

PUBLIC SERVICE ELECTRIC & GAS CO
Form 10-Q
August 03, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED June 30, 2011

OR

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

Registrants, State of Incorporation,

Commission
File Number
001-09120

Address, and Telephone Number
PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
(A New Jersey Corporation)
80 Park Plaza, P.O. Box 1171
Newark, New Jersey 07101-1171
973 430-7000

I.R.S. Employer
Identification No.
22-2625848

001-34232

<http://www.pseg.com>
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

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001-00973

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
(A New Jersey Corporation)
80 Park Plaza, P.O. Box 570
Newark, New Jersey 07101-0570
973 430-7000
<http://www.pseg.com>

22-1212800

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes x No "

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

Public Service Enterprise Group Incorporated	Yes x	No "
PSEG Power LLC	Yes x	No "
Public Service Electric and Gas Company	Yes x	No "

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Public Service Enterprise Group Incorporated	Large accelerated filer x	Accelerated filer "	Non-accelerated filer "	Smaller reporting company "
PSEG Power LLC	Large accelerated filer "	Accelerated filer "	Non-accelerated filer x	Smaller reporting company "
Public Service Electric and Gas Company	Large accelerated filer "	Accelerated filer "	Non-accelerated filer x	Smaller reporting company "

Indicate by check mark whether any of the registrants is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes " No x

As of July 15, 2011, Public Service Enterprise Group Incorporated had outstanding 505,904,733 shares of its sole class of Common Stock, without par value.

As of July 15, 2011, 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 Public Service Electric and Gas Company 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. Each is filing its Quarterly Report 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 will, anticipate, intend, estimate, believe, expect, plan, should, hypothetical, potential, project, variations of such words and similar expressions are intended to identify forward-looking statements. Factors that may cause actual results to differ are often presented with the forward-looking statements themselves. Other factors that could cause actual results to differ materially from those contemplated in any forward-looking statements made by us herein are discussed in Item 1. Financial Statements Note 8. Commitments and Contingent Liabilities, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, and other factors discussed in filings we make with the United States Securities and Exchange Commission (SEC). These factors include, but are not limited to:

adverse changes in energy industry law, policies and regulation, including market structures and a potential shift away from competitive markets toward subsidized market mechanisms, transmission planning and cost allocation rules, including rules regarding how transmission is planned and who is permitted to build transmission in the future, and reliability standards,

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

changes in federal and state environmental regulations that could increase our costs or limit operations of our generating units,

changes in nuclear regulation and/or general developments in the nuclear power industry, including various impacts from any accidents or incidents experienced at our facilities or by others in the industry, that could limit operations of our nuclear generating units,

actions or activities at one of our nuclear units located on a multi-unit site that might adversely affect our ability to continue to operate that unit or other units located at the same site,

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

any deterioration in our credit quality or the credit quality of our counterparties,

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

any inability to realize anticipated tax benefits or retain tax credits,

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

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delays in receipt of necessary permits and approvals for our construction and development activities,

delays or unforeseen cost escalations in our construction and development activities,

adverse changes in the demand for or price of the capacity and energy that we sell into wholesale electricity markets,

increase in competition in energy markets in which we compete,

challenges associated with recruitment and /or retention of a qualified workforce,

adverse performance of our decommissioning and defined benefit plan trust fund investments and changes in discount rates and funding requirements, and

changes in technology and customer usage patterns.

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

All of the forward-looking statements made in this report are qualified by these cautionary statements and we cannot assure you that the results or developments anticipated by management will be realized, or even if realized, will have the expected consequences to, or effects on, us or our business prospects, financial condition or results of operations. Readers are cautioned not to place undue reliance on these forward-looking statements in making any investment decision. Forward-looking statements made in this report only apply as of the date of this report. While we may elect to update forward-looking statements from time to time, we specifically disclaim any obligation to do so, even if internal estimates change, unless otherwise required by applicable securities laws.

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

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PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Millions
(Unaudited)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2011	2010	2011	2010
OPERATING REVENUES	\$ 2,469	\$ 2,361	\$ 5,823	\$ 5,934
OPERATING EXPENSES				
Energy Costs	1,010	1,072	2,573	2,760
Operation and Maintenance	575	601	1,226	1,271
Depreciation and Amortization	235	229	476	456
Taxes Other Than Income Taxes	28	28	71	70
Total Operating Expenses	1,848	1,930	4,346	4,557
OPERATING INCOME	621	431	1,477	1,377
Income from Equity Method Investments	4	5	7	8
Other Income	55	47	131	90
Other Deductions	(15)	(12)	(28)	(28)
Other-Than-Temporary Impairments	(1)	(5)	(5)	(6)
Interest Expense	(117)	(120)	(244)	(236)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	547	346	1,338	1,205
Income Tax (Expense) Benefit	(227)	(124)	(556)	(485)
INCOME FROM CONTINUING OPERATIONS	320	222	782	720
Income (Loss) from Discontinued Operations, including Gain on Disposal, net of tax (expense) benefit of \$0 and \$(4) for the quarters and \$(36) and \$1 for the six months ended 2011 and 2010, respectively	3	2	67	(5)
NET INCOME	\$ 323	\$ 224	\$ 849	\$ 715
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (THOUSANDS):				
BASIC	505,988	506,109	505,984	506,030
DILUTED	506,761	507,091	506,945	507,119
EARNINGS PER SHARE:				
BASIC				
INCOME FROM CONTINUING OPERATIONS	\$ 0.63	\$ 0.44	\$ 1.55	\$ 1.42
NET INCOME	\$ 0.63	\$ 0.44	\$ 1.68	\$ 1.41
DILUTED				
INCOME FROM CONTINUING OPERATIONS	\$ 0.63	\$ 0.44	\$ 1.54	\$ 1.42

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NET INCOME	\$ 0.63	\$ 0.44	\$ 1.67	\$ 1.41
DIVIDENDS PAID PER SHARE OF COMMON STOCK	\$ 0.3425	\$ 0.3425	\$ 0.6850	\$ 0.6850

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED****CONDENSED CONSOLIDATED BALANCE SHEETS**

Millions

(Unaudited)

ASSETS	June 30, 2011	December 31, 2010
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 159	\$ 280
Accounts Receivable, net of allowances of \$69 and \$68 in 2011 and 2010, respectively	1,128	1,387
Tax Receivable	96	689
Unbilled Revenues	262	400
Fuel	565	666
Materials and Supplies, net	359	359
Prepayments	446	204
Derivative Contracts	135	182
Assets of Discontinued Operations	294	564
Deferred Income Taxes	96	43
Regulatory Assets	135	155
Other	111	122
Total Current Assets	3,786	5,051
PROPERTY, PLANT AND EQUIPMENT		
Less: Accumulated Depreciation and Amortization	(7,162)	(6,882)
Net Property, Plant and Equipment	16,894	16,390
NONCURRENT ASSETS		
Regulatory Assets	3,371	3,736
Regulatory Assets of Variable Interest Entities (VIEs)	1,032	1,128
Long-Term Investments	1,654	1,623
Nuclear Decommissioning Trust (NDT) Funds	1,441	1,363
Other Special Funds	168	160
Goodwill	16	16
Other Intangibles	142	136
Derivative Contracts	63	79
Restricted Cash of VIEs	21	21
Other	201	206
Total Noncurrent Assets	8,109	8,468
TOTAL ASSETS	\$ 28,789	\$ 29,909

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED****CONDENSED CONSOLIDATED BALANCE SHEETS**

Millions

(Unaudited)

	June 30, 2011	December 31, 2010
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	\$ 976	\$ 915
Securitization Debt of VIEs Due Within One Year	211	206
Commercial Paper and Loans	298	64
Accounts Payable	1,018	1,176
Derivative Contracts	67	103
Accrued Interest	98	108
Accrued Taxes	25	49
Clean Energy Program	215	195
Obligation to Return Cash Collateral	107	104
Regulatory Liabilities	156	174
Liabilities of Discontinued Operations	51	72
Other	308	319
Total Current Liabilities	3,530	3,485
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	5,121	5,129
Regulatory Liabilities	241	285
Regulatory Liabilities of VIEs	9	8
Asset Retirement Obligations	475	461
Other Postretirement Benefit (OPEB) Costs	949	967
Accrued Pension Costs	198	788
Clean Energy Program	120	235
Environmental Costs	646	669
Derivative Contracts	21	22
Long-Term Accrued Taxes	223	248
Other	82	152
Total Noncurrent Liabilities	8,085	8,964
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)		
CAPITALIZATION		
LONG-TERM DEBT		
Long-Term Debt	6,180	6,834
Securitization Debt of VIEs	838	939
Project Level, Non-Recourse Debt	45	46
Total Long-Term Debt	7,063	7,819
STOCKHOLDERS EQUITY		
Common Stock, no par, authorized 1,000,000,000 shares; issued, 2011 and 2010 533,556,660 shares	4,812	4,807
Treasury Stock, at cost, 2011 27,651,927 shares; 2010 27,582,437 shares	(601)	(593)

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Retained Earnings	6,077	5,575
Accumulated Other Comprehensive Loss	(179)	(156)
Total Common Stockholders' Equity	10,109	9,633
Noncontrolling Interest	2	8
Total Stockholders' Equity	10,111	9,641
Total Capitalization	17,174	17,460
TOTAL LIABILITIES AND CAPITALIZATION	\$ 28,789	\$ 29,909

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

Millions

(Unaudited)

	For the Six Months Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 849	\$ 715
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Gain on Disposal of Discontinued Operations	(82)	0
Depreciation and Amortization	483	465
Amortization of Nuclear Fuel	75	68
Provision for Deferred Income Taxes (Other than Leases) and ITC	(28)	72
Non-Cash Employee Benefit Plan Costs	101	158
Net (Gain) Loss on Lease Investments	(1)	(16)
Leveraged Lease Income, Adjusted for Rents Received and Deferred Taxes	(21)	(172)
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	35	2
Over (Under) Recovery of Electric Energy Costs (BGS and NTC) and Gas Costs	23	(2)
Over (Under) Recovery of Societal Benefits Charge (SBC)	(19)	1
Market Transition Charge Refund	(29)	122
Cost of Removal	(25)	(32)
Net Realized (Gains) Losses and (Income) Expense from NDT Funds	(93)	(48)
Net Change in Tax Receivable	593	0
Net Change in Certain Current Assets and Liabilities	(2)	(364)
Employee Benefit Plan Funding and Related Payments	(465)	(464)
Other	1	15
Net Cash Provided By (Used In) Operating Activities	1,395	520
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(1,002)	(911)
Proceeds from Sale of Discontinued Operations	352	0
Proceeds from the Sale of Capital Leases and Investments	0	161
Proceeds from Sales of Available-for-Sale Securities	657	426
Investments in Available-for-Sale Securities	(676)	(439)
Other	(4)	8
Net Cash Provided By (Used In) Investing Activities	(673)	(755)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Commercial Paper and Loans	234	(141)
Issuance of Long-Term Debt	0	1,194
Redemption of Long-Term Debt	(606)	(548)
Repayment of Non-Recourse Debt	(1)	(2)
Redemption of Securitization Debt	(96)	(91)
Cash Dividends Paid on Common Stock	(347)	(347)
Redemption of Preferred Securities	0	(80)
Other	(27)	(43)

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Net Cash Provided By (Used In) Financing Activities	(843)	(58)
Net Increase (Decrease) in Cash and Cash Equivalents	(121)	(293)
Cash and Cash Equivalents at Beginning of Period	280	350
 Cash and Cash Equivalents at End of Period	 \$ 159	 \$ 57
 Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	\$ 57	\$ 645
Interest Paid, Net of Amounts Capitalized	\$ 259	\$ 227
See Notes to Condensed Consolidated Financial Statements.		

Table of Contents**PSEG POWER LLC****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

Millions

(Unaudited)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2011	2010	2011	2010
OPERATING REVENUES	\$ 1,285	\$ 1,264	\$ 3,252	\$ 3,460
OPERATING EXPENSES				
Energy Costs	603	612	1,738	1,863
Operation and Maintenance	271	260	548	511
Depreciation and Amortization	56	44	110	87
Total Operating Expenses	930	916	2,396	2,461
OPERATING INCOME	355	348	856	999
Other Income	49	43	119	82
Other Deductions	(14)	(13)	(26)	(27)
Other-Than-Temporary Impairments	(1)	(5)	(3)	(6)
Interest Expense	(41)	(42)	(92)	(82)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	348	331	854	966
Income Tax (Expense) Benefit	(143)	(129)	(352)	(393)
INCOME FROM CONTINUING OPERATIONS	205	202	502	573
Income (Loss) from Discontinued Operations, including Gain on Disposal, net of tax (expense) benefit of \$0 and (\$4) for the quarters and (\$36) and \$1 for the six months ended 2011 and 2010, respectively	3	2	67	(5)
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	\$ 208	\$ 204	\$ 569	\$ 568

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

Table of Contents**PSEG POWER LLC****CONDENSED CONSOLIDATED BALANCE SHEETS**

Millions

(Unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 14	\$ 11
Accounts Receivable	352	511
Accounts Receivable - Affiliated Companies, net	98	782
Short-Term Loan to Affiliate	609	398
Fuel	565	666
Materials and Supplies, net	267	269
Derivative Contracts	115	163
Prepayments	38	80
Assets of Discontinued Operations	294	564
Total Current Assets	2,352	3,444
PROPERTY, PLANT AND EQUIPMENT		
Less: Accumulated Depreciation and Amortization	(2,457)	(2,301)
Net Property, Plant and Equipment	6,410	6,342
NONCURRENT ASSETS		
Nuclear Decommissioning Trust (NDT) Funds	1,441	1,363
Goodwill	16	16
Other Intangibles	142	130
Other Special Funds	32	32
Derivative Contracts	26	42
Long-Term Accrued Taxes	20	16
Other	78	67
Total Noncurrent Assets	1,755	1,666
TOTAL ASSETS	\$ 10,517	\$ 11,452
LIABILITIES AND MEMBER S EQUITY		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	\$ 711	\$ 650
Accounts Payable	541	643
Derivative Contracts	58	91
Deferred Income Taxes	11	64
Accrued Interest	30	40
Liabilities of Discontinued Operations	51	72
Other	87	91
Total Current Liabilities	1,489	1,651
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	1,082	1,146
Asset Retirement Obligations	250	242

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Other Postretirement Benefit (OPEB) Costs	156	151
Derivative Contracts	21	22
Accrued Pension Costs	77	253
Environmental Costs	51	51
Other	37	104
Total Noncurrent Liabilities	1,674	1,969
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)		
LONG-TERM DEBT		
Total Long-Term Debt	2,140	2,805
MEMBER'S EQUITY		
Contributed Capital	2,028	2,028
Basis Adjustment	(986)	(986)
Retained Earnings	4,299	4,080
Accumulated Other Comprehensive Loss	(127)	(95)
Total Member's Equity	5,214	5,027
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 10,517	\$ 11,452

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

Table of Contents**PSEG POWER LLC****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

Millions

(Unaudited)

	For the Six Months Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 569	\$ 568
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Gain on Disposal of Discontinued Operations	(82)	0
Depreciation and Amortization	116	96
Amortization of Nuclear Fuel	75	68
Provision for Deferred Income Taxes and ITC	(92)	83
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	35	2
Non-Cash Employee Benefit Plan Costs	24	36
Net Realized (Gains) Losses and (Income) Expense from NDT Funds	(93)	(48)
Net Change in Certain Current Assets and Liabilities:		
Fuel, Materials and Supplies	99	138
Margin Deposit	(54)	(76)
Accounts Receivable	162	(18)
Accounts Payable	(141)	(50)
Accounts Receivable/Payable-Affiliated Companies, net	649	118
Other Current Assets and Liabilities	10	(56)
Employee Benefit Plan Funding and Related Payments	(125)	(130)
Other	(6)	23
Net Cash Provided By (Used In) Operating Activities	1,146	754
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(323)	(328)
Proceeds from Sale of Discontinued Operations	352	0
Proceeds from Sales of Available-for-Sale Securities	657	426
Investments in Available-for-Sale Securities	(672)	(439)
Short-Term Loan Affiliated Company, net	(211)	(276)
Other	16	22
Net Cash Provided By (Used In) Investing Activities	(181)	(595)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Recourse Long-Term Debt	0	594
Cash Dividend Paid	(350)	(350)
Redemption of Long-Term Debt	(606)	(248)
Short-Term Loan Affiliated Company, net	0	(194)
Cash Payment for Debt Exchange	0	(13)
Other	(6)	(4)
Net Cash Provided By (Used In) Financing Activities	(962)	(215)
Net Increase (Decrease) in Cash and Cash Equivalents	3	(56)

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Cash and Cash Equivalents at Beginning of Period	11	64
Cash and Cash Equivalents at End of Period	\$ 14	\$ 8
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	\$ 69	404
Interest Paid, Net of Amounts Capitalized	\$ 101	\$ 78
See disclosures regarding PSEG Power LLC included in the Notes to Condensed Consolidated Financial Statements.		

Table of Contents**PUBLIC SERVICE ELECTRIC AND GAS COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

Millions

(Unaudited)

	For the Three Months Ended June 30,		For The Six Months Ended June 30,	
	2011	2010	2011	2010
OPERATING REVENUES	\$ 1,571	\$ 1,536	\$ 3,877	\$ 3,980
OPERATING EXPENSES				
Energy Costs	815	917	2,181	2,457
Operation and Maintenance	304	343	672	757
Depreciation and Amortization	172	177	351	354
Taxes Other Than Income Taxes	28	28	71	70
Total Operating Expenses	1,319	1,465	3,275	3,638
OPERATING INCOME	252	71	602	342
Other Income	4	3	9	8
Other Deductions	0	0	(1)	(1)
Other-Than-Temporary Impairments	0	0	(1)	0
Interest Expense	(78)	(80)	(157)	(157)
INCOME BEFORE INCOME TAXES	178	(6)	452	192
Income Tax (Expense) Benefit	(73)	9	(184)	(71)
NET INCOME	105	3	268	121
Preferred Stock Dividends	0	0	0	(1)
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	\$ 105	\$ 3	\$ 268	\$ 120

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

Table of Contents**PUBLIC SERVICE ELECTRIC AND GAS COMPANY****CONDENSED CONSOLIDATED BALANCE SHEETS**

Millions

(Unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 26	\$ 245
Accounts Receivable, net of allowances of \$69 in 2011 and \$67 in 2010, respectively	766	832
Accounts Receivable - Affiliated Companies, net	19	0
Unbilled Revenues	262	400
Materials and Supplies	92	90
Prepayments	351	117
Regulatory Assets	135	155
Other	32	19
Total Current Assets	1,683	1,858
PROPERTY, PLANT AND EQUIPMENT	14,612	14,068
Less: Accumulated Depreciation and Amortization	(4,431)	(4,326)
Net Property, Plant and Equipment	10,181	9,742
NONCURRENT ASSETS		
Regulatory Assets	3,371	3,736
Regulatory Assets of VIEs	1,032	1,128
Long-Term Investments	252	230
Other Special Funds	56	54
Derivative Contracts	10	17
Restricted Cash of VIEs	21	21
Other	91	87
Total Noncurrent Assets	4,833	5,273
TOTAL ASSETS	\$ 16,697	\$ 16,873

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

Table of Contents**PUBLIC SERVICE ELECTRIC AND GAS COMPANY****CONDENSED CONSOLIDATED BALANCE SHEETS**

Millions

(Unaudited)

	June 30, 2011	December 31, 2010
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	\$ 264	\$ 264
Securitization Debt of VIEs Due Within One Year	211	206
Commercial Paper and Loans	298	0
Accounts Payable	367	406
Accounts Payable - Affiliated Companies, net	0	85
Accrued Interest	65	65
Clean Energy Program	215	195
Derivative Contracts	9	12
Deferred Income Taxes	23	19
Obligation to Return Cash Collateral	107	104
Regulatory Liabilities	156	174
Other	212	229
Total Current Liabilities	1,927	1,759
NONCURRENT LIABILITIES		
Deferred Income Taxes and ITC	3,193	3,127
Other Postretirement Benefit (OPEB) Costs	747	770
Accrued Pension Costs	23	377
Regulatory Liabilities	241	285
Regulatory Liabilities of VIEs	9	8
Clean Energy Program	120	235
Environmental Costs	594	617
Asset Retirement Obligations	221	216
Long-Term Accrued Taxes	47	74
Other	24	23
Total Noncurrent Liabilities	5,219	5,732
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)		
CAPITALIZATION		
LONG-TERM DEBT		
Long-Term Debt	4,020	4,019
Securitization Debt of VIEs	838	939
Total Long-Term Debt	4,858	4,958
STOCKHOLDER'S EQUITY		
Common Stock; 150,000,000 shares authorized; issued and outstanding, 2011 and 2010 132,450,344 shares	892	892
Contributed Capital	420	420
Basis Adjustment	986	986

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Retained Earnings	2,394	2,126
Accumulated Other Comprehensive Income	1	0
Total Stockholder s Equity	4,693	4,424
Total Capitalization	9,551	9,382
TOTAL LIABILITIES AND CAPITALIZATION	\$ 16,697	\$ 16,873

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

Table of Contents**PUBLIC SERVICE ELECTRIC AND GAS COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

Millions

(Unaudited)

	For The Six Months Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 268	\$ 121
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	351	354
Provision for Deferred Income Taxes and ITC	65	(29)
Non-Cash Employee Benefit Plan Costs	67	108
Cost of Removal	(25)	(32)
Market Transition Charge (MTC) Refund	(29)	122
Over (Under) Recovery of Electric Energy Costs (BGS and NTC) and Gas Costs	23	(2)
Over (Under) Recovery of SBC	(19)	1
Net Changes in Certain Current Assets and Liabilities:		
Accounts Receivable and Unbilled Revenues	204	90
Materials and Supplies	(2)	(15)
Prepayments	(234)	(254)
Accounts Receivable/Payable-Affiliated Companies, net	(65)	(220)
Other Current Assets and Liabilities	(30)	42
Employee Benefit Plan Funding and Related Payments	(294)	(287)
Other	(1)	(20)
Net Cash Provided By (Used In) Operating Activities	279	(21)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(674)	(530)
Solar Loan Investments	(23)	(11)
Other	0	(4)
Net Cash Provided By (Used In) Investing Activities	(697)	(545)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Short-Term Debt	298	223
Issuance of Long-Term Debt	0	600
Redemption of Long-Term Debt	0	(300)
Redemption of Securitization Debt	(96)	(91)
Redemption of Preferred Securities	0	(80)
Other	(3)	(7)
Net Cash Provided By (Used In) Financing Activities	199	345
Net Increase (Decrease) In Cash and Cash Equivalents	(219)	(221)
Cash and Cash Equivalents at Beginning of Period	245	240
Cash and Cash Equivalents at End of Period	\$ 26	\$ 19

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Supplemental Disclosure of Cash Flow Information:

Income Taxes Paid (Received)	\$ (44)	\$ 82
Interest Paid, Net of Amounts Capitalized	\$ 153	\$ 153

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

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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), PSEG Power LLC (Power) and Public Service Electric and Gas Company (PSE&G). Information relating to any individual company is filed by such company on its own behalf. Power and PSE&G each is only responsible for information about itself and its subsidiaries.

Note 1. Organization and Basis of Presentation

Organization

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

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

PSE&G which is an operating public utility engaged principally in the transmission of electricity and distribution of electricity and natural gas in certain areas of New Jersey. PSE&G is subject to regulation by the New Jersey Board of Public Utilities (BPU) and FERC. Pursuant to applicable BPU orders, PSE&G is also investing in the development of solar generation projects and energy efficiency programs within its service territory.

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

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

Basis of Presentation

The respective financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) applicable to Quarterly Reports on Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements (Notes) should be read in conjunction with, and update and supplement matters discussed in the Annual Report on Form 10-K for the year ended December 31, 2010 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.

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, 2010.

During 2011, Power reached agreements to sell its two generating facilities located in Texas that were owned and operated by its subsidiary, PSEG Texas. As a result, amounts related to these plants have been reclassified as Discontinued Operations in the financial statements. See Note

4. Discontinued Operations and Dispositions for additional information.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 2. Recent Accounting Standards

New Standard Adopted during 2011

Revenue Arrangements with Multiple Deliverables

amends existing guidance for identifying separate deliverables in a revenue-generating transaction where multiple deliverables exist,

establishes a selling price hierarchy, such as, vendor-specific objective evidence, third-party evidence and estimated selling price for determining the selling price of a deliverable, and

provides guidance for allocating and recognizing revenue based on separate deliverables.

We adopted this standard, prospectively effective January 1, 2011, for new and significantly modified revenue arrangements. Upon adoption, there was no material impact on our financial statements and we do not anticipate any changes to the pattern or general timing of revenue recognition for our significant units of account in future periods.

New Accounting Standards Issued But Not Yet Adopted

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Financial Reporting Standards (IFRS)

This accounting standard was issued to update guidance related to fair value measurements and disclosures as a step towards achieving convergence between US GAAP and IFRS. The updated guidance

clarifies intent about application of existing fair value measurements and disclosures,

changes some requirements for fair value measurements, and

requires expanded disclosures.

This guidance is effective for interim and annual periods beginning after December 15, 2011. We believe our adoption of the new guidance on January 1, 2012 will not have an impact on our consolidated financial position, results of operations or cash flows; however, it will result in expanded disclosures.

Presentation of Comprehensive Income

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This accounting standard was issued on the presentation of comprehensive income as a step towards achieving convergence between US GAAP and IFRS. The updated guidance

allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements, and

eliminates the current option to report other comprehensive income and its components in the statement of changes in equity.

This guidance is effective for fiscal years and interim periods beginning after December 15, 2011. We believe that the adoption of the new guidance on January 1, 2012 will not have an impact on our consolidated financial position, results of operations or cash flows, but will change the presentation of the components of other comprehensive income.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**