net Periodic Benefit Costs:							
Service Cost	$ 21	$ 22	$ 4	$ 4	$ 42	$ 43	$ 8
Interest Cost	54	52	18	17	108	105	36
Expected Return on Plan Assets	(72)	(67)	(3)	(3)	(144)	(134)	(7)
Amortization of Net							
Transition Obligation			7	7			14
Prior Service Cost	3	2	3	3	6	5	6
Loss	5	14	2	2	10	27	4
Net Periodic Benefit Costs	11	23	31	30	22	46	61
Effect of Regulatory Asset			5	5			10
Total Benefit Costs	$ 11	$ 23	$ 36	$ 35	$ 22	$ 46	$ 71

PSE&G, Power, Energy Holdings and Services

Pension costs and OPEB costs for PSE&G, Power, Energy Holdings and Services 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,	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
				(Millions)				
PSE&G	$ 5	$ 11	$ 30	$ 30	$ 10	$ 23	$ 60	$ 60

Power	3	7	4	4	6	14	8	8
Energy Holdings	1	1			1	1		
Services	2	4	2	1	5	8	3	3
Total PSEG Consolidated Benefit Costs	$ 11	$ 23	$ 36	$ 35	$ 22	$ 46	$ 71	$ 71

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Note 11. Income Taxes

An analysis of the tax provision expense is as follows:

	PSE&G	Power	Energy Holdings	Other (A)	Consolidated Total
			(Millions)		
For the Quarter Ended June 30, 2007:					
Income (Loss) Before Income Taxes	$ 104	$ 318	$ 68	$ (23)	$ 467
Tax Computed at the Statutory Rate	36	111	24	(8)	163
Increase (Decrease) Attributable to Flow Through of Certain Tax Adjustments:					
State Income Taxes after Federal Benefit	8	18		(1)	25
Rate Differential between Foreign/Domestic Operations			(13)		(13)
Uncertain Tax Positions		2	1		3
Other	(3)		(1)		(4)
Total Income Tax Expense (Benefit)	$ 41	$ 131	$ 11	$ (9)	$ 174
Effective Income Tax Rate	39.4 %	41.2 %	16.2 %	39.1 %	37.3 %
For the Quarter Ended June 30, 2006:					
Income (Loss) Before Income Taxes	$ 60	$ 146	$ (170)	$ (32)	$ 4
Tax Computed at the Statutory Rate	21	51	(59)	(11)	2
Increase (Decrease) Attributable to Flow Through of Certain					

Tax Adjustments:					
State Income Taxes after Federal Benefit	4	9	(3)	(2)	8
Rate Differential between Foreign/Domestic Operations			(4)		(4)
Plant-Related Items	5				5
Other	(4)	1	2	2	1
Total Income Tax Expense (Benefit)	$ 26	$ 61	$ (64)	$ (11)	$ 12
Effective Income Tax Rate	43.3 %	41.8 %	37.6 %	34.4 %	N/A
<u>For the Six Months Ended June 30, 2007:</u>					
Income (Loss) Before Income Taxes	$ 335	$ 692	$ 90	$ (54)	$ 1,063
Tax Computed at the Statutory Rate	117	242	32	(19)	372
Increase (Decrease) Attributable to Flow Through of Certain Tax Adjustments:					
State Income Taxes after Federal Benefit	24	41	(2)	(3)	60
Rate Differential between Foreign/Domestic Operations			(4)		(4)
Uncertain Tax Positions					