

PUBLIC SERVICE ENTERPRISE GROUP INC  
 Form 10-Q  
 April 30, 2018

Table of Contents

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 March 31, 2018

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission Registrants, State of Incorporation,

File Number Address, and Telephone Number

I.R.S. Employer  
 Identification No.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED

(A New Jersey Corporation)

001-09120

80 Park Plaza  
 Newark, New Jersey 07102  
 973 430-7000

22-2625848

<http://www.pseg.com>

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

(A New Jersey Corporation)

001-00973

80 Park Plaza  
 Newark, New Jersey 07102  
 973 430-7000

22-1212800

<http://www.pseg.com>

PSEG POWER LLC

(A Delaware Limited Liability Company)

001-34232

80 Park Plaza  
 Newark, New Jersey 07102  
 973 430-7000

22-3663480

<http://www.pseg.com>

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  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). Yes  No

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

Edgar Filing: PUBLIC SERVICE ENTERPRISE GROUP INC - Form 10-Q

Public Service Enterprise Group Incorporated  Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

Public Service Electric and Gas Company  Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

PSEG Power LLC  Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If any of the registrants is an emerging growth company, indicate by check mark if such registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of April 17, 2018, Public Service Enterprise Group Incorporated had outstanding 505,217,435 shares of its sole class of Common Stock, without par value.

As of April 17, 2018, 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.

Public Service Electric and Gas Company and PSEG Power LLC 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.

---

	Page
<u>FORWARD-LOOKING STATEMENTS</u>	<u>ii</u>
<u>FILING FORMAT</u>	<u>iii</u>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
<u>Public Service Enterprise Group Incorporated</u>	<u>1</u>
<u>Public Service Electric and Gas Company</u>	<u>6</u>
<u>PSEG Power LLC</u>	<u>11</u>
Notes to Condensed Consolidated Financial Statements	
<u>Note 1. Organization, Basis of Presentation and Significant Accounting Policies</u>	<u>16</u>
Note 2. Recent Accounting Standards	<u>17</u>
Note 3. Revenues	<u>19</u>
Note 4. Early Plant Retirements	<u>23</u>
Note 5. Variable Interest Entity (VIE)	<u>25</u>
Note 6. Rate Filings	<u>26</u>
Note 7. Financing Receivables	<u>26</u>
Note 8. Trust Investments	<u>29</u>
Note 9. Pension and Other Postretirement Benefits (OPEB)	<u>35</u>
Note 10. Commitments and Contingent Liabilities	<u>36</u>
Note 11. Debt and Credit Facilities	<u>42</u>
Note 12. Financial Risk Management Activities	<u>43</u>
Note 13. Fair Value Measurements	<u>47</u>
Note 14. Other Income (Deductions)	<u>54</u>
Note 15. Income Taxes	<u>54</u>
Note 16. Accumulated Other Comprehensive Income (Loss), Net of Tax	<u>56</u>
Note 17. Earnings Per Share (EPS) and Dividends	<u>59</u>
Note 18. Financial Information by Business Segment	<u>60</u>
Note 19. Related-Party Transactions	<u>61</u>
Note 20. Guarantees of Debt	<u>62</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>64</u>
Executive Overview of 2018 and Future Outlook	<u>64</u>
<u>Results of Operations</u>	<u>72</u>
<u>Liquidity and Capital Resources</u>	<u>75</u>
<u>Capital Requirements</u>	<u>77</u>
<u>Accounting Matters</u>	<u>77</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>77</u>
Item 4. <u>Controls and Procedures</u>	<u>79</u>
<b>PART II. OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	<u>79</u>
Item 1A. <u>Risk Factors</u>	<u>79</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>79</u>
Item 5. <u>Other Information</u>	<u>80</u>
Item 6. <u>Exhibits</u>	<u>81</u>
<u>Signatures</u>	<u>82</u>

Table of Contents

FORWARD-LOOKING STATEMENTS

Certain of the matters discussed in this report about our and our subsidiaries' future performance, including, without limitation, future revenues, earnings, strategies, prospects, consequences and all other statements that are not purely historical 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," "should," "hypothetical," "potential," "forecast," "project," variations of such words and similar expressions 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 filings we make with the United States Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K and subsequent reports on Form 10-Q and Form 8-K. These factors include, but are not limited to:

- fluctuations in wholesale power and natural gas markets, including the potential impacts on the economic viability of our generation units;
- our ability to obtain adequate fuel supply;
- any inability to manage our energy obligations with available supply;
- increases in competition in wholesale energy and capacity markets;
- changes in technology related to energy generation, distribution and consumption and customer usage patterns;
- economic downturns;
- third-party credit risk relating to our sale of generation output and purchase of fuel;
- adverse performance of our decommissioning and defined benefit plan trust fund investments and changes in funding requirements;
- changes in state and federal legislation and regulations;
- the impact of pending and any future rate case proceedings;
- regulatory, financial, environmental, health and safety risks associated with our ownership and operation of nuclear facilities;
- adverse changes in energy industry laws, policies and regulations, including market structures and transmission planning;
- changes in federal and state environmental regulations and enforcement;
- delays in receipt of, or an inability to receive, necessary licenses and permits;
- adverse outcomes of any legal, regulatory or other proceeding, settlement, investigation or claim applicable to us and/or the energy industry;
- changes in tax laws and regulations;
- the impact of our holding company structure on our ability to meet our corporate funding needs, service debt and pay dividends;
- lack of growth or slower growth in the number of customers or changes in customer demand;
- any inability of Power to meet its commitments under forward sale obligations;
- reliance on transmission facilities that we do not own or control and the impact on our ability to maintain adequate transmission capacity;
- any inability to successfully develop or construct generation, transmission and distribution projects;
- any equipment failures, accidents, severe weather events or other incidents that impact our ability to provide safe and reliable service to our customers;
- our inability to exercise control over the operations of generation facilities in which we do not maintain a controlling interest;



Table of Contents

- any inability to recover the carrying amount of our long-lived assets and leveraged leases;
- any inability to maintain sufficient liquidity;
- any inability to realize anticipated tax benefits or retain tax credits;
- challenges associated with recruitment and/or retention of key executives and a qualified workforce;
- the impact of our covenants in our debt instruments on our operations; and
- the impact of acts of terrorism, cybersecurity attacks or intrusions.

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, results of operations or cash flows. 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 apply only 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 in light of new information or future events, 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.

**FILING FORMAT**

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

Discussions throughout the document refer to PSEG and its direct operating subsidiaries, PSE&G and Power.

Depending on the context of each section, references to “we,” “us,” and “our” relate to PSEG or to the specific company or companies being discussed.

Table of ContentsPUBLIC SERVICE ENTERPRISE GROUP INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONSMillions, except per share data  
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
OPERATING REVENUES	\$2,818	\$2,591
OPERATING EXPENSES		
Energy Costs	952	868
Operation and Maintenance	754	717
Depreciation and Amortization	280	828
Total Operating Expenses	1,986	2,413
OPERATING INCOME	832	178
Income from Equity Method Investments	2	3
Net Gains (Losses) on Trust Investments	(22	) 28
Other Income (Deductions)	32	32
Non-Operating Pension and OPEB Credits (Costs)	19	—
Interest Expense	(103	) (98
INCOME BEFORE INCOME TAXES	760	143
Income Tax Expense	(202	) (29
NET INCOME	\$558	\$114
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
BASIC	504	505
DILUTED	507	508
NET INCOME PER SHARE:		
BASIC	\$1.11	\$0.23
DILUTED	\$1.10	\$0.22
DIVIDENDS PAID PER SHARE OF COMMON STOCK	\$0.45	\$0.43

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Millions  
 (Unaudited)

	Three Months Ended March 31,	
	2018	2017
NET INCOME	\$558	\$114
Other Comprehensive Income (Loss), net of tax		
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of \$9 and \$(16) for 2018 and 2017, respectively	(14 )	15
Pension/Other Postretirement Benefit Costs (OPEB) adjustment, net of tax (expense) benefit of \$(3) and \$(4) for 2018 and 2017, respectively	8	6
Other Comprehensive Income (Loss), net of tax	(6 )	21
COMPREHENSIVE INCOME	\$552	\$135

See Notes to Condensed Consolidated Financial Statements.



Table of ContentsPUBLIC SERVICE ENTERPRISE GROUP INCORPORATED  
CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 118	\$ 313
Accounts Receivable, net of allowances of \$62 in 2018 and \$59 in 2017	1,320	1,348
Tax Receivable	121	127
Unbilled Revenues	196	296
Fuel	162	289
Materials and Supplies, net	574	577
Prepayments	114	118
Derivative Contracts	43	29
Regulatory Assets	139	211
Other	19	4
Total Current Assets	2,806	3,312
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Less: Accumulated Depreciation and Amortization	(9,628	) (9,434
Net Property, Plant and Equipment	32,405	31,797
<b>NONCURRENT ASSETS</b>		
Regulatory Assets	3,208	3,222
Long-Term Investments	938	932
Nuclear Decommissioning Trust (NDT) Fund	2,051	2,133
Long-Term Receivable of Variable Interest Entity (VIE)	690	686
Rabbi Trust Fund	225	231
Goodwill	16	16
Other Intangibles	131	114
Derivative Contracts	48	7
Other	272	266
Total Noncurrent Assets	7,579	7,607
<b>TOTAL ASSETS</b>	<b>\$42,790</b>	<b>\$ 42,716</b>

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsPUBLIC SERVICE ENTERPRISE GROUP INCORPORATED  
CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	March 31, 2018	December 31, 2017
<b>LIABILITIES AND CAPITALIZATION</b>		
<b>CURRENT LIABILITIES</b>		
Long-Term Debt Due Within One Year	\$ 1,000	\$ 1,000
Commercial Paper and Loans	594	542
Accounts Payable	1,295	1,694
Derivative Contracts	10	16
Accrued Interest	147	103
Accrued Taxes	173	48
Clean Energy Program	85	128
Obligation to Return Cash Collateral	136	129
Regulatory Liabilities	34	47
Other	474	461
Total Current Liabilities	3,948	4,168
<b>NONCURRENT LIABILITIES</b>		
Deferred Income Taxes and Investment Tax Credits (ITC)	5,329	5,240
Regulatory Liabilities	2,942	2,948
Asset Retirement Obligations	1,037	1,024
OPEB Costs	1,432	1,455
OPEB Costs of Servco	550	542
Accrued Pension Costs	508	537
Accrued Pension Costs of Servco	126	129
Environmental Costs	342	357
Derivative Contracts	2	5
Long-Term Accrued Taxes	176	175
Other	222	221
Total Noncurrent Liabilities	12,666	12,633
<b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 10)</b>		
<b>CAPITALIZATION</b>		
<b>LONG-TERM DEBT</b>	12,072	12,068
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock, no par, authorized 1,000 shares; issued, 2018 and 2017—534 shares	4,946	4,961
Treasury Stock, at cost, 2018—30 shares; 2017—29 shares	(816 )	(763 )
Retained Earnings	10,385	9,878
Accumulated Other Comprehensive Loss	(411 )	(229 )
Total Stockholders' Equity	14,104	13,847
Total Capitalization	26,176	25,915
<b>TOTAL LIABILITIES AND CAPITALIZATION</b>	<b>\$ 42,790</b>	<b>\$ 42,716</b>

See Notes to Condensed Consolidated Financial Statements.

4

---

Table of ContentsPUBLIC SERVICE ENTERPRISE GROUP INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions

(Unaudited)

	Three Months Ended March 31, 2018 2017	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$558	\$114
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	280	828
Amortization of Nuclear Fuel	50	54
Emission Allowances and Renewable Energy Credit (REC) Compliance Accrual	24	26
Provision for Deferred Income Taxes (Other than Leases) and ITC	76	(85 )
Non-Cash Employee Benefit Plan Costs	17	23
Leveraged Lease (Income) Loss, Adjusted for Rents Received and Deferred Taxes	4	(15 )
Net (Gain) Loss on Lease Investments	—	32
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	(119 )	(5 )
Net Change in Regulatory Assets and Liabilities	(6 )	(60 )
Cost of Removal	(38 )	(24 )
Net (Gains) Losses and (Income) Expense from NDT Fund	12	(23 )
Net Change in Certain Current Assets and Liabilities:		
Tax Receivable	6	69
Accrued Taxes	125	143
Margin Deposit	25	(4 )
Other Current Assets and Liabilities	160	163
Employee Benefit Plan Funding and Related Payments	(36 )	(28 )
Other	2	(11 )
Net Cash Provided By (Used In) Operating Activities	1,140	1,197
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Property, Plant and Equipment	(1,053)	(1,062)
Purchase of Emissions Allowances and RECs	(17 )	(15 )
Proceeds from Sales of Trust Investments	397	298
Purchases of Trust Investments	(407 )	(307 )
Other	7	7
Net Cash Provided By (Used In) Investing Activities	(1,073)	(1,079)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Change in Commercial Paper and Loans	52	(73 )
Cash Dividends Paid on Common Stock	(227 )	(218 )
Other	(73 )	(56 )
Net Cash Provided By (Used In) Financing Activities	(248 )	(347 )
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	(181 )	(229 )
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	315	426

Edgar Filing: PUBLIC SERVICE ENTERPRISE GROUP INC - Form 10-Q

Cash, Cash Equivalents and Restricted Cash at End of Period	\$134	\$197
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	\$(4 )	\$(80 )
Interest Paid, Net of Amounts Capitalized	\$73	\$77
Accrued Property, Plant and Equipment Expenditures	\$544	\$492

See Notes to Condensed Consolidated Financial Statements.

5

---

Table of ContentsPUBLIC SERVICE ELECTRIC AND GAS COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Millions

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
OPERATING REVENUES	\$1,845	\$1,826
OPERATING EXPENSES		
Energy Costs	782	762
Operation and Maintenance	391	370
Depreciation and Amortization	190	171
Total Operating Expenses	1,363	1,303
OPERATING INCOME	482	523
Net Gains (Losses) on Trust Investments	—	2
Other Income (Deductions)	20	22
Non-Operating Pension and OPEB Credits (Costs)	15	(2 )
Interest Expense	(81 )	(75 )
INCOME BEFORE INCOME TAXES	436	470
Income Tax Expense	(117 )	(171 )
NET INCOME	\$319	\$299

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 STATEMENTS OF COMPREHENSIVE INCOME

Millions

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
NET INCOME	\$319	\$299
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of \$0 and \$1 for 2018 and 2017, respectively	(1 )	(1 )
COMPREHENSIVE INCOME	\$318	\$298

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

Table of ContentsPUBLIC SERVICE ELECTRIC AND GAS COMPANY  
CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$48	\$ 242
Accounts Receivable, net of allowances of \$62 in 2018 and \$59 in 2017	961	882
Unbilled Revenues	196	296
Materials and Supplies	199	197
Prepayments	22	44
Regulatory Assets	139	211
Other	17	4
Total Current Assets	1,582	1,876
<b>PROPERTY, PLANT AND EQUIPMENT</b>	29,689	29,117
Less: Accumulated Depreciation and Amortization	(6,154 )	(6,101 )
Net Property, Plant and Equipment	23,535	23,016
<b>NONCURRENT ASSETS</b>		
Regulatory Assets	3,208	3,222
Long-Term Investments	284	280
Rabbi Trust Fund	45	46
Other	120	114
Total Noncurrent Assets	3,657	3,662
<b>TOTAL ASSETS</b>	<b>\$28,774</b>	<b>\$ 28,554</b>

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



Table of ContentsPUBLIC SERVICE ELECTRIC AND GAS COMPANY  
CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	March 31, 2018	December 31, 2017
<b>LIABILITIES AND CAPITALIZATION</b>		
<b>CURRENT LIABILITIES</b>		
Long-Term Debt Due Within One Year	\$ 750	\$ 750
Accounts Payable	613	728
Accounts Payable—Affiliated Companies	385	340
Accrued Interest	92	78
Clean Energy Program	85	128
Obligation to Return Cash Collateral	136	129
Regulatory Liabilities	34	47
Other	327	311
Total Current Liabilities	2,422	2,511
<b>NONCURRENT LIABILITIES</b>		
Deferred Income Taxes and ITC	3,443	3,391
OPEB Costs	1,078	1,103
Accrued Pension Costs	207	226
Regulatory Liabilities	2,942	2,948
Environmental Costs	268	283
Asset Retirement Obligations	214	212
Long-Term Accrued Taxes	93	91
Other	112	114
Total Noncurrent Liabilities	8,357	8,368
<b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 10)</b>		
<b>CAPITALIZATION</b>		
<b>LONG-TERM DEBT</b>	7,843	7,841
<b>STOCKHOLDER'S EQUITY</b>		
Common Stock; 150 shares authorized; issued and outstanding, 2018 and 2017—132 shares	892	892
Contributed Capital	1,095	1,095
Basis Adjustment	986	986
Retained Earnings	7,180	6,861
Accumulated Other Comprehensive Income	(1)	—
Total Stockholder's Equity	10,152	9,834
Total Capitalization	17,995	17,675
<b>TOTAL LIABILITIES AND CAPITALIZATION</b>	<b>\$ 28,774</b>	<b>\$ 28,554</b>

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



Table of ContentsPUBLIC SERVICE ELECTRIC AND GAS COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions

(Unaudited)

	Three Months Ended March 31, 2018 2017	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$319	\$299
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	190	171
Provision for Deferred Income Taxes and ITC	40	160
Non-Cash Employee Benefit Plan Costs	9	13
Cost of Removal	(38 )	(24 )
Net Change in Regulatory Assets and Liabilities	(6 )	(60 )
Net Change in Certain Current Assets and Liabilities:		
Accounts Receivable and Unbilled Revenues	24	(34 )
Materials and Supplies	(2 )	(7 )
Prepayments	22	3
Accounts Payable	(12 )	(12 )
Accounts Receivable/Payable—Affiliated Companies, net	40	15
Other Current Assets and Liabilities	39	40
Employee Benefit Plan Funding and Related Payments	(33 )	(25 )
Other	(15 )	(24 )
Net Cash Provided By (Used In) Operating Activities	577	515
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Property, Plant and Equipment	(750 )	(748 )
Proceeds from Sales of Trust Investments	5	10
Purchases of Trust Investments	(5 )	(10 )
Solar Loan Investments	(9 )	(4 )
Other	2	2
Net Cash Provided By (Used In) Investing Activities	(757 )	(750 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Other	—	(1 )
Net Cash Provided By (Used In) Financing Activities	—	(1 )
Net Increase (Decrease) In Cash, Cash Equivalents and Restricted Cash	(180 )	(236 )
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	244	393
Cash, Cash Equivalents and Restricted Cash at End of Period	\$64	\$157
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	\$—	\$(26 )
Interest Paid, Net of Amounts Capitalized	\$65	\$65
Accrued Property, Plant and Equipment Expenditures	\$326	\$287

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

Table of Contents

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

	Three Months Ended March 31,	
	2018	2017
OPERATING REVENUES	\$1,403	\$1,269
OPERATING EXPENSES		
Energy Costs	746	692
Operation and Maintenance	246	232
Depreciation and Amortization	82	650
Total Operating Expenses	1,074	1,574
OPERATING INCOME (LOSS)	329	(305 )
Income from Equity Method Investments	2	3
Net Gains (Losses) on Trust Investments	(22 )	19
Other Income (Deductions)	11	11
Non-Operating Pension and OPEB Credits (Costs)	4	2
Interest Expense	(7 )	(16 )
INCOME (LOSS) BEFORE INCOME TAXES	317	(286 )
Income Tax Benefit (Expense)	(83 )	116
NET INCOME (LOSS)	\$234	\$(170 )

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 COMPREHENSIVE INCOME (LOSS)  
 Millions  
 (Unaudited)

	Three Months Ended March 31,	
	2018	2017
NET INCOME (LOSS)	\$234	\$(170)
Other Comprehensive Income (Loss), net of tax		
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of \$8 and \$(18) for 2018 and 2017, respectively	(11	) 19
Pension/OPEB adjustment, net of tax (expense) benefit of \$(3) and \$(4) for 2018 and 2017, respectively	6	5
Other Comprehensive Income (Loss), net of tax	(5	) 24
COMPREHENSIVE INCOME (LOSS)	\$229	\$(146)

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

Table of Contents

PSEG POWER LLC  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 Millions  
 (Unaudited)

	March 31, December 31,	
	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 11	\$ 32
Accounts Receivable	301	380
Accounts Receivable—Affiliated Companies	215	221
Fuel	162	289
Materials and Supplies, net	370	376
Derivative Contracts	43	29
Prepayments	12	11
Other	4	3
Total Current Assets	1,118	1,341
<b>PROPERTY, PLANT AND EQUIPMENT</b>	11,980	11,755
Less: Accumulated Depreciation and Amortization	(3,291 )	(3,159 )
Net Property, Plant and Equipment	8,689	8,596
<b>NONCURRENT ASSETS</b>		
NDT Fund	2,051	2,133
Long-Term Investments	86	87
Goodwill	16	16
Other Intangibles	131	114
Rabbi Trust Fund	56	57
Derivative Contracts	48	7
Other	68	67
Total Noncurrent Assets	2,456	2,481
<b>TOTAL ASSETS</b>	<b>\$ 12,263</b>	<b>\$ 12,418</b>

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

Table of Contents

PSEG POWER LLC  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 Millions  
 (Unaudited)

March 31, December 31,  
 2018 2017

	March 31, 2018	December 31, 2017
<b>LIABILITIES AND MEMBER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Long-Term Debt Due Within One Year	\$ 250	\$ 250
Accounts Payable	510	712
Accounts Payable—Affiliated Companies	69	57
Short-Term Loan from Affiliate	35	281
Derivative Contracts	10	16
Accrued Interest	43	20
Other	108	99
Total Current Liabilities	1,025	1,435
<b>NONCURRENT LIABILITIES</b>		
Deferred Income Taxes and ITC	1,434	1,406
Asset Retirement Obligations	821	810
OPEB Costs	285	283
Derivative Contracts	2	5
Accrued Pension Costs	176	184
Long-Term Accrued Taxes	46	52
Other	141	140
Total Noncurrent Liabilities	2,905	2,880
<b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 10)</b>		
<b>LONG-TERM DEBT</b>	2,137	2,136
<b>MEMBER'S EQUITY</b>		
Contributed Capital	2,214	2,214
Basis Adjustment	(986)	(986)
Retained Earnings	5,320	4,911
Accumulated Other Comprehensive Loss	(352)	(172)
Total Member's Equity	6,196	5,967
<b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b>	<b>\$ 12,263</b>	<b>\$ 12,418</b>

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)

	Three Months Ended March 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income (Loss)	\$234	\$(170)
Adjustments to Reconcile Net Income (Loss) to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	82	650
Amortization of Nuclear Fuel	50	54
Provision for Deferred Income Taxes and ITC	33	(226 )
Interest Accretion on Asset Retirement Obligation	10	8
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	(119 )	(5 )
Emission Allowances and Renewable Energy Credit (REC) Compliance Accrual	24	26
Non-Cash Employee Benefit Plan Costs	6	7
Net (Gains) Losses and (Income) Expense from NDT Fund	12	(23 )
Net Change in Certain Current Assets and Liabilities:		
Fuel, Materials and Supplies	133	155
Margin Deposit	25	(4 )
Accounts Receivable	93	24
Accounts Payable	(89 )	(18 )
Accounts Receivable/Payable—Affiliated Companies, net	25	71
Other Current Assets and Liabilities	30	33
Employee Benefit Plan Funding and Related Payments	(2 )	(2 )
Other	(5 )	—
Net Cash Provided By (Used In) Operating Activities	542	580
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Property, Plant and Equipment	(299 )	(307 )
Purchase of Emissions Allowances and RECs	(17 )	(15 )
Proceeds from Sales of Trust Investments	377	259
Purchases of Trust Investments	(389 )	(268 )
Short-Term Loan—Affiliated Company	—	(70 )
Other	11	7
Net Cash Provided By (Used In) Investing Activities	(317 )	(394 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash Dividend Paid	—	(175 )
Short-Term Loan—Affiliated Company	(246 )	—
Other	—	(4 )
Net Cash Provided By (Used In) Financing Activities	(246 )	(179 )
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	(21 )	7
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	32	11

Edgar Filing: PUBLIC SERVICE ENTERPRISE GROUP INC - Form 10-Q

Cash, Cash Equivalents and Restricted Cash at End of Period	\$11	\$18
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	\$2	\$19
Interest Paid, Net of Amounts Capitalized	\$2	\$5
Accrued Property, Plant and Equipment Expenditures	\$218	\$205

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

Note 1. Organization, Basis of Presentation and Significant Accounting Policies

Organization

Public Service Enterprise Group Incorporated (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 principal direct wholly owned subsidiaries are:

Public Service Electric and Gas Company (PSE&G)—which is a public utility engaged principally in the transmission of electricity and distribution of electricity and natural gas in certain areas of New Jersey. PSE&G is subject to regulation by the New Jersey Board of Public Utilities (BPU) and the Federal Energy Regulatory Commission (FERC). PSE&G also invests in solar generation projects and energy efficiency and related programs in New Jersey, which are regulated by the BPU.

PSEG Power LLC (Power)—which is a multi-regional energy supply company that integrates the operations of its merchant nuclear and fossil generating assets with its power marketing businesses and fuel supply functions through competitive energy sales in well-developed energy markets primarily in the Northeast and Mid-Atlantic United States through its principal direct wholly owned subsidiaries. In addition, Power owns and operates solar generation in various states. Power's subsidiaries are subject to regulation by FERC, the Nuclear Regulatory Commission (NRC), the Environmental Protection Agency (EPA) and the states in which they operate.

PSEG's other direct wholly owned subsidiaries are: PSEG Long Island LLC (PSEG LI), which operates the Long Island Power Authority's (LIPA) electric transmission and distribution (T&D) system under an Operations Services Agreement (OSA); PSEG Energy Holdings L.L.C. (Energy Holdings), which primarily has investments in leveraged leases; and PSEG Services Corporation (Services), which provides certain management, administrative and general services to PSEG and its subsidiaries at cost.

Basis of Presentation

The 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, 2017.

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. All significant intercompany accounts and transactions are eliminated in consolidation. 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, 2017.

Significant Accounting Policies

Cash, Cash Equivalents and Restricted Cash

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. Restricted cash consists primarily of deposits received related to various construction projects at PSE&G.

The following provides a reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets that sum to the total of the same such amounts for the beginning (December 31, 2017) and ending periods shown in the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2018.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

	PSE&Power	Other (A)	Consolidated
	Millions		
As of December 31, 2017			
Cash and Cash Equivalents	\$242	\$ 32	\$ 39
Restricted Cash in Other Current Assets	—	—	—
Restricted Cash in Other Noncurrent Assets	2	—	2
Cash, Cash Equivalents and Restricted Cash	\$244	\$ 32	\$ 39
As of March 31, 2018			
Cash and Cash Equivalents	\$48	\$ 11	\$ 59
Restricted Cash in Other Current Assets	14	—	14
Restricted Cash in Other Noncurrent Assets	2	—	2
Cash, Cash Equivalents and Restricted Cash	\$64	\$ 11	\$ 59

(A) Includes amounts applicable to PSEG (parent corporation), Energy Holdings and Services.

Note 2. Recent Accounting Standards

New Standards Issued and Adopted

Revenue from Contracts With Customers—Accounting Standard Update (ASU) 2014-09, updated by ASUs 2015-14, 2016-08, 2016-10, 2016-12, 2016-20, 2017-13, 2017-14

This accounting standard, and related updates, were adopted on January 1, 2018 using the full retrospective transition method. There was no effect on net income as a result of adoption. However, certain retrospective adjustments were recorded in accordance with the new standard. At PSE&G, retrospective adjustments increased Operating Revenues by \$14 million, Energy Costs by \$9 million, and Operation and Maintenance (O&M) Expense by \$5 million for the three months ended March 31, 2017. At Power, retrospective adjustments reduced Operating Revenues and Energy Costs by \$15 million for the three months ended March 31, 2017. For disclosure requirements under this standard, including Nature of Goods and Services, Disaggregation of Revenues, and Remaining Performance Obligations under Fixed Consideration Contracts, see Note 3. Revenues.

Recognition and Measurement of Financial Assets and Financial Liabilities—ASU 2016-01

Power maintains an external master trust fund to provide for the costs of decommissioning upon termination of operations of its nuclear facilities. In addition, PSEG maintains a grantor trust which was established to meet the obligations related to its non-qualified pension plans and deferred compensation plans, commonly referred to as a “Rabbi Trust.”

This accounting standard was adopted on January 1, 2018. Under the new guidance, equity investments in Power’s Nuclear Decommissioning Trust (NDT) and PSEG’s Rabbi Trust Funds are now measured at fair value with the unrealized gains and losses recognized through Net Income instead of Other Comprehensive Income (Loss). The debt securities in these trusts continue to be classified as available-for-sale with the unrealized gains and losses recorded as a component of Accumulated Other Comprehensive Income (Loss). Realized gains and losses on both equity and available-for-sale debt security investments are recorded in earnings and are included with the unrealized gains and losses on equity securities in Net Gains (Losses) on Trust Investments. Other-than-temporary impairments on NDT and Rabbi Trust securities are also included in Net Gains (Losses) on Trust Investments. A cumulative effect adjustment was made to reclassify the net unrealized gains related to equity investments of \$342 million (\$176 million, net of tax) from Accumulated Other Comprehensive Income to Retained Earnings on January 1, 2018. See Note 16. Accumulated Other Comprehensive Income (Loss), Net of Tax and Note 8. Trust Investments for further

discussion.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments—ASU 2016-15

This accounting standard reduces the diversity in practice in how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows.

PSEG adopted this standard on January 1, 2018 using a retrospective transition method and had no changes in its presentation of its Statement of Cash Flows for each period presented.

Statement of Cash Flows: Restricted Cash—ASU 2016-18

This accounting standard was adopted on January 1, 2018. PSEG will continue the current balance sheet classification of restricted cash or restricted cash equivalents. PSEG has provided a reconciliation of cash and cash equivalents and restricted

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

cash or restricted cash equivalents and has included a description of these amounts in Note 1. Organization, Basis of Presentation and Significant Accounting Policies. The effect of adoption on the March 31, 2017 Consolidated Statements of Cash Flows was immaterial.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (OPEB)—ASU 2017-07

This accounting standard was adopted on January 1, 2018. Under the new guidance, entities are required to report the service cost component in the same line item or items as other compensation costs arising from services rendered by their employees during the period. The other components of net benefit cost are required to be presented in the Statement of Operations separately from the service cost component after Operating Income. Additionally, only the service cost component will be eligible for capitalization, when applicable. As a result of adopting this standard, PSE&G reduced its charge to expense for the three months ended March 31, 2018 by approximately \$14 million. For the three months ended March 31, 2017, the Condensed Consolidated Statements of Operations were recast to show retrospective adjustments of the non-service cost component of net benefit credits (costs) of \$(2) million and \$2 million at PSE&G and Power, respectively, from O&M Expense to a new line item after Operating Income entitled Non-Operating Pension and OPEB Credits (Costs). See Note 9. Pension and Other Postretirement Benefits (OPEB). Stock Compensation - Scope of Modification Accounting—ASU 2017-09

This accounting standard was adopted on January 1, 2018. The standard will be applied prospectively to awards modified on or after January 1, 2018. PSEG does not expect a material impact from adoption of this new standard.

New Standards Issued But Not Yet Adopted

Leases—ASU 2016-02

This accounting standard replaces existing lease accounting guidance and requires lessees to recognize all leases with a term greater than 12 months on the balance sheet using a right-of-use asset approach. At lease commencement, a lessee will recognize a lease asset and corresponding lease obligation. A lessee will classify its leases as either finance leases or operating leases based on whether control of the underlying assets has transferred to the lessee. A lessor will classify its leases as operating or direct financing leases, or as sales-type leases based on whether control of the underlying assets has transferred to the lessee. Both the lessee and lessor models require additional disclosure of key information. The standard requires lessees and lessors to apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. However, existing guidance related to leveraged leases will not change.

ASU 2018-01 permits an entity to elect an optional transition practical expedient to exclude evaluation of land easements that exist or expired before the adoption of ASU 2016-02 and that were not previously accounted for as leases.

The standard is effective for annual and interim periods beginning after December 15, 2018 with retrospective application to previously issued financial statements for 2018 and 2017. Early application is permitted. PSEG is currently analyzing the impact of this standard on its consolidated financial statements.

Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities—ASU 2017-12

This accounting standard's amendments more closely align hedge accounting with the companies' risk management activities in the financial statements. The amendments expand hedge accounting for both non-financial and financial risk components by permitting contractually specified components to be designated as the hedged risk in a cash flow hedge involving the purchase or sale of non-financial assets or variable rate financial instruments. Additionally, the amendments ease the operational burden of applying hedge accounting by allowing more time to prepare hedge documentation, and allowing effectiveness assessments to be performed on a qualitative basis after hedge inception. The new guidance is effective for annual and interim periods beginning after December 15, 2018. The standard requires using a modified retrospective method upon adoption. Early adoption is permitted. PSEG is currently analyzing the impact of this standard on its consolidated financial statements.

Premium Amortization on Purchased Callable Debt Securities—ASU 2017-08

This accounting standard was issued to shorten the amortization period for certain callable debt securities held at a premium. Specifically, the standard requires the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The standard is effective for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted for an entity in any interim or annual period. If an entity early adopts the standard in an interim period, any



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply this standard on a modified retrospective basis through a cumulative effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. PSEG is currently analyzing the impact of this standard on its financial statements.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income—ASU 2018-02

This accounting standard would affect any entity that is required to apply the provisions of the Accounting Standards Codification topic, “Income Statement-Reporting Comprehensive Income,” and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by GAAP.

Specifically, this standard would allow entities to record a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate. The amount of the reclassification would be the difference between the historical corporate income tax rate and the newly enacted 21% corporate income tax rate.

The standard is effective for all entities for annual periods and interim periods within those annual periods beginning after December 15, 2018. Early adoption is permitted for an entity in any interim or annual period for public business entities for reporting periods for which financial statements have not yet been issued or made available for issuance. An entity would be able to choose to apply this standard retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the new tax legislation enacted in 2017 is recognized or apply the standard in the reporting period adopted. PSEG is currently analyzing the impact this standard, if adopted, could have on its consolidated financial statements.

Measurement of Credit Losses on Financial Instruments—ASU 2016-13

This accounting standard provides a new model for recognizing credit losses on financial assets carried at amortized cost. The new model requires entities to use an estimate of expected credit losses that will be recognized as an impairment allowance rather than a direct write-down of the amortized cost basis. The estimate of expected credit losses is to be based on past events, current conditions and supportable forecasts over a reasonable period. For purchased financial assets with credit deterioration, a similar model is to be used; however, the initial allowance will be added to the purchase price rather than reported as an allowance. Credit losses on available-for-sale securities should be measured in a manner similar to current GAAP; however, this standard requires those credit losses to be presented as an allowance, rather than a write-down. This new standard also requires additional disclosures of credit quality indicators for each class of financial asset disaggregated by year of origination.

The standard is effective for annual and interim periods beginning after December 15, 2019; however, entities may adopt early beginning in the annual or interim periods after December 15, 2018. PSEG is currently analyzing the impact of this standard on its financial statements.

Simplifying the Test for Goodwill Impairment—ASU 2017-04

This accounting standard requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable.

An entity should apply this standard on a prospective basis and will be required to disclose the nature of and reason for the change in accounting principle upon transition. The new standard is effective for impairment tests for periods beginning January 1, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. PSEG is currently assessing the impact of this guidance upon its financial statements.

Note 3. Revenues

Nature of Goods and Services

The following is a description of principal activities by reportable segment from which PSEG, PSE&G and Power generate their revenues.

PSE&G

Revenues from Contracts with Customers

Electric and Gas Distribution and Transmission Revenues—PSE&G sells gas and electricity to customers under default commodity supply tariffs. PSE&G's regulated electric and gas default commodity supply and distribution services are separate

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

tariffs which are satisfied as the product(s) and/or services are delivered to the customer. The electric and gas commodity and delivery tariffs are recurring contracts in effect until cancellation by the customer. Revenue is recognized over time as the service is rendered to the customer. Included in PSE&G's regulated revenues are unbilled electric and gas revenues which represent the estimated amount customers will be billed for services rendered from the most recent meter reading to the end of the respective accounting period.

PSE&G's transmission revenues are earned under a separate FERC tariff. The performance obligation of transmission service is satisfied over time as it is provided to and consumed by the customer. Revenue is recognized upon delivery of the transmission service. PSE&G's revenues from the transmission of electricity are recorded based on a FERC-approved annual formula rate mechanism. This mechanism provides for an annual filing of an estimated revenue requirement with rates effective January 1 of each year and a mechanism true-up to that estimate based on actual revenue requirements. The true-up mechanism is an alternative revenue which is outside the scope of revenue from contracts with customers.

Other Revenues from Contracts with Customers

Other revenues from contracts with customers, which are not a material source of PSE&G revenues, are generated primarily from appliance repair services and solar generation projects. The performance obligations under these contracts are satisfied and revenue is recognized as control of products is delivered or services are rendered.

Payment for services rendered and products transferred are typically due within 30 days of month of delivery.

Revenues Unrelated to Contracts with Customers

Other PSE&G revenues unrelated to contracts with customers are derived from alternative revenue mechanisms recorded pursuant to regulatory accounting guidance. These revenues, which include weather normalization, green energy program true-ups and transmission formula rate true-ups, are not a material source of PSE&G revenues.

Power

Revenues from Contracts with Customers

Electricity and Related Products—Wholesale and retail load contracts are executed in the different Independent System Operator (ISO) regions for the bundled supply of energy, capacity, renewable energy credits (RECs) and ancillary services representing Power's performance obligations. Revenue for these contracts is recognized over time as the bundled service is provided to the customer. Transaction terms generally run from several months to three years.

Power also sells to the ISOs energy and ancillary services which are separately transacted in the day-ahead or real-time energy markets. The energy and ancillary services performance obligations are typically satisfied over time as delivered and revenue is recognized accordingly. Power generally reports electricity sales and purchases conducted with those individual ISOs net on an hourly basis in either Operating Revenues or Energy Costs in its Consolidated Statements of Operations. The classification depends on the net hourly activity.

Power enters into capacity sales and capacity purchases through the ISOs. The transactions are reported on a net basis dependent on Power's monthly net sale or purchase position through the individual ISOs. The performance obligations with the ISOs are satisfied over time upon delivery of the capacity and revenue is recognized accordingly. In addition to capacity sold through the ISOs, Power sells capacity through bilateral contracts and the related revenue is recognized over time upon delivery of the capacity.

Gas Contracts—Power sells wholesale natural gas, primarily through an indexed based full requirements Basic Gas Supply Service (BGSS) contract with PSE&G to meet the gas supply requirements of PSE&G's customers. The BGSS contract, which extends through March 2019, will renew year-to-year thereafter unless terminated by either party with a two year notice. The performance obligation is primarily delivery of gas which is satisfied over time. Revenue is recognized as gas is delivered. Based upon the availability of natural gas, storage and pipeline capacity beyond PSE&G's daily needs, Power also sells gas and pipeline capacity to other counterparties under bilateral contracts. The performance obligation under these contracts is satisfied over time upon delivery of the gas or capacity, and revenue is recognized accordingly.

Other Revenues from Contracts with Customers

Power enters into bilateral contracts to sell solar power and solar RECs from its solar facilities. Contract terms range from 15 to 30 years. The performance obligations are generally solar power and RECs which are transferred to customers upon generation. Revenue is recognized upon generation of the solar power.

Power has entered into long-term contracts with LIPA for energy management and fuel procurement services. Revenue is recognized over time as services are rendered.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

## Revenues Unrelated to Contracts with Customers

Power's revenues unrelated to contracts with customers include electric, gas and certain energy-related transactions accounted for in accordance with Derivatives and Hedging accounting guidance. See Note 12. Financial Risk Management Activities for further discussion. Power is also a party to solar contracts that qualify as leases and are accounted for in accordance with lease accounting guidance.

## Other

## Revenues from Contracts with Customers

PSEG LI has a contract with LIPA which generates revenues. PSEG LI's subsidiary, Long Island Electric Utility Servco, LLC (Servco) records costs which are recovered from LIPA and records the recovery of those costs as revenues when Servco is a principal in the transaction.

## Revenues Unrelated to Contracts with Customers

Energy Holdings generates lease revenues which are recorded pursuant to lease accounting guidance.

## Disaggregation of Revenues

	PSE&G	Power	Other	Eliminations	Consolidated
	Millions				
Three Months Ended March 31, 2018					
Revenues from Contracts with Customers					
Electric Distribution	\$690	\$—	\$—	\$—	\$ 690
Gas Distribution	759	—	—	(3	) 756
Transmission	312	—	—	—	312
Electricity and Related Product Sales					
PJM					
Third Party Sales	—	498	—	—	498
Sales to Affiliates	—	176	—	(176	) —
New York ISO	—	59	—	—	59
ISO New England	—	47	—	—	47
Gas Sales					
Third Party Sales	—	64	—	—	64
Sales to Affiliates	—	397	—	(397	) —
Other Revenues from Contracts with Customers (A)	72	10	137	(1	) 218
Total Revenues from Contracts with Customers	1,833	1,251	137	(577	) 2,644
Revenues Unrelated to Contracts with Customers (B)	12	152	10	—	174
Total Operating Revenues	\$1,845	\$1,403	\$ 147	\$ (577	) \$ 2,818

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

	PSE&G Power	Other	Eliminations	Consolidated	
	Millions				
Three Months Ended March 31, 2017					
Revenues from Contracts with Customers					
Electric Distribution	\$701	\$—	\$—	\$—	\$ 701
Gas Distribution	755	—	—	(1	) 754
Transmission	299	—	—	—	299
Electricity and Related Product Sales					
PJM					
Third Party Sales	—	314	—	—	314
Sales to Affiliates	—	184	—	(184	) —
New York ISO	—	36	—	—	36
ISO New England	—	11	—	—	11
Gas Sales					
Third Party Sales	—	52	—	—	52
Sales to Affiliates	—	401	—	(401	) —
Other Revenues from Contracts with Customers (A)	62	10	128	(1	) 199
Total Revenues from Contracts with Customers	1,817	1,008	128	(587	) 2,366
Revenues Unrelated to Contracts with Customers (B)	9	261	(45	) —	225
Total Operating Revenues	\$1,826	\$1,269	\$ 83	\$ (587	) \$ 2,591

(A) Includes primarily revenues from appliance repair services at PSE&G, solar power projects and energy management and fuel service contracts with LIPA at Power, and PSEG LI's OSA with LIPA in Other.

(B) Includes primarily alternative revenues at PSE&G, derivative contracts at Power, and lease contracts in Other. In 2017, Other includes a \$55 million loss related to Energy Holdings' investments in leases.

## Contract Balances

## PSE&amp;G

PSE&G does not have any material contract balances (rights to consideration for services already provided or obligations to provide services in the future for consideration already received) as of March 31, 2018 and 2017. Substantially all of PSE&G's accounts receivable result from contracts with customers. Allowances represented approximately six percent and seven percent of accounts receivable as of March 31, 2018 and 2017, respectively.

## Power

Power generally collects consideration upon satisfaction of performance obligations, and therefore, Power had no material contract balances as of March 31, 2018 and 2017.

Power's accounts receivable include amounts resulting from contracts with customers and other contracts which are out of scope of accounting guidance for revenues from contracts with customers. The majority of these accounts receivable are subject to master netting agreements. As a result, accounts receivable resulting from contracts with customers and receivables unrelated to contracts with customers are netted within Accounts Receivable and Accounts Payable on the Condensed Consolidated Balance Sheets. In the wholesale energy markets in which Power operates, payment for services rendered and products transferred are typically due within 30 days of month of delivery. As such, there is little credit risk associated with these receivables and Power typically records no allowances.

## Other

PSEG LI does not have any material contract balances as of March 31, 2018 and 2017.

## Remaining Performance Obligations under Fixed Consideration Contracts

Power and PSE&G primarily record revenues as allowed by the guidance, which states that if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

completed to date, the entity may recognize revenue in the amount to which the entity has a right to invoice. PSEG has future performance obligations under contracts with fixed consideration as follows:

Power

As stated above, capacity transactions with ISOs are reported on a net basis dependent on Power's monthly net sale or purchase position through the individual ISOs.

Capacity Payments from the PJM RPM Annual Base Residual and Incremental Auctions—The Base Residual Auction is conducted annually three years in advance of the operating period. Power expects to realize the following average capacity prices for capacity obligations to be satisfied resulting from the base and incremental auctions which have been completed:

Delivery Year	\$ per MW-Day	MW Cleared
June 2017 to May 2018	\$171	9,700
June 2018 to May 2019	\$205	9,200
June 2019 to May 2020	\$116	8,900
June 2020 to May 2021	\$174	7,800

Capacity Payments from the New England ISO Forward Capacity Market—The Forward Capacity Market Auction is conducted annually three years in advance of the operating period. Power expects to realize the following average capacity prices through May 2022 for capacity obligations to be satisfied resulting from the Forward Capacity Market auctions which have been completed:

Delivery Year	\$ per MW-Day	MW Cleared
June 2017 to May 2018	\$231	850
June 2018 to May 2019	\$314	830
June 2019 to May 2020	\$231	850
June 2020 to May 2021	\$174	850
June 2021 to May 2022	\$152	460

In addition to the capacity listed in the table above, Power expects to realize payments for capacity obligations of approximately 480 MW at \$231/MW-day, adjusted annually, from 2019 to 2026 at the Bridgeport Harbor Station Unit 5.

Bilateral capacity contracts—Capacity obligations pursuant to contract terms through 2029 are anticipated to result in revenues totaling \$180 million.

Other

The LIPA OSA is a 12-year services contract ending in 2025 with an annual fixed component. The fixed fee for the provision of services thereunder in 2018 is \$64 million and will increase each year based on the change in the Consumer Price Index.

Note 4. Early Plant Retirements

Fossil



On June 1, 2017, Power completed its previously announced retirement of the generation operations of the existing coal/gas units at the Hudson and Mercer generating stations.

For the three months ended March 31, 2017, Power recognized total D&A of \$574 million for the Hudson and Mercer units to reflect the significant shortening of their expected economic useful lives in 2017. In the three months ended March 31, 2018 and 2017, Power recognized pre-tax charges in Energy Costs of \$4 million and \$7 million, respectively, primarily for coal inventory lower of cost or market adjustments. Power is exploring various opportunities with these sites, including using the sites for alternative industrial activity or the disposition of one or both of the sites. If Power determines not to use the sites for alternative industrial activity, the early retirement of the units at such sites would trigger obligations under certain environmental regulations, including possible remediation. The amounts for any such environmental remediation are neither currently probable nor estimable but may be material.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

As of December 31, 2016, Power had reduced the estimated useful life of Bridgeport Harbor Station Unit 3 (BH3) from 2025 to the summer of 2021 as it was more likely than not it will retire the unit by this time.

PSEG and Power continue to monitor their other coal assets, including the Keystone and Conemaugh generating stations, to assess their economic viability through the end of their designated useful lives and their continued classification as held for use. The precise timing of a change in useful lives may be dependent upon events out of PSEG's and Power's control and may impact their ability to operate or maintain certain assets in the future. These generating stations may be impacted by factors such as environmental legislation, co-owner capital requirements and continued depressed wholesale power prices or capacity factors, among other things. Any early retirement or change in the held for use classification of our remaining coal units may have a material adverse impact on PSEG's and Power's future financial results.

Nuclear

Since 2013, several nuclear generating stations in the United States have closed or announced early retirement due to economic reasons, or have announced being at risk for early retirement. In February 2018, Exelon, a co-owner of the Salem units, announced its intention to accelerate the closure of its Oyster Creek nuclear plant located in New Jersey, one year earlier than previously planned for economic reasons. In addition, First Energy announced in March 2018 the early retirement of four nuclear units at the Davis-Besse, Perry Nuclear and Beaver Valley nuclear plants in Ohio and Pennsylvania by 2021. These closures and retirements are generally due to the decline in market prices of energy, resulting from low natural gas prices driven by the growth of shale gas production since 2007, the continuing cost of regulatory compliance and enhanced security for nuclear facilities, both federal and state-level policies that provide financial incentives to construct renewable energy such as wind and solar and the failure to adequately compensate nuclear generating stations for the attributes they bring similar to renewable energy production. These trends have significantly reduced the revenues of nuclear generating stations while limiting their ability to reduce the unit cost of production. This may result in the electric generation industry experiencing a further shift from nuclear generation to natural gas-fired generation, creating less diversity of the generation fleet.

In the ordinary course, management, and in the case of the Salem units the co-owner, each makes a number of decisions that impact the operation of our nuclear units beyond the current year, including whether and to what extent these units participate in RPM capacity auctions, commitments relating to refueling outages and significant capital expenditures, and decisions regarding our hedging arrangements. When considering whether to make these future commitments, management's decisions will primarily be influenced by the financial outlook of the units, including the progress, timing and continued outlook for enactment of proposed legislation in the state of New Jersey. At a co-owners meeting in February 2018, Exelon and Power agreed to cancel the funding of future capital projects at the Salem generating station that are not required to meet NRC or other regulatory requirements or that are not required to ensure its safe operation. The companies agreed that the funding of these projects may be restored when and if legislation is enacted in New Jersey that sufficiently values the attributes of nuclear generation and Salem benefits from such legislation.

If any or all of the Salem and Hope Creek units were shut down, it would significantly alter New Jersey's energy supply predominately by increasing New Jersey's reliance on natural gas generation. Such a decrease in fuel diversity could also increase the market's vulnerability to price fluctuations and power disruptions in times of high demand. In April 2018, the New Jersey Legislature voted to pass legislation that would provide a safety net in order to prevent the loss of environmental attributes from selected nuclear generating stations. Power cannot predict whether the legislation will be enacted or, if enacted, whether our nuclear generating stations in New Jersey will be selected or whether the legislation will provide a sufficient safety net for the continued operation of nuclear generating stations in New Jersey.

If market prices continue to be depressed and legislation is not enacted that adequately compensates nuclear generating stations for their attributes, Power anticipates it will no longer be covering its costs nor be adequately

compensated for its market and operational risks at the Salem and Hope Creek nuclear units and would anticipate retiring these units early. The costs associated with any such retirement, which may include, among other things, accelerated depreciation and amortization or impairment charges, accelerated asset retirement costs, severance costs, environmental remediation costs and additional funding of the NDT Fund would be material to both PSEG and Power.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

The following table provides the balance sheet amounts by generating station as of March 31, 2018 for significant assets and liabilities associated with Power's owned share of its nuclear assets.

	As of March 31, 2018			
	Hope Creek	Salem	Support Facilities and Other (A)	Peach Bottom
	Millions			
<b>Assets</b>				
Materials and Supplies Inventory	\$84	\$ 83	\$ —	\$ 41
Nuclear Production, net of Accumulated Depreciation	602	653	207	797
Nuclear Fuel In-Service, net of Accumulated Depreciation	88	107	—	136
Construction Work in Progress (including nuclear fuel)	296	97	1	20
<b>Total Assets</b>	<b>\$1,070</b>	<b>\$ 940</b>	<b>\$ 208</b>	<b>\$ 994</b>
<b>Liability</b>				
Asset Retirement Obligation	\$305	\$ 252	\$ —	\$ 207
<b>Total Liabilities</b>	<b>\$305</b>	<b>\$ 252</b>	<b>\$ —</b>	<b>\$ 207</b>
<b>Net Assets</b>	<b>\$765</b>	<b>\$ 688</b>	<b>\$ 208</b>	<b>\$ 787</b>
NRC License Renewal Term	2046	2036/2040	N/A	2033/2034
% Owned	100	% 57	% Various	50 %

(A) Includes Hope Creek's and Salem's shared support facilities and other nuclear development capital. The precise timing of any potential early retirement and resulting financial statement impact may be affected by a number of factors, including co-owner considerations, the results of any transmission system reliability study assessments and decommissioning trust fund requirements and other commitments, as well as future energy prices. Power maintains a NDT Fund that funds its decommissioning obligations. See Note 8. Trust Investments.

Note 5. Variable Interest Entity (VIE)

VIE for which PSEG LI is the Primary Beneficiary

PSEG LI consolidates Servco, a marginally capitalized VIE, which was created for the purpose of operating LIPA's T&D system in Long Island, New York as well as providing administrative support functions to LIPA. PSEG LI is the primary beneficiary of Servco because it directs the operations of Servco, the activity that most significantly impacts Servco's economic performance and it has the obligation to absorb losses of Servco that could potentially be significant to Servco. Such losses would be immaterial to PSEG.

Pursuant to the OSA, Servco's operating costs are reimbursable entirely by LIPA, and therefore, PSEG LI's risk is limited related to the activities of Servco. PSEG LI has no current obligation to provide direct financial support to Servco. In addition to reimbursement of Servco's operating costs as provided for in the OSA, PSEG LI receives an annual contract management fee. PSEG LI's annual contractual management fee, in certain situations, could be partially offset by Servco's annual storm costs not approved by the Federal Emergency Management Agency, limited contingent liabilities and penalties for failing to meet certain performance metrics.

For transactions in which Servco acts as principal and controls the services provided to LIPA, such as transactions with its employees for labor and labor-related activities, including pension and OPEB-related transactions, Servco records revenues and the related pass-through expenditures separately in Operating Revenues and O&M Expense, respectively. Servco recorded \$120 million and \$112 million for the three months ended March 31, 2018 and 2017,

respectively, of O&M costs, the full reimbursement of which was reflected in Operating Revenues. For transactions in which Servco acts as an agent for LIPA, it records revenues and the related expenses on a net basis, resulting in no impact on PSEG's Condensed Consolidated Statement of Operations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

Note 6. Rate Filings

This Note should be read in conjunction with Note 6. Regulatory Assets and Liabilities to the Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2017.

In addition to items previously reported in the Annual Report on Form 10-K, significant regulatory orders received and currently pending rate filings with FERC and the BPU by PSE&G are as follows:

**Electric and Gas Distribution Base Rate Filing**—In January 2018, PSE&G filed a distribution base rate case as required as a condition of approval of its Energy Strong Program approved by the BPU in 2014. The filing requested an approximate 1% increase in revenues and recovery of investments made to strengthen the electric and gas distribution systems. The requested increase took into account a reduction in the revenue requirement as a result of the federal corporate income tax rate reduction from 35% to 21% provided in the Tax Cuts and Jobs Act of 2017 (Tax Act), including the flow-back to customers of excess accumulated deferred income taxes. In March 2018, the BPU approved interim rate reductions for all their jurisdictional utilities, including PSE&G, reflecting the reduction in the federal corporate tax rate. The BPU approved a reduction to PSE&G's current base electric and gas revenues effective April 1, 2018 by \$71 million and \$43 million, respectively, on an annual basis (or about 2% combined). The refund to customers for over-collection of revenues at the higher tax rate for the January 1 to March 31, 2018 period, and the flow-back to customers of certain excess deferred income taxes will be addressed in PSE&G's ongoing base rate case proceeding. As a result of the base rate reduction implemented on April 1, 2018, among other factors, PSE&G's requested revenue requirement in its filing will increase accordingly. PSE&G anticipates a decision by the BPU that new base rates will go into effect in the fourth quarter of 2018.

**Transmission Formula Rate Filings**—In January 2018, PSE&G filed with FERC a revised 2018 Annual Transmission Formula Rate Update reducing its 2018 transmission annual revenue requirement to reflect the federal corporate income tax rate reduction from 35% to 21% as a result of the Tax Act. This change in the federal corporate tax rate reduces the 2018 annual revenue requirement by \$148 million, effective January 1, 2018. FERC continues to assess whether, and if so how, it will address changes and flow-backs to customers relating to accumulated deferred income taxes and bonus depreciation.

**BGSS**—In April 2018, the BPU approved the final BGSS rates which were effective October 1, 2017.

In December 2017, February 2018 and March 2018, PSE&G filed with the BPU for self-implementing monthly bill credits of 15 cents per therm for the months of January through April 2018. Monthly bill credits of \$104 million were credited to customers for the months of January through March and an additional \$15 million is estimated to be credited in April.

**Energy Strong Recovery Filing**—In March and September of each year, PSE&G files with the BPU for base rate recovery of Energy Strong investments which include a return of and on its investment.

In February 2018, the BPU approved recovery of an annual revenue requirement of \$8 million associated with electric Energy Strong capital investment costs placed in service from June 1, 2017 through November 30, 2017.

**Societal Benefits Charge**—In February 2018, the BPU approved PSE&G's petition to increase electric rates by approximately \$20 million on an annual basis and to decrease gas rates by approximately \$0.8 million on an annual basis, in order to recover electric and gas costs incurred through May 31, 2017 under its Energy Efficiency and Renewable Energy and Social Programs. The new rates are effective April 1, 2018.

**Weather Normalization Clause**—In April 2018, the BPU gave final approval to PSE&G's petition to collect \$55 million in net deficiency gas revenues as a result of the warmer than normal 2016-2017 Winter Period, which resulted in a deficiency of \$31 million, plus a carryover balance of \$24 million from the 2015-2016 Winter period.

Note 7. Financing Receivables

PSE&G

PSE&G sponsors a solar loan program designed to help finance the installation of solar power systems throughout its electric service area. Interest income on the loans is recorded on an accrual basis. The loans are generally paid back with solar renewable energy certificates (SRECs) generated from the installed solar electric system. In the event of a loan default, the basis of the solar loan would be recovered through a regulatory recovery mechanism. None of the solar loans are impaired; however, in the event a loan becomes impaired, the basis of the loan would be recovered through a regulatory recovery mechanism. A substantial portion of these amounts are noncurrent and reported in Long-Term Investments on PSEG's and PSE&G's Condensed Consolidated Balance Sheets. The following table reflects the outstanding loans by class of customer, none of which are considered "non-performing."

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

Outstanding Loans by Class of Customer

	As of March 31, 2018	As of December 31, 2017
Consumer Loans		
	Millions	
Commercial/Industrial	\$ 168	\$ 158
Residential	10	10
Total	\$ 178	\$ 168

Energy Holdings

Energy Holdings, through several of its indirect subsidiary companies, has investments in domestic energy and real estate assets subject primarily to leveraged lease accounting. A leveraged lease is typically comprised of an investment by an equity investor and debt provided by a third-party debt investor. The debt is recourse only to the assets subject to lease and is not included on PSEG's Condensed Consolidated Balance Sheets. As an equity investor, Energy Holdings' equity investments in the leases are comprised of the total expected lease receivables over the lease terms plus the estimated residual values at the end of the lease terms, reduced for any income not yet earned on the leases. This amount is included in Long-Term Investments on PSEG's Condensed Consolidated Balance Sheets. The more rapid depreciation of the leased property for tax purposes creates tax cash flow that will be repaid to the taxing authority in later periods. As such, the liability for such taxes due is recorded in Deferred Income Taxes on PSEG's Condensed Consolidated Balance Sheets.

During the first quarter of 2017, due to continuing liquidity issues facing NRG REMA, LLC (REMA), economic challenges facing coal generation in PJM, as discussed in Note 4. Early Plant Retirements, and based upon an ongoing review of available alternatives as well as certain discussions with REMA management, Energy Holdings recorded a \$55 million pre-tax charge for its current best estimate of loss related to the lease receivables. Lease payments and adjustments to qualifying credit support on the REMA leases are received semiannually in January and July of each year.

In June 2017, GenOn Energy, Inc. (GenOn) and certain of its subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. GenOn is a subsidiary of NRG Energy, Inc. and is the parent of REMA. REMA was not included in the GenOn filing. Energy Holdings continues to monitor the restructuring of GenOn and its possible impacts on REMA and continues to discuss the situation with various parties relevant to this matter. During the second quarter of 2017, Energy Holdings completed its review of estimated residual values embedded in its leveraged lease portfolio of generating assets and the outcome indicated that one of the residual value estimates was lower than the recorded residual value due to a further deterioration of market conditions and changes to operating cost estimates. This decline was determined to be other than temporary. As a result, a pre-tax write-down of \$7 million was recorded in the quarter ended June 30, 2017. In addition, based on an ongoing review of (i) the liquidity challenges facing REMA and (ii) available alternatives, Energy Holdings recorded an additional \$15 million pre-tax charge in the quarter ended June 30, 2017, for its current best estimate of loss related to lease receivables. Pre-tax write-downs and additional charges were reflected in Operating Revenues in the first half of 2017 and are included in Gross Investment in Leases as of March 31, 2018.

In January 2018, certain subsidiaries of Energy Holdings, REMA, certain holders of the pass-through certificates and other parties entered into a Forbearance Agreement (Forbearance) relating to the Conemaugh facility. Pursuant to the Forbearance, the parties thereto agreed to temporarily forbear from exercising rights and remedies related to certain events of default related to REMA's obligation to procure additional qualifying credit support. The Forbearance will



remain effective until the earlier of (i) two weeks following the date on which Energy Holdings subsidiaries, REMA and/or the consenting certificate holders provide written notice to REMA of its intention to terminate the Forbearance, and (ii) the date on which any event of termination as specified in the Forbearance occurs. The Forbearance remains in effect.

PSEG cannot predict the outcome of GenOn's restructuring process or the possible related impact on REMA. PSEG continues to monitor any changes to REMA's and GenOn's status and potential impacts on Energy Holdings' lease investments. If lease rejections or foreclosures were to occur, Energy Holdings could potentially record additional pre-tax write-offs up to its gross investment in these facilities and may also be required to accelerate and pay material deferred tax liabilities to the Internal Revenue Service (IRS).

The following table shows Energy Holdings' gross and net lease investment as of March 31, 2018 and December 31, 2017, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

	As of March 31, 2018	As of December 31, 2017
	Millions	
Lease Receivables (net of Non-Recourse Debt)	\$545	\$ 546
Estimated Residual Value of Leased Assets	326	326
Total Investment in Rental Receivables	871	872
Unearned and Deferred Income	(303 )	(307 )
Gross Investment in Leases	568	565
Deferred Tax Liabilities	(498 )	(480 )
Net Investment in Leases	\$70	\$ 85

The corresponding receivables associated with the lease portfolio are reflected as follows, net of non-recourse debt. The ratings in the table represent the ratings of the entities providing payment assurance to Energy Holdings.

Counterparties' Credit Rating Standard & Poor's (S&P) as of March 31, 2018	Lease Receivables, Net of Non-Recourse Debt
	As of March 31, 2018 Millions
AA	\$ 14
BBB+ — BBB-	316
BB-	133
CCC-	82
Total	\$ 545

The “BB-” and the “CCC-” ratings in the preceding table represent lease receivables related to coal and gas-fired assets in Illinois and Pennsylvania, respectively. As of March 31, 2018, the gross investment in the leases of such assets, net of non-recourse debt, was \$335 million (\$88 million, net of deferred taxes). A more detailed description of such assets under lease is presented in the following table.

Asset	Location	Gross Investment Millions	% Owned	Total MW	Fuel Type	Counterparties' S&P Credit Ratings	Counterparty
Powerton Station Units 5 and 6	IL	\$ 132	64 %	1,538	Coal	BB-	NRG Energy, Inc.
Joliet Station Units 7 and 8	IL	\$ 85	64 %	1,036	Gas	BB-	NRG Energy, Inc.
Keystone Station Units 1 and 2	PA	\$ 20	17 %	1,711	Coal	CCC-	REMA (A)
Conemaugh Station Units 1 and 2	PA	\$ 20	17 %	1,711	Coal	CCC-	REMA (A)
Shawville Station Units 1, 2, 3 and 4	PA	\$ 78	100 %	596	Gas	CCC-	REMA (A)

(A) GenOn and certain of its subsidiaries (which did not include REMA) filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. GenOn is currently engaged in a balance sheet restructuring, which will take an undetermined time to complete. Certain subsidiaries of Energy Holdings, REMA, consenting holders of

the pass-through certificates and other parties entered into a Forbearance relating to the Conemaugh facility. The credit exposure for lessors is partially mitigated through various credit enhancement mechanisms within the lease structures. These credit enhancement features vary from lease to lease. Upon the occurrence of certain defaults, indirect subsidiary companies of Energy Holdings would exercise their rights and seek recovery of their investment, potentially

28

---

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

including stepping into the lease directly to protect their investments. While these actions could ultimately protect or mitigate the loss of value, they could require the use of significant capital and trigger certain material tax obligations which could wholly or partially be mitigated by tax indemnification claims against the counterparty. A bankruptcy of a lessee would likely delay and potentially limit any efforts on the part of the lessors to assert their rights upon default and could delay the monetization of claims. Failure to recover adequate value could ultimately lead to a foreclosure on the assets under lease by the lenders.

Additional factors that may impact future lease cash flows include, but are not limited to, new environmental legislation and regulation regarding air quality, water and other discharges in the process of generating electricity, market prices for fuel, electricity and capacity, overall financial condition of lease counterparties and their affiliates and the quality and condition of assets under lease.

Note 8. Trust Investments

NDT Fund

Power maintains an external master NDT to fund its share of decommissioning costs for its five nuclear facilities upon their respective termination of operation. The trust contains two separate funds: a qualified fund and a non-qualified fund. Section 468A of the Internal Revenue Code limits the amount of money that can be contributed into a qualified fund. The funds are managed by third-party investment managers who operate under investment guidelines developed by Power.

The following tables show the fair values and gross unrealized gains and losses for the securities held in the NDT Fund.

	As of March 31, 2018			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities				
Domestic	\$463	\$ 226	\$ (7 )	\$682
International	318	93	(7 )	404
Total Equity Securities	781	319	(14 )	1,086
Available-for-Sale Debt Securities				
Government	518	1	(11 )	508
Corporate	464	1	(9 )	456
Total Available-for-Sale Debt Securities	982	2	(20 )	964
Other	1	—	—	1
Total NDT Fund Investments (A)	\$1,764	\$ 321	\$ (34 )	\$2,051

	As of December 31, 2017			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities				
Domestic	\$497	\$ 245	\$ (2 )	\$740

Edgar Filing: PUBLIC SERVICE ENTERPRISE GROUP INC - Form 10-Q

International	311	99	(3	)	407
Total Equity Securities	808	344	(5	)	1,147
Available-for Sale Debt Securities					
Government	586	2	(4	)	584
Corporate	400	4	(2	)	402
Total Available-for-Sale Debt Securities	986	6	(6	)	986
Total NDT Fund Investments	\$1,794	\$ 350	\$ (11	)	\$2,133

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

Net unrealized gains (losses) on debt securities of \$(10) million (after-tax) were included in Accumulated Other Comprehensive Loss on PSEG's and Power's Condensed Consolidated Balance Sheets as of March 31, 2018. The portion of net unrealized gains (losses) recognized during the first quarter of 2018 related to equity securities still held at the end of March 31, 2018 was \$(10) million.

The amounts in the preceding tables do not include receivables and payables for NDT Fund transactions which have not settled at the end of each period. Such amounts are included in Accounts Receivable and Accounts Payable on the Condensed Consolidated Balance Sheets as shown in the following table.

	As of March 2018	As of December 31, 2017
Accounts Receivable	\$ 13	\$ 24
Accounts Payable	\$ 9	\$ 74

The following table shows the value of securities in the NDT Fund that have been in an unrealized loss position for less than and greater than 12 months.

	As of March 31, 2018				As of December 31, 2017			
	Less Than 12 Months		Greater Than 12 Months		Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	Millions							
Equity Securities (A)								
Domestic	\$117	\$ (7)	\$—	\$ —	\$40	\$ (2)	\$—	\$ —
International	65	(7)	1	—	29	(3)	2	—
Total Equity Securities	182	(14)	1	—	69	(5)	2	—
Available-for-Sale Debt Securities								
Government (B)	364	(7)	80	(4)	343	(2)	91	(2)
Corporate (C)	339	(8)	25	(1)	191	(1)	27	(1)
Total Available-for-Sale Debt Securities	703	(15)	105	(5)	534	(3)	118	(3)
NDT Trust Investments	\$885	\$ (29)	\$106	\$ (5)	\$603	\$ (8)	\$120	\$ (3)

Equity Securities—Investments in marketable equity securities within the NDT Fund are primarily in common stocks (A) within a broad range of industries and sectors. Effective January 1, 2018, unrealized gains and losses on these securities are recorded in Net Income.

(B) Debt Securities (Government)—Unrealized gains and losses on these securities are recorded in Accumulated Other Comprehensive Income (Loss). The unrealized losses on Power's NDT investments in U.S. Treasury obligations and Federal Agency mortgage-backed securities were caused by interest rate changes. These investments are guaranteed by the U.S. government or an agency of the U.S. government. Power also has investments in municipal bonds that are primarily in investment grade securities. It is not expected that these securities will settle for less than their amortized cost. Since Power does not intend to sell these securities nor will it be more-likely-than-not

required to sell, Power does not consider these debt securities to be other-than-temporarily impaired as of March 31, 2018.

Debt Securities (Corporate)—Unrealized gains and losses on these securities are recorded in Accumulated Other Comprehensive Income (Loss). Power's investments in corporate bonds are primarily in investment grade (C) securities. It is not expected that these securities would settle for less than their amortized cost. Since Power does not intend to sell these securities nor will it be more-likely-than-not required to sell, Power does not consider these debt securities to be other-than-temporarily impaired as of March 31, 2018.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

The proceeds from the sales of and the net gains (losses) on securities in the NDT Fund were:

	Three Months Ended March 31, 2018	2017
	Millions	
Proceeds from NDT Fund Sales (A)	\$372	\$247
Net Realized Gains (Losses) on NDT Fund		
Gross Realized Gains	\$24	\$21
Gross Realized Losses	(12 )	(4 )
Net Realized Gains (Losses) on NDT Fund (B)	12	17
Unrealized Gains (Losses) on Equity Securities in NDT Fund (C)	(34 )	N/A
Other-Than-Temporary-Impairments	—	(1 )
Net Gains (Losses) on NDT Fund Investments	\$(22 )	\$16

(A)Includes activity in accounts related to the liquidation of funds being transitioned to new managers.

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

(C)Effective January 1, 2018, unrealized gains (losses) on equity securities are recorded in Net Income instead of Other Comprehensive Income (Loss).

The NDT Fund debt securities held as of March 31, 2018 had the following maturities:

Time Frame	Fair Value Millions
Less than one year	\$ 15
1 - 5 years	300
6 - 10 years	201
11 - 15 years	40
16 - 20 years	73
Over 20 years	335
Total NDT Available-for-Sale Debt Securities	\$ 964

Power periodically assesses individual debt securities whose fair value is less than amortized cost to determine whether the investments are considered to be other-than-temporarily impaired. For these securities, management considers its intent to sell or requirement to sell a security prior to expected recovery. In those cases where a sale is expected, any impairment would be recorded through earnings. For fixed income securities where there is no intent to sell or likely requirement to sell, management evaluates whether credit loss is a component of the impairment. If so, that portion is recorded through earnings while the noncredit loss component is recorded through Accumulated Other Comprehensive Income (Loss). Any subsequent recoveries in the value of these securities would be recognized in Accumulated Other Comprehensive Income (Loss) unless the securities are sold, in which case, any gain would be recognized in income. The assessment of fair market value compared to cost is applied on a weighted average basis taking into account various purchase dates and initial cost of the securities.



Rabbi Trust

PSEG maintains certain unfunded nonqualified benefit plans to provide supplemental retirement and deferred compensation benefits to certain key employees. Certain assets related to these plans have been set aside in a grantor trust commonly known as a “Rabbi Trust.”

31

---

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

The following tables show the fair values, gross unrealized gains and losses and amortized cost basis for the securities held in the Rabbi Trust.

	As of March 31, 2018			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities				
Domestic	\$21	\$ 2	\$ —	\$ 23
International	—	—	—	—
Total Equity Securities	21	2	—	23
Available-for-Sale Debt Securities				
Government	91	—	(2 )	89
Corporate	114	1	(2 )	113
Total Available-for-Sale Debt Securities	205	1	(4 )	202
Total Rabbi Trust Investments	\$226	\$ 3	\$ (4 )	\$ 225

	As of December 31, 2017			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities				
Domestic	\$24	\$ 3	\$ —	\$ 27
International	—	—	—	—
Total Equity Securities	24	3	—	27
Available-for-Sale Debt Securities				
Government	85	1	(1 )	85
Corporate	118	2	(1 )	119
Total Available-for-Sale Debt Securities	203	3	(2 )	204
Total Rabbi Trust Investments	\$227	\$ 6	\$ (2 )	\$ 231

Net unrealized gains (losses) on debt securities of \$(3) million (after-tax) were included in Accumulated Other Comprehensive Loss on PSEG's Condensed Consolidated Balance Sheet as of March 31, 2018. The portion of net unrealized gains (losses) recognized during the first quarter of 2018 related to equity securities still held at the end of March 31, 2018 was less than \$(1) million.

The amounts in the preceding tables do not include receivables and payables for Rabbi Trust Fund transactions which have not settled at the end of each period. Such amounts are included in Accounts Receivable and Accounts Payable on the Condensed Consolidated Balance Sheets as shown in the following table.

As  
of      As of

Edgar Filing: PUBLIC SERVICE ENTERPRISE GROUP INC - Form 10-Q

March 31, 2018

December 31, 2017

Millions

Accounts Receivable	\$ 2	\$ 2
Accounts Payable	\$ —	\$ 1

32

---

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

The following table shows the value of securities in the Rabbi Trust Fund that have been in an unrealized loss position for less than 12 months and greater than 12 months.

	As of March 31, 2018				As of December 31, 2017			
	Less Than 12 Months		Greater Than 12 Months		Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	Millions							
Equity Securities (A)								
Domestic	\$—	\$ —	\$—	\$ —	\$—	\$ —	\$—	\$ —
International	—	—	—	—	—	—	—	—
Total Equity Securities	—	—	—	—	—	—	—	—
Available-for-Sale Debt Securities								
Government (B)	48	(1 )	23	(1 )	28	—	25	(1 )
Corporate (C)	73	(2 )	8	—	39	(1 )	9	—
Total Available-for-Sale Debt Securities	121	(3 )	31	(1 )	67	(1 )	34	(1 )
Rabbi Trust Investments	\$121	\$ (3 )	\$31	\$ (1 )	\$67	\$ (1 )	\$34	\$ (1 )

Equity Securities—Investments in marketable equity securities within the Rabbi Trust Fund are through a mutual (A) fund which invests primarily in common stocks within a broad range of industries and sectors. Effective January 1, 2018, unrealized gains and losses on these securities are recorded in Net Income.

Debt Securities (Government)—Unrealized gains and losses on these securities are recorded in Accumulated Other Comprehensive Income (Loss). The unrealized losses on PSEG's Rabbi Trust investments in U.S. Treasury obligations and Federal Agency mortgage-backed securities were caused by interest rate changes. These (B) investments are guaranteed by the U.S. government or an agency of the U.S. government. PSEG also has investments in municipal bonds that are primarily in investment grade securities. It is not expected that these securities will settle for less than their amortized cost. Since PSEG does not intend to sell these securities nor will it be more-likely-than-not required to sell, PSEG does not consider these debt securities to be other-than-temporarily impaired as of March 31, 2018.

Debt Securities (Corporate)—Unrealized gains and losses on these securities are recorded in Accumulated Other Comprehensive Income (Loss). PSEG's investments in corporate bonds are primarily in investment grade (C) securities. It is not expected that these securities would settle for less than their amortized cost. Since PSEG does not intend to sell these securities nor will it be more-likely-than-not required to sell, PSEG does not consider these debt securities to be other-than-temporarily impaired as of March 31, 2018.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

The proceeds from the sales of and the net gains (losses) on securities in the Rabbi Trust Fund were:

	Three Months Ended March 31, 2018 2017	
	Millions	
Proceeds from Rabbi Trust Sales (A)	\$25	\$51
Net Realized Gains (Losses) on Rabbi Trust:		
Gross Realized Gains	\$2	\$15
Gross Realized Losses	(2 )	(3 )
Net Realized Gains (Losses) on Rabbi Trust (B)	—	12
Unrealized Gains (Losses) on Equity Securities in Rabbi Trust (C)	—	N/A
Other-Than-Temporary-Impairments	—	—
Net Gains (Losses) on Rabbi Trust Investments	\$—	\$12

(A)Includes activity in accounts related to the liquidation of funds being transitioned to new managers.

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

(C)Effective January 1, 2018, unrealized gains (losses) on equity securities are recorded in Net Income instead of Other Comprehensive Income (Loss).

The Rabbi Trust debt securities held as of March 31, 2018 had the following maturities:

Time Frame	Fair Value Millions
Less than one year	\$ 1
1 - 5 years	36
6 - 10 years	29
11 - 15 years	6
16 - 20 years	17
Over 20 years	113
Total Rabbi Trust	
Available-for-Sale	\$ 202
Debt Securities	

PSEG periodically assesses individual debt securities whose fair value is less than amortized cost to determine whether the investments are considered to be other-than-temporarily impaired. For these securities, management considers its intent to sell or requirement to sell a security prior to expected recovery. In those cases where a sale is expected, any impairment would be recorded through earnings. For fixed income securities where there is no intent to sell or likely requirement to sell, management evaluates whether credit loss is a component of the impairment. If so, that portion is recorded through earnings while the noncredit loss component is recorded through Accumulated Other Comprehensive Income (Loss). The assessment of fair market value compared to cost is applied on a weighted average basis taking into account various purchase dates and initial cost of the securities.

The fair value of the Rabbi Trust related to PSEG, PSE&G and Power are detailed as follows:

	As of March 2018	As of December 31, 2017
	Millions	
PSE&G	\$45	\$ 46
Power	56	57
Other	124	128
Total Rabbi Trust Investments	\$225	\$ 231

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

Note 9. Pension and Other Postretirement Benefits (OPEB)

PSEG sponsors 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 for PSEG, excluding Servco. Amounts shown do not reflect the impacts of capitalization. Effective with the adoption of ASU 2017-07 on January 1, 2018, only the service cost component is eligible for capitalization, when applicable. For additional information, see Note 2. Recent Accounting Standards.

	Pension Benefits		OPEB	
	Three Months Ended		Three Months Ended	
	March 31, 2018	2017	March 31, 2018	2017
Millions				
Components of Net Periodic Benefit (Credits) Costs				
Service Cost (included in O&M Expense)	\$ 32	\$ 29	\$ 4	\$ 4
Non-Operating Pension and OPEB (Credits) Costs				
Interest Cost	52	51	16	16
Expected Return on Plan Assets	(110 )	(98 )	(10 )	(8 )
Amortization of Net				
Prior Service Cost	(4 )	(5 )	—	(3 )
Actuarial Loss	21	24	16	13
Non-Operating Pension and OPEB (Credits) Costs	(41 )	(28 )	22	18
Total Benefit (Credits) Costs	\$ (9 )	\$ 1	\$ 26	\$ 22

Pension and OPEB costs for PSE&G, Power and PSEG's other subsidiaries, excluding Servco, are detailed as follows:

	Pension Benefits		OPEB	
	Three Months Ended		Three Months Ended	
	March 31, 2018	2017	March 31, 2018	2017
Millions				
PSE&G	\$ (8 )	\$ (1 )	\$ 17	\$ 14
Power	(2 )	—	8	7
Other	1	2	1	1
Total Benefit (Credits) Costs	\$ (9 )	\$ 1	\$ 26	\$ 22

During the three months ended March 31, 2018, PSEG contributed its entire planned contribution for the year 2018 of \$14 million into its OPEB plan.

Servco Pension and OPEB

At the direction of LIPA, Servco sponsors benefit plans that cover its current and former employees who meet certain eligibility criteria. Under the OSA, all of these and any future employee benefit costs are to be funded by LIPA. See Note 5. Variable Interest Entity. These obligations, as well as the offsetting long-term receivable, are separately presented on the Condensed Consolidated Balance Sheet of PSEG.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

Servco amounts are not included in any of the preceding pension and OPEB benefit cost disclosures. Pension and OPEB costs of Servco are accounted for according to the OSA. Servco recognizes expenses for contributions to its pension plan trusts and for OPEB payments made to retirees. Operating Revenues are recognized for the reimbursement of these costs. Servco plans to contribute \$40 million into its pension plan trusts during 2018. Servco's pension-related revenues and costs were \$10 million and \$9 million for the three months ended March 31, 2018 and 2017, respectively. The OPEB-related revenues earned and costs incurred were \$1 million for each of the three months ended March 31, 2018 and 2017.

Note 10. Commitments and Contingent Liabilities

Guaranteed Obligations

Power's 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 with numerous counterparties and brokers that may require cash, cash-related instruments or guarantees as a form of collateral. Power has unconditionally guaranteed payments to counterparties by its subsidiaries in commodity-related transactions in order to

- support current exposure, interest and other costs on sums due and payable in the ordinary course of business, and
- obtain credit.

Power is subject to

- counterparty collateral calls related to commodity contracts, and

- certain creditworthiness standards as guarantor under performance guarantees of its subsidiaries.

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.

In order for Power to incur a liability for the face value of the outstanding guarantees, its subsidiaries would have to fully utilize the credit granted to them by every counterparty to whom Power has provided a guarantee, and the net position of the related contracts would have to be "out-of-the-money" (if the contracts are terminated, Power would owe money to the counterparties).

Power believes the probability of this result is unlikely. For this reason, Power believes that the current exposure at any point in time is a more meaningful representation of the potential liability under these guarantees. Current exposure consists of the net of accounts receivable and accounts payable and the forward value on open positions, less any collateral posted.

Changes in commodity prices can have a material impact on collateral requirements under such contracts, which are posted and received primarily in the form of cash and letters of credit. Power also routinely enters into futures and options transactions for electricity and natural gas as part of its operations. These futures contracts usually require a cash margin deposit with brokers, which can change based on market movement and in accordance with exchange rules.

In addition to the guarantees discussed above, Power has also provided payment guarantees to third parties on behalf of its affiliated companies. These guarantees support various other non-commodity related contractual obligations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

The following table shows the face value of Power's outstanding guarantees, current exposure and margin positions as of March 31, 2018 and December 31, 2017.

	As of March 31, 2018	As of December 31, 2017
	Millions	
Face Value of Outstanding Guarantees	\$1,755	\$ 1,701
Exposure under Current Guarantees	\$161	\$ 153
Letters of Credit Margin Posted	\$109	\$ 103
Letters of Credit Margin Received	\$18	\$ 32
Cash Deposited and Received:		
Counterparty Cash Margin Deposited	\$—	\$ —
Counterparty Cash Margin Received	\$(1 )	\$( 1 )
Net Broker Balance Deposited (Received)	\$122	\$ 147
Additional Amounts Posted:		
Other Letters of Credit	\$61	\$ 61

As part of determining credit exposure, Power nets receivables and payables with the corresponding net fair values of energy contracts. See Note 12. Financial Risk Management Activities for further discussion. In accordance with PSEG's accounting policy, where it is applicable, cash (received)/deposited is allocated against derivative asset and liability positions with the same counterparty on the face of the Condensed Consolidated Balance Sheet. The remaining balances of net cash (received)/deposited after allocation are generally included in Accounts Payable and Receivable, respectively.

In addition to amounts for outstanding guarantees, current exposure and margin positions, PSEG and Power have posted letters of credit to support Power's various other non-energy contractual and environmental obligations. See preceding table.

Environmental Matters

Passaic River

Historic operations of PSEG companies and the operations of hundreds of other companies along the Passaic and Hackensack Rivers are alleged by Federal and State agencies to have discharged substantial contamination into the Passaic River/Newark Bay Complex in violation of various statutes as discussed as follows.

Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA)

The U.S. Environmental Protection Agency (EPA) has determined that a 17-mile stretch of the lower Passaic River from Newark to Clifton, New Jersey is a "Superfund" site under CERCLA and a comprehensive study of the entire 17 miles of the lower Passaic River needed to be performed. PSE&G and certain of its predecessors conducted operations at properties in this area of the Passaic River. The properties included one operating electric generating station (Essex Site), which was transferred to Power, one former generating station and four former manufactured gas plant (MGP) sites.

In early 2007, certain Potentially Responsible Parties (PRPs), including PSE&G and Power, formed a Cooperating Parties Group (CPG) and agreed to assume responsibility for conducting a Remedial Investigation and Feasibility Study (RI/FS) of the 17 miles of the lower Passaic River. The CPG has agreed to allocate, on an interim basis, the

associated costs of the RI/FS among its members on the basis of a mutually agreed upon formula. For the purpose of this interim allocation, which has been revised as parties have exited the CPG, approximately 7.6 percent of the RI/FS costs are currently deemed attributable to PSE&G's former MGP sites and approximately 1.9 percent is attributable to Power's generating stations. These interim allocations are not binding on PSE&G or Power in terms of their respective shares of the costs that will be ultimately required to remediate the 17 miles of the lower Passaic River. PSEG has provided notice to insurers concerning this potential claim. Certain PRPs are currently involved in discussions with the EPA regarding cost allocations and related indemnification matters.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

We cannot predict the outcome of these discussions, or whether individual PRPs will be able to meet their obligations, either of which could have a material impact on PSE&G's and Power's allocation of costs.

The CPG's draft FS set forth various alternatives for remediating the lower Passaic River with an estimated cost to remediate the lower 17 miles of the Passaic River ranging from approximately \$518 million to \$3.2 billion on an undiscounted basis.

In March 2016, the EPA released its Record of Decision (ROD) for the EPA's own Focused Feasibility Study (FFS) which requires the removal of 3.5 million cubic yards of sediment from the Passaic River's lower 8.3 miles at an estimated cost of \$2.3 billion on an undiscounted basis (ROD Remedy). The EPA estimates the total project length to be about 11 years, including a one year period of negotiation with the PRPs, three to four years to design the project and six years for implementation. Occidental Chemical Corporation, one of the PRPs, has committed to perform the remedial design required by the ROD Remedy, reserving its right of cost contribution from all other PRPs.

In September 2017, the EPA concluded that an Agency-commenced allocation process for the Passaic River's lower 8.3 miles should include only certain PRPs. The allocation is intended to lead to a consent decree in which certain of the PRPs agree to perform the remedial action under EPA oversight. Discussions on the matter are ongoing.

Conversations between the EPA and the PRPs regarding remediation of the Passaic River's upper 9 miles are ongoing. Based upon the estimated cost of the ROD Remedy and PSEG's estimate of PSE&G's and Power's shares of that cost, as of March 31, 2018, PSEG has accrued approximately \$57 million. Of this amount, PSE&G has accrued \$46 million as an Environmental Costs Liability and a corresponding Regulatory Asset based on its continued ability to recover such costs in its rates. Power has accrued \$11 million as an Other Noncurrent Liability with the corresponding O&M Expense recorded in the periods when the liability was accrued.

The EPA has broad authority to implement its selected remedy through the ROD and PSEG cannot at this time predict how the implementation of the ROD might impact PSE&G's and Power's ultimate liability. Until (i) the RI/FS, which covers the entire 17 miles of the lower Passaic River, is finalized either in whole or in part, (ii) an agreement by the PRPs to perform either the ROD Remedy as issued, or an amended ROD Remedy determined through negotiation or litigation, and an agreed upon remedy for the remaining 8.7 miles of the river, are reached, (iii) PSE&G's and Power's respective shares of the costs, both in the aggregate as well as individually, are determined, and (iv) PSE&G's continued ability to recover the costs in its rates is determined, it is not possible to predict this matter's ultimate impact on PSEG's financial statements. It is possible that PSE&G and Power will record additional costs beyond what they have accrued, and that such costs could be material, but PSEG cannot at the current time estimate the amount or range of any additional costs.

Natural Resource Damage Claims

In 2003, the New Jersey Department of Environmental Protection (NJDEP) directed PSEG, PSE&G and 56 other 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 that hazardous substances had been discharged from the Essex Site and the Harrison Site. The NJDEP estimated the cost of interim natural resource injury restoration activities along the lower Passaic River at approximately \$950 million. In 2007, agencies of the U.S. Department of Commerce and the U.S. Department of the Interior (the Passaic River federal trustees) sent letters to PSE&G and other PRPs inviting participation in an assessment of injuries to natural resources that the agencies intended to perform. In 2008, PSEG and a number of other PRPs agreed to share certain immaterial costs the trustees have incurred and will incur going forward, and to work with the trustees to explore whether some or all of the trustees' claims can be resolved in a cooperative fashion. That effort is continuing. PSE&G and Power are unable to estimate their respective portions of the possible loss or range of loss related to this matter.

Newark Bay Study Area

The EPA has established the Newark Bay Study Area, which it defines as Newark Bay and portions of the Hackensack River, the Arthur Kill and the Kill Van Kull. In August 2006, the EPA sent PSEG and 11 other entities notices that it considered each of the entities to be a PRP with respect to contamination in the Study Area. The notice letter requested that the PRPs fund an EPA-approved study in the Newark Bay Study Area. The notice stated the EPA's belief that hazardous substances were released from sites owned by PSEG companies and located on the Hackensack River, including two electric generating stations (Hudson and Kearny sites) and one former MGP site. PSEG has participated in and partially funded the second phase of this study. Notices to fund the next phase of the study have been received but PSEG has not consented to fund the third phase. PSE&G and Power are unable to estimate their respective portions of the possible loss or range of loss related to this matter.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

MGP Remediation Program

PSE&G is working with the NJDEP to assess, investigate and remediate environmental conditions at its former MGP sites. To date, 38 sites requiring some level of remedial action have been identified. Based on its current studies, PSE&G has determined that the estimated cost to remediate all MGP sites to completion could range between \$345 million and \$391 million on an undiscounted basis through 2021, including its \$46 million share for the Passaic River as discussed above. Since no amount within the range is considered to be most likely, PSE&G has recorded a liability of \$345 million as of March 31, 2018. Of this amount, \$79 million was recorded in Other Current Liabilities and \$266 million was reflected as Environmental Costs in Noncurrent Liabilities. PSE&G has recorded a \$345 million Regulatory Asset with respect to these costs. PSE&G periodically updates its studies taking into account any new regulations or new information which could impact future remediation costs and adjusts its recorded liability accordingly. NJDEP, PSEG and EPA representatives have had discussions regarding to what extent sampling in the Passaic River is required to delineate coal tar from MGP sites that abut the Passaic River Superfund site. PSEG cannot determine at this time whether this will have an impact on the Passaic River Superfund remedy.

Clean Water Act (CWA) Permit Renewals

Pursuant to the Federal Water Pollution Control Act (FWPCA), National Pollutant Discharge Elimination System permits expire within five years of their effective date. In order to renew these permits, but allow a plant to continue to operate, an owner or operator must file a permit application no later than six months prior to expiration of the permit. States with delegated federal authority for this program manage these permits. The NJDEP manages the permits under the New Jersey Pollutant Discharge Elimination System (NJPDES) program. Connecticut and New York also have permits to manage their respective pollutant discharge elimination system programs.

In May 2014, the EPA issued a final cooling water intake rule that establishes requirements for the regulation of cooling water intakes at existing power plants and industrial facilities with a design flow of more than two million gallons of water per day.

The EPA has structured the rule so that each state Permitting Director will continue to consider renewal permits for existing

power facilities on a case by case basis, based on studies related to impingement mortality and entrainment and submit the results with their permit applications to be conducted by the facilities seeking renewal permits.

Several environmental organizations and certain energy industry groups have filed suit under the CWA and the Endangered Species Act. The cases have been consolidated at the Second Circuit and a decision remains pending.

In June 2016, the NJDEP issued a final NJPDES permit for Salem. The final permit does not mandate specific service water system modifications, but consistent with Section 316 (b) of the CWA, it requires additional studies and the selection of technology to address impingement for the service water system. In July 2016, the Delaware Riverkeeper Network (Riverkeeper) filed a request challenging the NJDEP's issuance of the final NJPDES renewal permit for Salem. NJDEP has granted the hearing request, but it has not yet been scheduled. The Riverkeeper's filing does not change the effective date of the permit. If the Riverkeeper's challenge were successful, Power may be required to incur additional costs to comply with the CWA. Potential cooling water system modification costs could be material and could adversely impact the economic competitiveness of this facility.

State permitting decisions at Bridgeport and possibly New Haven could also have a material impact on Power's ability to renew permits at its existing larger once-through cooled plants without making significant upgrades to existing intakes and cooling systems.

Power is unable to predict the outcome of these permitting decisions and the effect, if any, that they may have on Power's future capital requirements, financial condition or results of operations.

Power is actively engaged with the Connecticut Department of Energy and Environmental Protection (CTDEEP) regarding renewal of the current permit for the cooling water intake structure at BH3. To address compliance with the EPA's CWA Section 316(b) final rule, Power has proposed to continue to operate BH3 without making the capital

expenditures for modification to the existing intake structure and retire BH3 in 2021, which is four years earlier than the previously estimated useful life ending in 2025. Power is currently awaiting action by the CTDEEP to issue a draft and then a final permit.

Power has entered into a Community Environmental Benefit Agreement (CEBA) with the City of Bridgeport, Connecticut and local community organizations. That CEBA provides that Power would retire BH3 early if all of its conditions precedent occur, which include receipt of all final permits to build and operate a proposed new combined cycle generating facility on the same site that BH3 currently operates. Absent those conditions being met, and the permit for the cooling water intake structure referred to above not being issued, Power may seek to operate BH3 through the previously estimated useful life.

In February 2016, the proposed new generating facility at Bridgeport Harbor was awarded a capacity obligation. The Connecticut Siting Council issued an order to approve siting Bridgeport Harbor Station Unit 5 (BH5). All major environmental

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

permits have been received; however, secondary approvals are still being obtained to allow operations to begin in mid-2019. Power's obligations under the CEBA are being monitored regularly and carried out as needed.

Bridgeport Harbor National Pollutant Discharge Elimination System (NPDES) Permit Compliance

In April 2015, Power determined that monitoring and reporting practices related to certain permitted wastewater discharges at its Bridgeport Harbor station may have violated conditions of the station's NPDES permit and applicable regulations and could subject it to fines and penalties. Power has notified the CTDEEP of the issues and has taken actions to investigate and resolve the potential non-compliance. Power cannot predict the impact of this matter.

Jersey City, New Jersey Subsurface Feeder Cable Matter

In October 2016, a discharge of dielectric fluid from subsurface feeder cables located in the Hudson River near Jersey City, New Jersey, was identified and reported to the NJDEP. The feeder cables are located within a subsurface easement granted to PSE&G by the property owners, Newport Associates Development Company (NADC) and Newport Associates Phase I Developer Limited Partnership. The feeder cables are subject to agreements between PSE&G and Consolidated Edison Company of New York, Inc. (Con Edison) and are jointly owned by PSE&G and Con Edison, with PSE&G owning the portion of the cables located in New Jersey and Con Edison owning the portion of the cables located in New York. The NJDEP declared an emergency and an emergency response action was undertaken to investigate, contain, remediate and stop the fluid discharge; to assess, repair and restore the cables to good working order, if feasible; and to restore the property. The regulatory agencies overseeing the emergency response, including the U.S. Coast Guard, the NJDEP and the Army Corps of Engineers, have issued multiple notices, orders and directives to the various parties related to this matter and the parties may also be subject to the assessment of civil penalties related to the discharge and response. The impacted cable was repaired in late-September 2017; however, dielectric fluid continues to appear on the surface and so the investigation and response actions related to the fluid discharge are ongoing. PSE&G may determine that retirement of the affected facilities would be appropriate. Also ongoing is the process to determine ultimate responsibility for the costs to address the leak among PSE&G, Con Edison and NADC, including an action filed by PSE&G in federal court in New Jersey seeking damages from NADC. In that action, NADC has also pursued counterclaims against PSE&G and Con Edison seeking damages for its costs to address the leak. Based on the information currently available and depending on the outcome of the federal court action, PSE&G's portion of the costs to address the leak may be material; however, PSE&G anticipates that it will recover these costs through regulatory proceedings.

Steam Electric Effluent Guidelines

In September 2015, the EPA issued a new Effluent Limitation Guidelines Rule (ELG Rule) for steam electric generating units. The rule establishes new best available technology economically achievable (BAT) standards for fly ash transport water, bottom ash transport water, flue gas desulfurization and flue gas mercury control wastewater. Power's Bridgeport Harbor station and the jointly-owned Keystone and Conemaugh stations, have bottom ash transport water discharges that are regulated under the ELG Rule. Keystone and Conemaugh also have flue gas desulfurization wastewaters regulated by the ELG Rule.

Through various orders, the EPA has stayed the compliance dates in the ELG Rule and has announced plans to further revise the requirements and compliance dates of the ELG Rule. Power is unable to determine how this will ultimately impact its compliance requirements or its financial condition and results of operations.

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

PSE&G obtains its electric supply requirements through the annual New Jersey BGS auctions for two categories of customers who choose not to purchase electric supply from third party suppliers. The first category, which represents about 80% of PSE&G's load requirement, is residential and smaller commercial and industrial customers (BGS-Residential Small Commercial Pricing (RSCP)). The second category is larger customers that exceed a BPU-established load (kW) threshold (BGS-Commercial and Industrial Energy Pricing (CIEP)). Pursuant to applicable BPU rules, PSE&G enters into the Supplier Master Agreement with the winners of these BGS auctions



following the BPU's approval of the auction results. PSE&G has entered into contracts with winning BGS suppliers, including Power, to purchase BGS for PSE&G's load requirements. The winners of the auction (including Power) are responsible for fulfilling all the requirements of a PJM Load Serving Entity including the provision of capacity, energy, ancillary services, transmission and any other services required by PJM. BGS suppliers assume all volume risk and customer migration risk and must satisfy New Jersey's renewable portfolio standards.

The BGS-CIEP auction is for a one-year supply period from June 1 to May 31 with the BGS-CIEP auction price measured in dollars per MW-day for capacity. The final price for the BGS-CIEP auction year commencing June 1, 2018 is \$287.76 per MW-day, replacing the BGS-CIEP auction year price ending May 31, 2018 of \$276.83 per MW-day. Energy for BGS-CIEP is priced at hourly PJM locational marginal prices for the contract period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

PSE&G contracts for its anticipated BGS-RSCP load on a three-year rolling basis, whereby each year one-third of the load is procured for a three-year period. The contract prices in dollars per MWh for the BGS-RSCP supply, as well as the approximate load, are as follows:

	Auction Year			
	2015	2016	2017	2018
36-Month Terms Ending	May 2018	May 2019	May 2020	May 2021 (A)
Load (MW)	2,900	2,800	2,800	2,900
\$ per MWh	\$99.54	\$96.38	\$90.78	\$91.77

(A) Prices set in the 2018 BGS auction year will become effective on June 1, 2018 when the 2015 BGS auction agreements expire.

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

PSE&G has a full-requirements contract with Power to meet the gas supply requirements of PSE&G's gas customers. Power has entered into hedges for a portion of these anticipated BGSS obligations, as permitted by the BPU. The BPU permits PSE&G to recover the cost of gas hedging up to 115 billion cubic feet or 80% of its residential gas supply annual requirements through the BGSS tariff. Current plans call for Power to hedge on behalf of PSE&G approximately 70 billion cubic feet or 50% of its residential gas supply annual requirements. For additional information, see Note 19. Related-Party Transactions.

**Minimum Fuel Purchase Requirements**

Power's nuclear fuel strategy is to maintain certain levels of uranium and to make periodic purchases to support such levels. As such, the commitments referred to in the following table may include estimated quantities to be purchased that deviate from contractual nominal quantities. Power's nuclear fuel commitments cover approximately 100% of its estimated uranium, enrichment and fabrication requirements through 2020 and a significant portion through 2021 at Salem, Hope Creek and Peach Bottom.

Power has various multi-year contracts for natural gas and firm transportation and storage capacity for natural gas that are primarily used to meet its obligations to PSE&G. When there is excess delivery capacity available beyond the needs of PSE&G's customers, Power can use the gas to supply its fossil generating stations in New Jersey.

Power also has various long-term fuel purchase commitments for coal through 2021 to support its fossil generation stations.

As of March 31, 2018, the total minimum purchase requirements included in these commitments were as follows:

Fuel Type	Power's Share of Commitments through 2022 Millions
Nuclear Fuel	
Uranium	\$ 242
Enrichment	\$ 346
Fabrication	\$ 170
Natural Gas	\$ 1,024

Coal \$ 286

41

---

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

Regulatory Proceedings

FERC Compliance

In the first quarter of 2014, Power discovered that it incorrectly calculated certain components of its cost-based bids for its New Jersey fossil generating units in the PJM energy market. Upon discovery of the errors, PSEG retained outside counsel to assist in the conduct of an investigation into the matter and self-reported the errors. As the internal investigation proceeded, additional pricing errors in the bids were identified. It was further determined that the quantity of energy that Power offered into the energy market for its fossil peaking units differed from the amount for which Power was compensated in the capacity market for those units. PSEG informed FERC, PJM and the PJM Independent Market Monitor (IMM) of these additional issues, corrected the identified errors, and modified the bid quantities for Power's peaking units. Power has implemented procedures and continues to review its policies and practices to mitigate the risk of similar issues occurring in the future.

Since September 2014, FERC Staff has been conducting a preliminary, non-public staff investigation into these matters. In April 2018, a settlement agreement was entered into between PSEG and FERC Staff, approved by FERC on April 25, 2018, pursuant to which PSEG agreed to pay approximately \$40 million for the full resolution of this matter. Accordingly, Power recorded an additional pre-tax charge to income of \$5 million in the first quarter of 2018, resulting in a total liability of approximately \$40 million accrued for the resolution of this matter. The settlement agreement does not require PSEG to change its business practices in a manner that would have a material impact on its ongoing business operations.

Other Litigation and Legal Proceedings

PSEG and its subsidiaries are party to various lawsuits in the ordinary course of business. In view of the inherent difficulty in predicting the outcome of such matters, PSEG, PSE&G and Power generally cannot predict the eventual outcome of the pending matters, the timing of the ultimate resolution of these matters, or the eventual loss, fines or penalties related to each pending matter.

In accordance with applicable accounting guidance, a liability is accrued when those matters present loss contingencies that are both probable and reasonably estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. PSEG will continue to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established.

Based on current knowledge, management does not believe that loss contingencies arising from pending matters, other than the matters described herein, could have a material adverse effect on PSEG's, PSE&G's or Power's consolidated financial position or liquidity. However, in light of the inherent uncertainties involved in these matters, some of which are beyond PSEG's control, and the large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to PSEG's, PSE&G's or Power's results of operations or liquidity for any particular reporting period.

Note 11. Debt and Credit Facilities

Short-Term Liquidity

PSEG meets its short-term liquidity requirements, as well as those of Power, primarily with cash and through the issuance of commercial paper. PSE&G maintains its own separate commercial paper program to meet its short-term liquidity requirements. Each commercial paper program is fully back-stopped by its own separate credit facilities. The commitments under the \$4.2 billion credit facilities are provided by a diverse bank group. As of March 31, 2018, the total available credit capacity was \$3.4 billion.

As of March 31, 2018, no single institution represented more than 8% of the total commitments in the credit facilities. As of March 31, 2018, total credit capacity was in excess of the total anticipated maximum liquidity requirements over PSEG's 12-month planning horizon.

Each of the credit facilities is restricted as to availability and use to the specific companies as listed in the following table; however, if necessary, the PSEG facilities can also be used to support its subsidiaries' liquidity needs. The total credit facilities and available liquidity as of March 31, 2018 were as follows:

42

---

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

Company/Facility	As of March 31, 2018			Expiration Date	Primary Purpose
	Total Facility Millions	Usage	Available Liquidity		
PSEG					
5-year Credit Facilities (A)	\$ 1,500	\$ 609	\$ 891	Mar 2022	Commercial Paper Support/Funding/Letters of Credit
Total PSEG	\$ 1,500	\$ 609	\$ 891		
PSE&G					
5-year Credit Facility (A)	\$ 600	\$ 16	\$ 584	Mar 2022	Commercial Paper Support/Funding/Letters of Credit
Total PSE&G	\$ 600	\$ 16	\$ 584		
Power					
3-year Letter of Credit Facilities	\$ 200	\$ 112	\$ 88	Mar 2020	Letters of Credit
5-year Credit Facilities	1,900	46	1,854	Mar 2022	Funding/Letters of Credit
Total Power	\$ 2,100	\$ 158	\$ 1,942		
Total	\$ 4,200	\$ 783	\$ 3,417		

The primary use of PSEG's and PSE&G's credit facilities is to support their respective Commercial Paper (A) Programs, under which as of March 31, 2018, PSEG had \$594 million outstanding at a weighted average interest rate of 2.57%. PSE&G had no amounts outstanding under its Commercial Paper Program as of March 31, 2018.

## Note 12. Financial Risk Management Activities

Derivative accounting guidance requires that a derivative instrument be recognized as either an asset or a liability at fair value, with changes in fair value of the derivative recognized in earnings each period. Other accounting treatments are available through special election and designation provided that the derivative instrument meets specific, restrictive criteria, both at the time of designation and on an ongoing basis. These alternative permissible treatments include normal purchases and normal sales (NPNS), cash flow hedge and fair value hedge accounting. PSEG, Power and PSE&G have applied the NPNS scope exception to certain derivative contracts for the forward sale of generation, power procurement agreements and fuel agreements. PSEG uses interest rate swaps and other derivatives, which are designated and effective as cash flow or fair value hedges. Power and PSE&G enter into additional contracts that are derivatives, but are not designated as either cash flow hedges or fair value hedges. These transactions are economic hedges and are recorded at fair market value.

## Commodity Prices

Within PSEG and its affiliate companies, Power has the most exposure to commodity price risk. Power is exposed to commodity price risk primarily relating to changes in the market price of electricity, fossil fuels and other commodities. Fluctuations in market prices result from changes in supply and demand, fuel costs, market conditions, weather, state and federal regulatory policies, environmental policies, transmission availability and other factors. Power uses a variety of derivative and non-derivative instruments, such as financial options, futures, swaps, fuel purchases and forward purchases and sales of electricity, to manage the exposure to fluctuations in commodity prices and optimize the value of Power's expected generation. Power also uses derivatives to hedge a portion of its anticipated BGSS obligations with PSE&G. For additional information see Note 10. Commitments and Contingent Liabilities. Changes in the fair market value of these derivative contracts are recorded in earnings.

Interest Rates

PSEG, Power and PSE&G are subject to the risk of fluctuating interest rates in the normal course of business. Exposure to this risk is managed by targeting a balanced debt maturity profile which limits refinancing in any given period or interest rate environment. In addition, they have used a mix of fixed and floating rate debt and interest rate swaps.

Fair Value Hedges

PSEG enters into fair value hedges to convert fixed-rate debt into variable-rate debt. The changes in fair value of the interest rate swaps are fully offset by changes in the fair value of the underlying forecasted interest payments of the debt. There were no outstanding interest rate swaps as of March 31, 2018 or December 31, 2017.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

Cash Flow Hedges

PSEG uses interest rate swaps and other derivatives, which are designated and effective as cash flow hedges, to manage its exposure to the variability of cash flows, primarily related to variable-rate debt instruments. There were no outstanding interest rate hedges as of March 31, 2018 and December 31, 2017. The Accumulated Other Comprehensive Income (Loss) (after tax) related to existing and terminated interest rate derivatives designated as cash flow hedges was immaterial as of March 31, 2018 and December 31, 2017, respectively. The after-tax unrealized gains on these hedges expected to be reclassified to earnings during the next 12 months is immaterial.

Fair Values of Derivative Instruments

The following are the fair values of derivative instruments on the Condensed Consolidated Balance Sheets. The following tables also include disclosures for offsetting derivative assets and liabilities which are subject to a master netting or similar agreement. In general, the terms of the agreements provide that in the event of an early termination the counterparties have the right to offset amounts owed or owing under that and any other agreement with the same counterparty. Accordingly, and in accordance with PSEG's accounting policy, these positions are offset on the Condensed Consolidated Balance Sheets of Power and PSEG. For additional information see Note 13. Fair Value Measurements.

The following tabular disclosure does not include the offsetting of trade receivables and payables.

Balance Sheet Location	As of March 31, 2018			
	Power (A)	Consolidated		
	Not			
	Designated			
	Energy-	Netting	Total	Total
	Related	(B)	Power	Derivatives
	Contracts			
	Millions			
Derivative Contracts				
Current Assets	\$366	\$(323)	\$43	\$ 43
Noncurrent Assets	156	(108 )	48	48
Total Mark-to-Market Derivative Assets	\$522	\$(431)	\$91	\$ 91
Derivative Contracts				
Current Liabilities	\$(332)	\$322	\$(10)	\$ (10 )
Noncurrent Liabilities	(109 )	107	(2 )	(2 )
Total Mark-to-Market Derivative (Liabilities)	\$(441)	\$429	\$(12)	\$ (12 )
Total Net Mark-to-Market Derivative Assets (Liabilities)	\$81	\$(2 )	\$79	\$ 79



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

Balance Sheet Location	As of December 31, 2017			
	Power (A) Not Designated Energy- Related Contracts Millions	Netting (B)	Total Power	Total Derivatives
Derivative Contracts				
Current Assets	\$391	\$(362)	\$29	\$ 29
Noncurrent Assets	78	(71)	7	7
Total Mark-to-Market Derivative Assets	\$469	\$(433)	\$36	\$ 36
Derivative Contracts				
Current Liabilities	\$(403)	\$387	\$(16)	\$(16)
Noncurrent Liabilities	(95)	90	(5)	(5)
Total Mark-to-Market Derivative (Liabilities)	\$(498)	\$477	\$(21)	\$(21)
Total Net Mark-to-Market Derivative Assets (Liabilities)	\$(29)	\$44	\$15	\$ 15

Substantially all of Power's derivative instruments are contracts subject to master netting agreements. Contracts not (A) subject to master netting or similar agreements are immaterial and did not have any collateral posted or received as of March 31, 2018 and December 31, 2017.

Represents the netting of fair value balances with the same counterparty (where the right of offset exists) and the application of collateral. All cash collateral received or posted that has been allocated to derivative positions, where the right of offset exists, has been offset on the Condensed Consolidated Balance Sheets. As of March 31, 2018 and December 31, 2017, Power had net cash collateral/margin payments to counterparties of \$121 million (B) and \$146 million, respectively. Of these net cash/collateral margin payments \$(2) million as of March 31, 2018 and \$44 million as December 31, 2017 were netted against the corresponding net derivative contract positions. The \$(2) million as of March 31, 2018 was netted against current assets. Of the \$44 million as of December 31, 2017, \$(3) million was netted against current assets, \$28 million was netted against current liabilities, and \$19 million was netted against noncurrent liabilities.

Certain of Power's derivative instruments contain provisions that require Power to post collateral. This collateral may be posted in the form of cash or credit support with thresholds contingent upon Power's credit rating from each of the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. These credit risk-related contingent features stipulate that if Power were to be downgraded to a below investment grade rating by S&P or Moody's, it would be required to provide additional collateral. A below investment grade credit rating for Power would represent a three level downgrade from its current S&P or Moody's ratings. This incremental collateral requirement can offset collateral requirements related to other derivative instruments that are assets with the same counterparty, where the contractual right of offset exists under applicable master agreements. Power also enters into commodity transactions on the New York Mercantile Exchange (NYMEX) and Intercontinental Exchange (ICE). The NYMEX and ICE clearing houses act as counterparties to each trade. Transactions on the NYMEX and ICE must adhere to comprehensive collateral and margin requirements.

The aggregate fair value of all derivative instruments with credit risk-related contingent features in a liability position that are not fully collateralized (excluding transactions on the NYMEX and ICE that are fully collateralized) was \$20 million and \$30 million as of March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018 and

December 31, 2017, Power had the contractual right of offset of \$9 million and \$13 million, respectively, related to derivative instruments that are assets with the same counterparty under master agreements and net of margin posted. If Power had been downgraded to a below investment grade rating, it would have had additional collateral obligations of \$11 million and \$17 million as of March 31, 2018 and December 31, 2017, respectively, related to its derivatives, net of the contractual right of offset under master agreements and the application of collateral.

45

---

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

The following reconciles the Accumulated Other Comprehensive Income for derivative activity included in the Accumulated Other Comprehensive Loss of PSEG on a pre-tax and after-tax basis.

Accumulated Other Comprehensive Income	Pre-Tax	After-Tax
	Millions	
Balance as of December 31, 2016	\$3	\$ 2
Gain Recognized in AOCI	—	—
Less: Gain Reclassified into Income	(3 )	(2 )
Balance as of December 31, 2017	\$—	\$ —
Gain Recognized in AOCI	—	—
Less: Gain Reclassified into Income	—	—
Balance as of March 31, 2018	\$—	\$ —

The following shows the effect on the Condensed Consolidated Statements of Operations of derivative instruments not designated as hedging instruments or as NPNS for the three months ended March 31, 2018 and 2017. Power's derivative contracts reflected in this table include contracts to hedge the purchase and sale of electricity and natural gas, and the purchase of fuel. The table does not include contracts that Power has designated as NPNS, such as its BGS contracts and certain other energy supply contracts that it has with other utilities and companies with retail load.

Derivatives Not Designated as Hedges	Location of Pre-Tax Gain (Loss) Recognized in Income on Derivatives	Pre-Tax Gain (Loss) Recognized in Income on Derivatives Three Months Ended March 31, 2018 2017	
		Millions	
PSEG and Power			
Energy-Related Contracts	Operating Revenues	\$ 40	\$ 78
Energy-Related Contracts	Energy Costs	(8 )	—
Total PSEG and Power		\$ 32	\$ 78

The following table summarizes the net notional volume purchases/(sales) of open derivative transactions by commodity as of March 31, 2018 and December 31, 2017.

Type	Notional	Total PSEG Power PSE&G			
		Millions			
As of March 31, 2018					
Natural Gas	Dekatherm (Dth)	237	—	237	—
Electricity	MWh	(74 )	—	(74 )	—
Financial Transmission Rights (FTRs)	MWh	5	—	5	—

As of December 31, 2017

Natural Gas	Dth	154	—	154	—
Electricity	MWh	(63)	—	(63)	—
FTRs	MWh	6	—	6	—

#### Credit Risk

Credit risk relates to the risk of loss that Power would incur as a result of non-performance by counterparties pursuant to the terms of their contractual obligations. PSEG has established credit policies that it believes significantly minimize credit risk. These policies include an evaluation of potential counterparties' financial condition (including credit rating), collateral

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

requirements under certain circumstances and the use of standardized agreements, which allow for the netting of positive and negative exposures associated with a single counterparty. In the event of non-performance or non-payment by a major counterparty, there may be a material adverse impact on Power's and PSEG's financial condition, results of operations or net cash flows.

The following table provides information on Power's credit risk from ER&T wholesale counterparties, net of collateral, as of March 31, 2018. It further delineates that exposure by the credit rating of the counterparties, which is determined by the lowest rating from S&P, Moody's or an internal scoring model. In addition, it provides guidance on the concentration of credit risk to individual counterparties and an indication of the quality of Power's credit risk by credit rating of the counterparties.

As of March 31, 2018, 99% of the net credit exposure for Power's operations was with investment grade counterparties. Credit exposure is defined as any positive results of netting accounts receivable/accounts payable and the forward value of open positions (which includes all financial instruments including derivatives, NPNS and non-derivatives).

Rating	Current Exposure	Securities held as Collateral	Net Exposure	Number of Counterparties >10%	Net Exposure of Counterparties >10%	
	Millions				Millions	
Investment Grade	\$337	\$ 12	\$ 325	1	\$ 191	(A)
Non-Investment Grade	3	—	3	—	—	
Total	\$340	\$ 12	\$ 328	1	\$ 191	

(A) Represents net exposure with PSE&G.

As of March 31, 2018, collateral held from counterparties where Power had credit exposure was comprised of \$12 million in letters of credit.

As of March 31, 2018, Power had 142 active counterparties.

PSE&G's supplier master agreements are approved by the BPU and govern the terms of its electric supply procurement contracts. These agreements define a supplier's performance assurance requirements and allow a supplier to meet its credit requirements with a certain amount of unsecured credit. The amount of unsecured credit is determined based on the supplier's credit ratings from the major credit rating agencies and the supplier's tangible net worth. The credit position is based on the initial market price, which is the forward price of energy on the day the procurement transaction is executed, compared to the forward price curve for energy on the valuation day. To the extent that the forward price curve for energy exceeds the initial market price, the supplier is required to post a parental guaranty or other security instrument such as a letter of credit or cash, as collateral to the extent the credit exposure is greater than the supplier's unsecured credit limit. As of March 31, 2018, primarily all of the posted collateral was in the form of parental guarantees. The unsecured credit used by the suppliers represents PSE&G's net credit exposure. PSE&G's BGS suppliers' credit exposure is calculated each business day. As of March 31, 2018, PSE&G had no net credit exposure with suppliers, including Power.

PSE&G is permitted to recover its costs of procuring energy through the BPU-approved BGS tariffs. PSE&G's counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates.

Note 13. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting guidance for fair value measurement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and establishes a fair value

hierarchy that distinguishes between assumptions based on market data obtained from independent sources and those based on an entity's own assumptions. The hierarchy prioritizes the inputs to fair value measurement into three levels: Level 1—measurements utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that PSEG, PSE&G and Power have the ability to access. These consist primarily of listed equity securities and money market mutual funds, as well as natural gas futures contracts executed on NYMEX.

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

Level 3—measurements use unobservable inputs for assets or liabilities, based on the best information available and might include an entity's own data and assumptions. In some valuations, the inputs used may fall into different levels of the hierarchy. In these cases, the financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. As of March 31, 2018, these consisted primarily of certain electric load contracts and gas contracts.

Certain derivative transactions may transfer from Level 2 to Level 3 if inputs become unobservable and internal modeling techniques are employed to determine fair value. Conversely, measurements may transfer from Level 3 to Level 2 if the inputs become observable.

The following tables present information about PSEG's, PSE&G's and Power's respective assets and (liabilities) measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017, including the fair value measurements and the levels of inputs used in determining those fair values. Amounts shown for PSEG include the amounts shown for PSE&G and Power.

## Recurring Fair Value Measurements as of March 31, 2018

Description	Total	Netting (D)	Quoted Market Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Millions					
PSEG					
Assets:					
Energy-Related Contracts (B)	\$91	\$(431)	\$ 10	\$ 505	\$ 7
NDT Fund (C)					
Equity Securities	\$1,086	\$—	\$ 1,084	\$ 2	\$ —
Debt Securities—U.S. Treasury	\$223	\$—	\$ —	\$ 223	\$ —
Debt Securities—Govt Other	\$285	\$—	\$ —	\$ 285	\$ —
Debt Securities—Corporate	\$456	\$—	\$ —	\$ 456	\$ —
Rabbi Trust (C)					
Equity Securities	\$23	\$—	\$ 23	\$ —	\$ —
Debt Securities—U.S. Treasury	\$54	\$—	\$ —	\$ 54	\$ —
Debt Securities—Govt Other	\$35	\$—	\$ —	\$ 35	\$ —
Debt Securities—Corporate	\$113	\$—	\$ —	\$ 113	\$ —
Liabilities:					
Derivative Contracts:					
Energy-Related Contracts (B)	\$(12)	\$429	\$(6)	\$(435)	\$ —
PSE&G					
Assets:					
Rabbi Trust (C)					
Equity Securities	\$4	\$—	\$ 4	\$ —	\$ —
Debt Securities—U.S. Treasury	\$11	\$—	\$ —	\$ 11	\$ —
Debt Securities—Govt Other	\$7	\$—	\$ —	\$ 7	\$ —
Debt Securities—Corporate	\$23	\$—	\$ —	\$ 23	\$ —
Power					
Assets:					

Derivative Contracts:

Energy-Related Contracts (B) \$91      \$(431 ) \$ 10                      \$ 505      \$ 7

NDT Fund (C)

Equity Securities                      \$1,086    \$—      \$ 1,084                      \$ 2      \$ —

Debt Securities—U.S. Treasury\$223    \$—      \$ —                      \$ 223      \$ —

Debt Securities—Govt Other    \$285    \$—      \$ —                      \$ 285      \$ —

Debt Securities—Corporate    \$456    \$—      \$ —                      \$ 456      \$ —

Rabbi Trust (C)

Equity Securities                      \$6      \$—      \$ 6                      \$ —      \$ —

Debt Securities—U.S. Treasury\$13    \$—      \$ —                      \$ 13      \$ —

Debt Securities—Govt Other    \$9      \$—      \$ —                      \$ 9      \$ —

Debt Securities—Corporate    \$28      \$—      \$ —                      \$ 28      \$ —

Liabilities:

Derivative Contracts:

Energy-Related Contracts (B) \$(12 ) \$429      \$ (6                      ) \$ (435 ) \$ —



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

Description	Recurring Fair Value Measurements as of December 31, 2017				
	Total	Netting (D)	Quoted Market Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Millions				
<b>PSEG</b>					
Assets:					
Cash Equivalents (A)	\$223	\$—	\$ 223	\$ —	\$ —
Derivative Contracts:					
Energy-Related Contracts (B)	\$36	\$(433)	\$ 15	\$ 442	\$ 12
NDT Fund (C)					
Equity Securities	\$1,147	\$—	\$ 1,145	\$ 2	\$ —
Debt Securities—U.S. Treasury	\$314	\$—	\$ —	\$ 314	\$ —
Debt Securities—Govt Other	\$270	\$—	\$ —	\$ 270	\$ —
Debt Securities—Corporate	\$402	\$—	\$ —	\$ 402	\$ —
Rabbi Trust (C)					
Equity Securities	\$27	\$—	\$ 27	\$ —	\$ —
Debt Securities—U.S. Treasury	\$51	\$—	\$ —	\$ 51	\$ —
Debt Securities—Govt Other	\$34	\$—	\$ —	\$ 34	\$ —
Debt Securities—Corporate	\$119	\$—	\$ —	\$ 119	\$ —
Liabilities:					
Derivative Contracts:					
Energy-Related Contracts (B)	\$(21)	\$477	\$(8)	\$(485)	\$(5)
<b>PSE&amp;G</b>					
Assets:					
Cash Equivalents (A)	\$223	\$—	\$ 223	\$ —	\$ —
Derivative Contracts:					
Energy Related Contracts (B)	\$—	\$—	\$ —	\$ —	\$ —
Rabbi Trust (C)					
Equity Securities	\$5	\$—	\$ 5	\$ —	\$ —
Debt Securities—U.S. Treasury	\$10	\$—	\$ —	\$ 10	\$ —
Debt Securities—Govt Other	\$7	\$—	\$ —	\$ 7	\$ —
Debt Securities—Corporate	\$24	\$—	\$ —	\$ 24	\$ —
Liabilities:					
Derivative Contracts:					
Energy-Related Contracts (B)	\$—	\$—	\$ —	\$ —	\$ —
Power					
Assets:					
Derivative Contracts:					
Energy-Related Contracts (B)	\$36	\$(433)	\$ 15	\$ 442	\$ 12
NDT Fund (C)					
Equity Securities	\$1,147	\$—	\$ 1,145	\$ 2	\$ —

Edgar Filing: PUBLIC SERVICE ENTERPRISE GROUP INC - Form 10-Q

Debt Securities—U.S. Treasury	\$314	\$—	\$—	\$ 314	\$ —
Debt Securities—Govt Other	\$270	\$—	\$—	\$ 270	\$ —
Debt Securities—Corporate	\$402	\$—	\$—	\$ 402	\$ —
Rabbi Trust (C)					
Equity Securities	\$6	\$—	\$ 6	\$ —	\$ —
Debt Securities—U.S. Treasury	\$13	\$—	\$—	\$ 13	\$ —
Debt Securities—Govt Other	\$8	\$—	\$—	\$ 8	\$ —
Debt Securities—Corporate	\$30	\$—	\$—	\$ 30	\$ —
Liabilities:					
Derivative Contracts:					
Energy-Related Contracts (B)	\$(21 )	\$477	\$ (8 )	\$ (485 )	\$ (5 )

(A) Represents money market mutual funds.

(B) Level 1—These contracts represent natural gas futures contracts executed on NYMEX, and are being valued solely on settled pricing inputs which come directly from the exchange.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

Level 2—Fair values for energy-related contracts are obtained primarily using a market-based approach. Most derivative contracts (forward purchase or sale contracts and swaps) are valued using settled prices from similar assets and liabilities from an exchange, such as NYMEX, ICE and Nodal Exchange, or auction prices. Prices used in the valuation process are also corroborated independently by management to determine that values are based on actual transaction data or, in the absence of transactions, bid and offers for the day. Examples may include certain exchange and non-exchange traded capacity and electricity contracts and natural gas physical or swap contracts based on market prices, basis adjustments and other premiums where adjustments and premiums are not considered significant to the overall inputs.

Level 3—Unobservable inputs are used for the valuation of certain contracts. See “Additional Information Regarding Level 3 Measurements” below for more information on the utilization of unobservable inputs.

As of March 31, 2018, the fair value measurement table excludes foreign currency of \$1 million, which is part of the NDT Fund. The NDT Fund maintains investments in various equity and fixed income securities. The Rabbi (C) Trust maintains investments in various fixed income securities and a Russell 3000 index fund. These securities are generally valued with prices that are either exchange provided (equity securities) or market transactions for comparable securities and/or broker quotes (fixed income securities).

Level 1—Investments in marketable equity securities within the NDT Fund are primarily investments in common stocks across a broad range of industries and sectors. Most equity securities are priced utilizing the principal market close price or, in some cases, midpoint, bid or ask price. Certain other equity securities in the NDT and Rabbi Trust Funds consist primarily of investments in Dreyfus money market funds which seek a high level of current income as is consistent with the preservation of capital and the maintenance of liquidity. To pursue its goals, the funds normally invest in diversified portfolios of high quality, short-term, dollar-denominated debt securities and government securities. The funds’ Net Asset Value is priced and published daily. The Rabbi Trust also has an equity index fund which is valued based on quoted prices in an active market.

Level 2—NDT and Rabbi Trust fixed income securities include investment grade corporate bonds, collateralized mortgage obligations, asset-backed securities and certain government and U.S. Treasury obligations or Federal Agency asset-backed securities and municipal bonds with a wide range of maturities. Since many fixed income securities do not trade on a daily basis, they are priced using an evaluated pricing methodology that varies by asset class and reflects observable market information such as the most recent exchange price or quoted bid for similar securities. Market-based standard inputs typically include benchmark yields, reported trades, broker/dealer quotes and issuer spreads. The preferred stocks are not actively traded on a daily basis and therefore, are also priced using an evaluated pricing methodology. Certain short-term investments are valued using observable market prices or market parameters such as time-to-maturity, coupon rate, quality rating and current yield.

Represents the netting of fair value balances with the same counterparty (where the right of offset exists) and the application of collateral. All cash collateral received or posted that has been allocated to derivative positions, where the right of offset exists, has been offset in the Condensed Consolidated Balance Sheets. As of March 31, 2018 and December 31, 2017, Power had net cash collateral/margin payments to counterparties of \$121 million (D) and \$146 million, respectively. Of these net cash collateral/margin payments \$(2) million as of March 31, 2018 and \$44 million as of December 31, 2017 were netted against the corresponding net derivative contract positions. The \$(2) million of cash collateral as of March 31, 2018 was netted against assets. Of the \$44 million of cash collateral as of December 31, 2017, \$(3) million was netted against assets and \$47 million was netted against liabilities.

Additional Information Regarding Level 3 Measurements

For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivatives valued using indicative price quotations for contracts with tenors that extend into periods with no observable pricing. In instances

where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 because the model inputs generally are not observable. PSEG's Risk Management Committee (RMC) approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval and the monitoring and reporting of risk exposures. The RMC reports to the Corporate Governance and Audit Committees of the PSEG Board of Directors on the scope of the risk management activities and is responsible for approving all valuation procedures at PSEG. Forward price curves for the power market utilized by Power to manage the portfolio are maintained and reviewed by PSEG's Enterprise Risk Management market pricing group and used for financial reporting purposes. PSEG considers credit and

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

nonperformance risk in the valuation of derivative contracts categorized in Levels 2 and 3, including both historical and current market data, in its assessment of credit and nonperformance risk by counterparty. The impacts of credit and nonperformance risk were not material to the financial statements.

For PSE&G, the natural gas supply contract is measured at fair value using modeling techniques taking into account the current price of natural gas adjusted for appropriate risk factors, as applicable, and internal assumptions about transportation costs, and accordingly, the fair value measurements are classified in Level 3. The fair value of Power's electric load contracts in which load consumption may change hourly based on demand are measured using certain unobservable inputs, such as historic load variability and, accordingly, are categorized as Level 3. The fair value of Power's gas physical contracts at certain illiquid delivery locations are measured using average historical basis and, accordingly, are categorized as Level 3. While these gas physical contracts have an unobservable component in their respective forward price curves, the fluctuations in fair value have been driven primarily by changes in the observable inputs. The following tables provide details surrounding significant Level 3 valuations as of March 31, 2018 and December 31, 2017.

Quantitative Information About Level 3 Fair Value Measurements

Commodity	Level 3 Position	Fair Value as of March 31, 2018 Assets(Liabilities) Millions	Valuation Technique(s)	Significant Unobservable Input	Range
Power					
Electricity	Electric Load Contracts	\$ 6	Discounted Cash flow	Historic Load Variability	0% to 10%
Gas	Gas Physical Contracts	1	Discounted Cash flow	Average Historical Basis	-40% to 0%
Total Power		\$ 7	—		
Total PSEG		\$ 7	—		

Quantitative Information About Level 3 Fair Value Measurements

Commodity	Level 3 Position	Fair Value as of December 31, 2017 Assets (Liabilities) Millions	Valuation Technique(s)	Significant Unobservable Input	Range
Power					
Electricity	Electric Load Contracts	\$ 1	Discounted Cash flow	Historic Load Variability	0% to 10%
Gas	Gas Physical Contracts	11	Discounted Cash flow	Average Historical Basis	-40% to -10%
Total Power		\$ 12	—		
Total PSEG		\$ 12	—		

Significant unobservable inputs listed above would have a direct impact on the fair values of the above Level 3 instruments if they were adjusted. For energy-related contracts in cases where Power is a seller, an increase in the load variability would decrease the fair value. For gas-related contracts in cases where Power is a buyer, an increase in the average historical basis would increase the fair value.

51

---

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

A reconciliation of the beginning and ending balances of Level 3 derivative contracts and securities for the three months ended March 31, 2018 and March 31, 2017, respectively, follows:

Changes in Level 3 Assets and (Liabilities) Measured at Fair Value on a Recurring Basis  
for the Three Months Ended March 31, 2018

Description	Three Months Ended March 31, 2018						Balance as of March 31, 2018
	Total Gains or (Losses) Realized/Unrealized						
	Balance as of January 1, 2018	Included in Income (A)	Included in Regulatory Assets/ Liabilities (B)	Purchases (Sales)	Issuances/ Settlements (C)	Transfers In/Out (D)	Balance as of March 31, 2018
PSEG							
Net Derivative Assets (Liabilities)	\$7	\$ (1 )	\$	— \$	—\$ 1	\$	—\$ 7
Power							
Net Derivative Assets (Liabilities)	\$7	\$ (1 )	\$	— \$	—\$ 1	\$	—\$ 7

Changes in Level 3 Assets and (Liabilities) Measured at Fair Value on a Recurring Basis  
for the Three Months Ended March 31, 2017

Description	Three Months Ended March 31, 2017						Balance as of March 31, 2017
	Total Gains or (Losses) Realized/Unrealized						
	Balance as of January 1, 2017	Included in Income (A)	Included in Regulatory Assets/ Liabilities (B)	Purchases (Sales)	Issuances/ Settlements (C)	Transfers In/Out (D)	Balance as of March 31, 2017
PSEG							
Net Derivative Assets (Liabilities)	\$1	\$ 19	\$ 6	\$	—\$ (22 )	\$ (1 )	\$ 3
PSE&G							
Net Derivative Assets (Liabilities)	\$(5)	\$ —	\$ 6	\$	—\$ —	\$ —	\$ 1
Power							
Net Derivative Assets (Liabilities)	\$6	\$ 19	\$ —	\$	—\$ (22 )	\$ (1 )	\$ 2

(A) PSEG's and Power's gains(losses) attributable to changes in net derivative assets and liabilities for the three months ended March 31, 2018 include \$8 million in Operating Revenues, all of which is unrealized and \$(9) million in Energy Costs, all of which is unrealized. For the three months ended March 31, 2017, \$14 million is included in Operating Revenues, of which \$(4) million is unrealized, and \$5 million is in Energy Costs, of which \$1 million is unrealized. Unrealized gains (losses) represent the change in derivative assets and liabilities still held at the end of

the reporting period.



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

Mainly includes gains/losses on PSE&G's derivative contracts that are not included in either earnings or (B) Accumulated Other Comprehensive Income, as they are deferred as a Regulatory Asset/Liability and are expected to be recovered from/returned to PSE&G's customers.

(C) Represents \$1 million and \$(22) million in settlements for the three months ended March 31, 2018 and 2017, respectively.

(D) During the three months ended March 31, 2017, \$(1) million of net derivatives were transferred from Level 2 to Level 3.

As of March 31, 2018, PSEG carried \$2.4 billion of net assets that are measured at fair value on a recurring basis, of which \$7 million of net assets were measured using unobservable inputs and classified as Level 3 within the fair value hierarchy.

As of March 31, 2017, PSEG carried \$2.5 billion of net assets that are measured at fair value on a recurring basis, of which \$3 million of net assets were measured using unobservable inputs and classified as Level 3 within the fair value hierarchy.

## Fair Value of Debt

The estimated fair values were determined using the market quotations or values of instruments with similar terms, credit ratings, remaining maturities and redemptions as of March 31, 2018 and December 31, 2017.

	As of March 31, 2018		As of December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Millions			
Long-Term Debt:				
PSEG (A) (B)	\$2,092	\$2,048	\$2,091	\$2,081
PSE&G (B)	8,593	8,908	8,591	9,322
Power (B)	2,387	2,566	2,386	2,659
Total Long-Term Debt	\$13,072	\$13,522	\$13,068	\$14,062

Includes floating rate term loans of \$700 million. The fair values of the term loan debt (Level 2 measurement) (A) approximate the carrying values because the interest payments are based on LIBOR rates that are reset monthly and the debt is redeemable at face value by PSEG at any time.

Given that these bonds do not trade actively, the fair value amounts of taxable debt securities (primarily Level 2 measurements) are generally determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market pricing curves. In order to incorporate the credit risk into the discount rates, pricing is obtained (i.e. U.S. Treasury rate plus credit spread) based on expected new issue (B) pricing across each of the companies' respective debt maturity spectrum. The credit spreads of various tenors obtained from this information are added to the appropriate benchmark U.S. Treasury rates in order to determine the current market yields for the various tenors. The yields are then converted into discount rates of various tenors that are used for discounting the respective cash flows of the same tenor for each bond or note.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

Note 14. Other Income (Deductions)

	PSEG	Power	Other (A)	Consolidated
	Millions			
Three Months Ended March 31, 2018				
NDT Fund Interest and Dividends	\$—	\$ 12	\$ —	\$ 12
Allowance for Funds Used During Construction	14	—	—	14
Solar Loan Interest	4	—	—	4
Other	2	(1 )	1	2
Total Other Income (Deductions)	\$20	\$ 11	\$ 1	\$ 32
Three Months Ended March 31, 2017				
NDT Fund Interest and Dividends	\$—	\$ 10	\$ —	\$ 10
Allowance for Funds Used During Construction	14	—	—	14
Solar Loan Interest	5	—	—	5
Other	3	1	(1 )	3
Total Other Income (Deductions)	\$22	\$ 11	\$ (1 )	\$ 32

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

Note 15. Income Taxes

PSEG's, PSE&G's and Power's effective tax rates for the three months ended March 31, 2018 and 2017 were as follows:

	Three Months Ended March 31, 2018 2017	
PSEG	26.6%	20.3%
PSE&G	26.8%	36.4%
Power	26.2%	40.6%

For the three months ended March 31, 2018, the difference in PSEG's effective tax rate as compared to the same period in the prior year was due primarily to the absence of benefits associated with uncertain tax positions and interest received in 2017 from a New Jersey state income tax refund, offset by the change in the statutory federal tax rate from 35% to 21% as a result of the Tax Act. For the three months ended March 31, 2018, the difference in PSEG's effective tax rate as compared to the statutory tax rate of 28.11% was due primarily to changes in uncertain tax positions, tax credits and plant-related items.

For the three months ended March 31, 2018, the difference in PSE&G's effective tax rate as compared to the same period in the prior year was due primarily to the change in the statutory federal tax rate from 35% to 21% as a result of the Tax Act, as well as changes in uncertain tax positions in 2017. For the three months ended March 31, 2018, the difference in PSE&G's effective tax rate as compared to the statutory tax rate of 28.11% was due primarily to plant-related items and tax credits.

For the three months ended March 31, 2018, the difference in Power's effective tax rate as compared to the same period in the prior year was due primarily to the change in the statutory federal tax rate from 35% to 21% as a result of the Tax Act, as well as changes in uncertain tax positions. For the three months ended March 31, 2018, the difference

in Power's effective tax rate as compared to the statutory tax rate of 28.11% was due primarily to changes in uncertain tax positions and the additional tax benefit on a pre-tax loss on the NDT qualified fund being taxed at a higher rate than the statutory rate.

PSEG's federal tax returns for the years 2011 and 2012 are currently being audited by the IRS. The audit and other related claims are reasonably expected to be completed within the next 12 months. As a result, it is reasonably possible that a decrease in PSEG's total unrecognized tax benefits may be necessary in the range of \$80 million to \$180 million based on current estimates.

In December 2017, the U.S. government enacted comprehensive tax legislation. The Tax Act establishes new tax laws that took effect in 2018, including, but not limited to (1) reduction of the U.S. federal corporate tax rate from a maximum of 35% to 21%; (2) elimination of the corporate alternative minimum tax; (3) a new limitation on deductible interest expense; (4) the repeal of

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

the domestic production activity deduction; (5) limitations on the deductibility of certain executive compensation; and (6) limitations on net operating losses generated after December 31, 2017, to 80% of taxable income. In addition, certain changes were made to the bonus depreciation rules that will impact 2018.

The SEC staff issued Staff Accounting Bulletin 118 (SAB 118), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. PSEG, PSE&G and Power are subject to ASC 740. In accordance with SAB 118, PSEG, PSE&G and Power made reasonable, good faith estimates for which provisional amounts were recorded.

PSEG's accounting for certain elements of the Tax Act is incomplete. However, PSEG recorded provisional adjustments for the following: the tax rules regarding the appropriate bonus depreciation rate that should be applied to assets placed in service after September 27, 2017 for Power and PSE&G, including the information required to compute the applicable depreciable tax basis, and the impact on PSEG's, PSE&G's and Power's deferred taxes associated with FIN 48 reserves.

Further, the Tax Act is unclear in certain respects and will require interpretations and implementing regulations by the IRS, as well as state tax authorities. The Tax Act could also be subject to potential amendments and technical corrections which could impact PSEG, PSE&G and Power's financial statements.

The Protecting Americans from Tax Hikes Act of 2015 (2015 Tax Act), among other provisions, included an extension of the bonus depreciation rules and the 30% investment tax credit for qualified property placed into service after 2016. Qualified property that is placed into service from January 1, 2015 through December 31, 2017 is eligible for the 50% bonus depreciation. The provisions of the 2015 Tax Act have generated significant cash tax benefits for PSEG, PSE&G and Power through tax benefits related to the accelerated depreciation.

For the period beginning September 28, 2017, subject to the transition rules, the Tax Act modified the bonus depreciation rules of the 2015 Tax Act. Subject to further guidance, it is expected that Power is entitled to 100% expensing and bonus depreciation will no longer apply to PSE&G.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

## Note 16. Accumulated Other Comprehensive Income (Loss), Net of Tax

PSEG	Other Comprehensive Income (Loss) Three Months Ended March 31, 2018			
Accumulated Other Comprehensive Income (Loss)	Cash Flow Hedges	Pension and OPEB Plans	Available-for-Sale Securities	Total
	Millions			
Balance as of December 31, 2017	\$ —	\$ (406 )	\$ 177	\$ (229 )
Cumulative Effect Adjustment to Reclassify Unrealized Net Gains on Equity Investments to Retained Earnings	—	—	(176 )	(176 )
Current Period Other Comprehensive Income (Loss)	—	—	(16 )	(16 )
Other Comprehensive Income before Reclassifications	—	8	2	10
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	8	(14 )	(6 )
Net Current Period Other Comprehensive Income (Loss)	—	8	(190 )	(182 )
Net Change in Accumulative Other Comprehensive Income (Loss)	—	8	(13 )	(1 )
Balance as of March 31, 2018	\$ —	\$ (398 )	\$ (13 )	\$ (411 )
PSEG	Other Comprehensive Income (Loss) Three Months Ended March 31, 2017			
Accumulated Other Comprehensive Income (Loss)	Cash Flow Hedges	Pension and OPEB Plans	Available-for-Sale Securities	Total
	Millions			
Balance as of December 31, 2016	\$ 2	\$ (398 )	\$ 133	\$ (263 )
Other Comprehensive Income before Reclassifications	—	—	30	30
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	6	(15 )	(9 )
Net Current Period Other Comprehensive Income (Loss)	—	6	15	21
Balance as of March 31, 2017	\$ 2	\$ (392 )	\$ 148	\$ (242 )

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

Power	Other Comprehensive Income (Loss) Three Months Ended March 31, 2018		
Accumulated Other Comprehensive Income (Loss)	Pension Cash and Flow Hedges Plans	Available-for-Sale Securities	Total
	Millions		
Balance as of December 31, 2017	\$ — (347 )	\$ 175	\$ (172 )
Cumulative Effect Adjustment to Reclassify Unrealized Net Gains on Equity Investments to Retained Earnings	— —	(175 )	(175 )
Current Period Other Comprehensive Income (Loss)			
Other Comprehensive Income before Reclassifications	— —	(13 )	(13 )
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	— 6	2	8
Net Current Period Other Comprehensive Income (Loss)	— 6	(11 )	(5 )
Net Change in Accumulative Other Comprehensive Income (Loss)	— 6	(186 )	(180 )
Balance as of March 31, 2018	\$ — (341 )	\$ (11 )	\$ (352 )

Power	Other Comprehensive Income (Loss) Three Months Ended March 31, 2017		
Accumulated Other Comprehensive Income (Loss)	Pension Cash and Flow Hedges Plans	Available-for-Sale Securities	Total
	Millions		
Balance as of December 31, 2016	\$ — (340 )	\$ 129	\$ (211 )
Other Comprehensive Income before Reclassifications	— —	28	28
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	— 5	(9 )	(4 )
Net Current Period Other Comprehensive Income (Loss)	— 5	19	24
Balance as of March 31, 2017	\$ — (335 )	\$ 148	\$ (187 )

PSEG	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) to Income Statement Three Months Ended March 31, 2018			
Description of Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Pre-Tax Amount In Statement of Operations	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
				Millions
Pension and OPEB Plans				

Edgar Filing: PUBLIC SERVICE ENTERPRISE GROUP INC - Form 10-Q

Amortization of Prior Service (Cost) Credit	Non-Operating Pension and OPEB Credits (Costs)	\$1	\$	—	\$ 1
Amortization of Actuarial Loss	Non-Operating Pension and OPEB Credits (Costs)	(12 )	3	(9 )	)
Total Pension and OPEB Plans Available-for-Sale Debt Securities		(11 )	3	(8 )	)
Realized Gains (Losses)	Net Gains (Losses) on Trust Investments	(4 )	2	(2 )	)
Total Available-for-Sale Debt Securities Total		(4 )	2	(2 )	)
		\$(15)	\$ 5	\$ (10 )	)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

		Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) to Income Statement Three Months Ended March 31, 2017		
Description of Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Pre-Tax Amount In Statement of Operations	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
		Millions		
<b>PSEG</b>				
Pension and OPEB Plans				
Amortization of Prior Service (Cost) Credit	Non-Operating Pension and OPEB Credits (Costs)	\$2	\$ (1 )	\$ 1
Amortization of Actuarial Loss	Non-Operating Pension and OPEB Credits (Costs)	(12 )	5	(7 )
Total Pension and OPEB Plans Available-for-Sale Securities		(10 )	4	(6 )
Realized Gains (Losses) and OTTI	Net Gains (Losses) on Trust Investments	28	(13 )	15
Total Available-for-Sale Securities Total		28	(13 )	15
		\$18	\$ (9 )	\$ 9
<b>Power</b>				
		Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) to Income Statement Three Months Ended March 31, 2018		
Description of Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Pre-Tax Amount In Statement of Operations	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
		Millions		
Pension and OPEB Plans				
Amortization of Prior Service (Cost) Credit	Non-Operating Pension and OPEB Credits (Costs)	\$1	\$ —	\$ 1
Amortization of Actuarial Loss	Non-Operating Pension and OPEB Credits (Costs)	(10 )	3	(7 )



Edgar Filing: PUBLIC SERVICE ENTERPRISE GROUP INC - Form 10-Q

Total Pension and OPEB Plans Available-for-Sale Debt Securities		(9 ) 3	(6 )
Realized Gains (Losses)	Net Gains (Losses) on Trust Investments	(4 ) 2	(2 )
Total Available-for-Sale Debt Securities		(4 ) 2	(2 )
Total		\$(13) \$ 5	\$ (8 )

58

---

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

		Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) to Income Statement Three Months Ended March 31, 2017			
Power	Description of Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Pre-Tax Amount In Statement of Operations	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
		Millions			
<b>Pension and OPEB Plans</b>					
	Amortization of Prior Service (Cost) Credit	Non-Operating Pension and OPEB Credits (Costs)	\$ 2	\$ ( 1 )	\$ 1
	Amortization of Actuarial Loss	Non-Operating Pension and OPEB Credits (Costs)	( 11 )	5	( 6 )
	Total Pension and OPEB Plans Available-for-Sale Securities		( 9 )	4	( 5 )
	Realized Gains (Losses) and OTTI	Net Gains (Losses) on Trust Investments	19	( 10 )	9
	Total Available-for-Sale Securities Total		19	( 10 )	9
			\$ 10	\$ ( 6 )	\$ 4

Note 17. Earnings Per Share (EPS) and Dividends  
EPS

Diluted EPS is calculated by dividing Net Income by the weighted average number of shares of common stock outstanding, including shares issuable upon exercise of stock options outstanding or vesting of restricted stock awards granted under PSEG's stock compensation plans and upon payment of performance units or restricted stock units. The following table shows the effect of these stock options, performance units and restricted stock units on the weighted average number of shares outstanding used in calculating diluted EPS:

	Three Months Ended March 31,			
	2018		2017	
	Basic	Diluted	Basic	Diluted
EPS Numerator (Millions):				
Net Income	\$ 558	\$ 558	\$ 114	\$ 114
EPS Denominator (Millions):				
Weighted Average Common Shares Outstanding	504	504	505	505
Effect of Stock Based Compensation Awards	—	3	—	3
Total Shares	504	507	505	508

EPS				
Net Income	\$1.11	\$ 1.10	\$0.23	\$ 0.22

For the three months ended March 31, 2017, there were approximately 0.3 million stock options excluded from the weighted average common shares used for diluted EPS due to their antidilutive effect.

59

---

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

Dividends

	Three Months Ended March 31,	
Dividend Payments on Common Stock	2018	2017
Per Share	\$0.45	\$0.43
In Millions	\$227	\$218

On April 17, 2018, PSEG's Board of Directors approved a \$0.45 per share common stock dividend for the second quarter of 2018.

Note 18. Financial Information by Business Segment

	PSE&G	Power	Other (A)	Eliminations (B)	Consolidated Total
	Millions				
Three Months Ended March 31, 2018					
Operating Revenues	\$1,845	\$1,403	\$147	\$ (577 )	\$ 2,818
Net Income (Loss)	319	234	5	—	558
Gross Additions to Long-Lived Assets	750	299	4	—	1,053
Three Months Ended March 31, 2017					
Operating Revenues	\$1,826	\$1,269	\$83	\$ (587 )	\$ 2,591
Net Income (Loss)	299	(170 )	(15 )	—	114
Gross Additions to Long-Lived Assets	748	307	7	—	1,062
As of March 31, 2018					
Total Assets	\$28,774	\$12,263	\$2,481	\$ (728 )	\$ 42,790
Investments in Equity Method Subsidiaries	\$—	\$86	\$—	\$ —	\$ 86
As of December 31, 2017					
Total Assets	\$28,554	\$12,418	\$2,666	\$ (922 )	\$ 42,716
Investments in Equity Method Subsidiaries	\$—	\$87	\$—	\$ —	\$ 87

Includes amounts applicable to Energy Holdings and PSEG LI, which are below the quantitative threshold for (A) separate disclosure as reportable segments. Other also includes amounts applicable to PSEG (parent corporation) and Services.

(B) Intercompany eliminations primarily relate to intercompany transactions between PSE&G and Power. For a further discussion of the intercompany transactions between PSE&G and Power, see Note 19. Related-Party Transactions.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Table of Contents

Note 19. Related-Party Transactions

The following discussion relates to intercompany transactions, which are eliminated during the PSEG consolidation process in accordance with GAAP.

PSE&G

The financial statements for PSE&G include transactions with related parties presented as follows:

	Three Months Ended March 31, 2018 2017 Millions	
Related-Party Transactions		
Billings from Affiliates:		
Net Billings from Power primarily through BGS and BGSS (A)	\$ 578	\$ 599
Administrative Billings from Services (B)	83	65
Total Billings from Affiliates	\$ 661	\$ 664

	As of March 31, 2018 Millions	As of December 31, 2017 Millions
Related-Party Transactions		
Payable to Power (A)	\$ 215	\$ 221
Payable to Services (B)	65	78
Payable to PSEG (C)	105	41
Accounts Payable—Affiliated Companies	\$ 385	\$ 340
Working Capital Advances to Services (D)	\$ 33	\$ 33
Long-Term Accrued Taxes Payable	\$ 93	\$ 91

Power

The financial statements for Power include transactions with related parties presented as follows:

	Three Months Ended March 31, 2018 2017 Millions	
Related-Party Transactions		
Billings to Affiliates:		
Net Billings to PSE&G primarily through BGS and BGSS (A)	\$ 578	\$ 599
Billings from Affiliates:		
Administrative Billings from Services (B)	\$ 43	\$ 36

Related-Party Transactions	As of March 31, 2018	As of December 31, 2017
	Millions	
Receivables from PSE&G (A)	\$215	\$ 221
Accounts Receivable—Affiliated Companies	\$215	\$ 221
Payable to Services (B)	\$23	\$ 28
Payable to PSEG (C)	46	29
Accounts Payable—Affiliated Companies	\$69	\$ 57
Short-Term Loan from Affiliate (E)	\$35	\$ 281
Working Capital Advances to Services (D)	\$17	\$ 17
Long-Term Accrued Taxes Payable	\$46	\$ 52

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

PSE&G has entered into a requirements contract with Power under which Power provides the gas supply services needed to meet PSE&G's BGSS and other contractual requirements. Power has also entered into contracts to (A) supply energy, capacity and ancillary services to PSE&G through the BGS auction process. The rates in the BGS and BGSS contracts are prescribed by the BPU. In addition, Power and PSE&G provide certain technical services for each other generally at cost in compliance with FERC and BPU affiliate rules.

Services provides and bills administrative services to PSE&G and Power at cost. In addition, PSE&G and Power (B) have other payables to Services, including amounts related to certain common costs, such as pension and OPEB costs, which Services pays on behalf of each of the operating companies.

PSEG files a consolidated federal income tax return with its affiliated companies. A tax allocation agreement exists between PSEG and each of its affiliated companies. The general operation of these agreements is that the (C) subsidiary company will compute its taxable income on a stand-alone basis. If the result is a net tax liability, such amount shall be paid to PSEG. If there are net operating losses and/or tax credits, the subsidiary shall receive payment for the tax savings from PSEG to the extent that PSEG is able to utilize those benefits.

PSE&G and Power have advanced working capital to Services. The amounts are included in Other Noncurrent (D) Assets on PSE&G's and Power's Condensed Consolidated Balance Sheets.

Power's short-term loans with PSEG are for working capital and other short-term needs. Interest Income and (E) Interest Expense relating to these short-term funding activities were immaterial.

## Note 20. Guarantees of Debt

Power's Senior Notes are fully and unconditionally and jointly and severally guaranteed by its subsidiaries, PSEG Fossil LLC, PSEG Nuclear LLC and PSEG Energy Resources & Trade LLC. The following tables present condensed financial information for the guarantor subsidiaries, as well as Power's non-guarantor subsidiaries, as of March 31, 2018 and December 31, 2017 and for the three months ended March 31, 2018 and 2017.

	Power	Guarantor Subsidiaries	Other Subsidiaries	Consolidating Adjustments	Total
	Millions				
Three Months Ended March 31, 2018					
Operating Revenues	\$—	\$ 1,386	\$ 51	\$ (34 )	\$ 1,403
Operating Expenses	—	1,056	52	(34 )	1,074
Operating Income (Loss)	—	330	(1 )	—	329
Equity Earnings (Losses) of Subsidiaries	234	(3 )	2	(231 )	2
Net Gains (Losses) on Trust Investments	—	(22 )	—	—	(22 )
Other Income (Deductions)	35	33	—	(57 )	11
Non-Operating Pension and OPEB Credits (Costs)	—	4	—	—	4
Interest Expense	(42 )	(17 )	(5 )	57	(7 )
Income Tax Benefit (Expense)	7	(92 )	2	—	(83 )
Net Income (Loss)	\$234	\$ 233	\$ (2 )	\$ (231 )	\$ 234
Comprehensive Income (Loss)	\$229	\$ 223	\$ (2 )	\$ (221 )	\$ 229
Three Months Ended March 31, 2018					
Net Cash Provided By (Used In)					
Operating Activities	\$(5 )	\$ 525	\$ (49 )	\$ 71	\$ 542
Net Cash Provided By (Used In)					
Investing Activities	\$(215 )	\$(625 )	\$(82 )	\$ 605	\$(317 )
Net Cash Provided By (Used In)	\$220	\$ 100	\$ 111	\$ (677 )	\$(246 )

Financing Activities

62

---



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Table of Contents

	Power	Guarantor	Other	Consolidating	Total
	Subsidiaries	Subsidiaries	Subsidiaries	Adjustments	
	Millions				
Three Months Ended March 31, 2017					
Operating Revenues	\$—	\$ 1,255	\$ 52	\$ (38 )	\$ 1,269
Operating Expenses	4	1,556	52	(38 )	1,574
Operating Income (Loss)	(4 )	(301 )	—	—	(305 )
Equity Earnings (Losses) of Subsidiaries	(161 )	(1 )	3	162	3
Net Gains (Losses) on Trust Investments	4	15	—	—	19
Other Income (Deductions)	20	19	—	(28 )	11
Non-Operating Pension and OPEB Credits (Costs)	—	2	—	—	2
Interest Expense	(30 )	(9 )	(5 )	28	(16 )
Income Tax Benefit (Expense)	1	111	4	—	116
Net Income (Loss)	\$(170)	\$(164 )	\$ 2	\$ 162	\$(170 )
Comprehensive Income (Loss)	\$(146)	\$(143 )	\$ 2	\$ 141	\$(146 )
Three Months Ended March 31, 2017					
Net Cash Provided By (Used In)					
Operating Activities	\$77	\$ 377	\$ 91	\$ 35	\$580
Net Cash Provided By (Used In)					
Investing Activities	\$251	\$ 20	\$ (154 )	\$ (511 )	\$(394 )
Net Cash Provided By (Used In)					
Financing Activities	\$(328)	\$(395 )	\$ 68	\$ 476	\$(179 )

	Power	Guarantor	Other	Consolidating	Total
	Subsidiaries	Subsidiaries	Subsidiaries	Adjustments	
	Millions				
As of March 31, 2018					
Current Assets	\$4,168	\$ 1,392	\$ 189	\$ (4,631 )	\$ 1,118
Property, Plant and Equipment, net	55	5,094	3,540	—	8,689
Investment in Subsidiaries	5,089	1,115	—	(6,204 )	—
Noncurrent Assets	90	2,295	109	(38 )	2,456
Total Assets	\$9,402	\$ 9,896	\$ 3,838	\$ (10,873 )	\$ 12,263
Current Liabilities	\$548	\$ 3,234	\$ 1,874	\$ (4,631 )	\$ 1,025
Noncurrent Liabilities	521	1,961	461	(38 )	2,905
Long-Term Debt	2,137	—	—	—	2,137
Member's Equity	6,196	4,701	1,503	(6,204 )	6,196
Total Liabilities and Member's Equity	\$9,402	\$ 9,896	\$ 3,838	\$ (10,873 )	\$ 12,263
As of December 31, 2017					
Current Assets	\$4,327	\$ 1,500	\$ 200	\$ (4,686 )	\$ 1,341
Property, Plant and Equipment, net	54	5,778	2,764	—	8,596
Investment in Subsidiaries	4,844	404	—	(5,248 )	—
Noncurrent Assets	100	2,349	110	(78 )	2,481

Edgar Filing: PUBLIC SERVICE ENTERPRISE GROUP INC - Form 10-Q

Total Assets	\$9,325	\$ 10,031	\$ 3,074	\$ (10,012 )	\$12,418
Current Liabilities	\$689	\$ 3,586	\$ 1,846	\$ (4,686 )	\$1,435
Noncurrent Liabilities	533	1,966	459	(78 )	2,880
Long-Term Debt	2,136	—	—	—	2,136
Member's Equity	5,967	4,479	769	(5,248 )	5,967
Total Liabilities and Member's Equity	\$9,325	\$ 10,031	\$ 3,074	\$ (10,012 )	\$12,418

Table of Contents

ITEM MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS (MD&A)

This combined MD&A is separately filed by Public Service Enterprise Group Incorporated (PSEG), Public Service Electric and Gas Company (PSE&G) and PSEG Power LLC (Power). Information contained herein relating to any individual company is filed by such company on its own behalf. PSE&G and Power each make representations only as to itself and make no representations whatsoever as to any other company.

PSEG’s business consists of two reportable segments, our principal direct wholly owned subsidiaries, which are: PSE&G—which is a public utility engaged principally in the transmission of electricity and distribution of electricity and natural gas in certain areas of New Jersey. PSE&G is subject to regulation by the New Jersey Board of Public Utilities (BPU) and the Federal Energy Regulatory Commission (FERC). PSE&G also invests in solar generation projects and energy efficiency and related programs in New Jersey, which are regulated by the BPU, and Power—which is a multi-regional energy supply company that integrates the operations of its merchant nuclear and fossil generating assets with its power marketing businesses and fuel supply functions through competitive energy sales in well-developed energy markets primarily in the Northeast and Mid-Atlantic United States through its principal direct wholly owned subsidiaries. In addition, Power owns and operates solar generation in various states. Power’s subsidiaries are subject to regulation by FERC, the Nuclear Regulatory Commission (NRC), the Environmental Protection Agency (EPA) and the states in which they operate.

PSEG’s other direct wholly owned subsidiaries are: PSEG Long Island LLC (PSEG LI), which operates the Long Island Power Authority’s (LIPA) transmission and distribution (T&D) system under an Operations Services Agreement; PSEG Energy Holdings L.L.C. (Energy Holdings), which primarily has investments in leveraged leases; and PSEG Services Corporation (Services), which provides certain management, administrative and general services to PSEG and its subsidiaries at cost.

Our business discussion in Part I, Item 1. Business of our 2017 Annual Report on 10-K (Form 10-K) provides a review of the regions and markets where we operate and compete, as well as our strategy for conducting our businesses within these markets, focusing on operational excellence, financial strength and making disciplined investments. Our risk factor discussion in Part I, Item 1A. Risk Factors of Form 10-K provides information about factors that could have a material adverse impact on our businesses. The following supplements that discussion and the discussion included in the Executive Overview of 2017 and Future Outlook provided in Item 7 in our Form 10-K by describing significant events and business developments that have occurred during 2018 and changes to the key factors that we expect may drive our future performance. The following discussion refers to the Condensed Consolidated Financial Statements (Statements) and the Related Notes to Condensed Consolidated Financial Statements (Notes). This discussion should be read in conjunction with such Statements, Notes and the 2017 Form 10-K.

EXECUTIVE OVERVIEW OF 2018 AND FUTURE OUTLOOK

Our business plan is designed to achieve growth while managing the risks associated with fluctuating commodity prices and changes in customer demand. We continue our focus on operational excellence, financial strength and disciplined investment. These guiding principles have provided the base from which we have been able to execute our strategic initiatives, including:

- improving utility operations through growth in investment in T&D and other infrastructure projects designed to enhance system reliability and resiliency and to meet customer expectations and public policy objectives, and
- maintaining and expanding a reliable generation fleet with the flexibility to utilize a diverse mix of fuels which allows us to respond to market volatility and capitalize on opportunities as they arise.

Table of Contents

## Financial Results

The results for PSEG, PSE&G and Power for the three months ended March 31, 2018 and 2017 are presented as follows:

	Three Months Ended March 31, 2018 2017	
	Millions	
Earnings (Losses)		
PSE&G	\$319	\$299
Power (A)	234	(170 )
Other (B)	5	(15 )
PSEG Net Income	\$558	\$114

PSEG Net Income Per Share (Diluted) \$1.10 \$0.22

Includes after-tax expenses of \$334 million primarily for accelerated depreciation related to the early retirement of (A) Power's Hudson and Mercer coal/gas generation plants for the three months ended March 31, 2017. See Item 1. Note 4. Early Plant Retirements for additional information.

Other includes after-tax activities at the parent company, PSEG LI, and Energy Holdings as well as intercompany eliminations. Energy Holdings recorded after-tax charges of \$32 million related to its investments in NRG REMA, (B) LLC's (REMA) leveraged leases in the three months ended March 31, 2017. See Item 1. Note 7. Financing Receivables for additional information.

Power's results above include the Nuclear Decommissioning Trust (NDT) Fund activity and the impacts of non-trading commodity mark-to-market (MTM) activity, which consist of the financial impact from positions with future delivery dates.

The variances in our Net Income attributable to changes related to the NDT Fund and MTM are shown in the following table:

	Three Months Ended March 31, 2018 2017	
	Millions, after tax	
NDT Fund Income (Expense) (A) (B)	\$(16)	\$ 8
Non-Trading MTM Gains (Losses) (C)	\$85	\$ 6

NDT Fund Income (Expense) includes realized gains and losses and other-than-temporary impairments on certain NDT securities in 2018 and 2017 and unrealized gains and losses on equity securities in 2018, all of which are recorded in Net Gains (Losses) on Trust Investments. NDT Fund Income (Expense) also includes interest and (A) dividend income and other costs related to the NDT Fund recorded in Other Income (Deductions), interest accretion expense on Power's nuclear Asset Retirement Obligation (ARO) recorded in Operation and Maintenance (O&M) Expense and the depreciation related to the ARO asset recorded in Depreciation and Amortization (D&A) Expense.

(B) Net of tax (expense) benefit of \$8 million and \$(9) million for the three months ended March 31, 2018 and 2017, respectively.

(C) Net of tax (expense) benefit of \$(33) million and \$(4) million for the three months ended March 31, 2018 and 2017, respectively.

Our \$444 million increase in Net Income for the three months ended March 31, 2018 was driven largely by accelerated depreciation in 2017 related to the early retirement of our Hudson and Mercer coal/gas generation units, charges in 2017 for estimated losses related to our leveraged lease investments, the favorable impact at Power from the lower federal tax rate effective January 1, 2018, higher net MTM gains in 2018, and higher transmission revenues in 2018.

## Table of Contents

During the first three months of 2018, we maintained a strong balance sheet. We continued to effectively deploy capital without the need for additional equity, while our solid credit ratings aided our ability to access capital and credit markets. The greater emphasis on capital spending for projects on which we receive contemporaneous returns at PSE&G, our regulated utility, in recent years has yielded strong results, which when combined with the cash flow generated by Power, our merchant generator and power marketer, has allowed us to increase our dividend. These actions to transition our business to meet market conditions and investor expectations reflect our multi-year, long-term approach to managing our company. Our focus has been to invest capital in T&D and other infrastructure projects aimed at maintaining service reliability to our customers and bolstering our system resiliency. At Power, we strive to improve performance and reduce costs in order to enhance the value of our generation fleet in light of low gas prices, environmental considerations and competitive market forces that reward efficiency and reliability.

At PSE&G, we continue to invest in transmission projects that focus on reliability improvements and replacement of aging infrastructure. We also continue to make investments to improve the resiliency of our gas and electric distribution system as part of our Energy Strong Program that was approved by the BPU in 2014 and to seek recovery on such investments. We are modernizing PSE&G's gas distribution systems as part of our Gas System Modernization Program (GSMP) that was approved by the BPU in late 2015. Over the past few years, these types of investments have altered our business mix to reflect a higher percentage of earnings contribution by PSE&G.

Power manages its existing firm pipeline transportation contracts for the benefit of PSE&G's customers through the basic gas supply service (BGSS) arrangement. The contracts are sized to provide for delivery of a reliable gas supply to PSE&G customers on peak winter days. When pipeline capacity beyond the customers' needs is available, Power may use it to make third-party sales and supply gas to its generating units in New Jersey. Alternatively, gas supply and pipeline capacity constraints could adversely impact our ability to meet the needs of our utility customers and generating units. Power's hedging practices and ability to capitalize on market opportunities help it to balance some of the volatility of the merchant power business. More than half of Power's expected gross margin in 2018 relates to our hedging strategy, our expected revenues from the capacity market mechanisms and certain ancillary service payments such as reactive power.

Our investments in Keys Energy Center (Keys), Sewaren 7 and Bridgeport Harbor Station Unit 5 (BH5) reflect our recognition of the value of opportunistic growth in the Power business. These additions to our fleet both expand our geographic diversity and adjust our fuel mix and are expected to contribute to the overall efficiency of operations.

### Regulatory, Legislative and Other Developments

In our pursuit of operational excellence, financial strength and disciplined investment, we closely monitor and engage with stakeholders on significant regulatory and legislative developments. Transmission planning rules and wholesale power market design are of particular importance to our results and we continue to advocate for policies and rules that promote fair and efficient electricity markets.

### Transmission Planning

There are several matters pending before FERC and the U. S. Court of Appeals for the District of Columbia Circuit that concern the allocation of costs associated with transmission projects being constructed by PSE&G. Regardless of how these proceedings are resolved, PSE&G's ability to recover the costs of these projects will not be affected. However, the result of these proceedings could ultimately impact the amount of costs borne by customers in New Jersey. In addition, as a basic generation service (BGS) supplier, Power provides services that include specified transmission costs. If the allocation of the costs associated with the transmission projects were to increase these BGS-related transmission costs, BGS suppliers may be entitled to recovery, subject to BPU approval. We do not believe that these matters will have a material effect on Power's business or results of operations.

Several complaints have been filed and several remain pending at FERC against transmission owners around the country, challenging those transmission owners' base return on equity (ROE). Certain of those complaints have resulted in decisions and others have been settled, resulting in reductions of those transmission owners' base ROEs. The results of these other proceedings could set precedents for other transmission owners with formula rates in place, including PSE&G.

Wholesale Power Market Design

Capacity market design, including the Reliability Pricing Model (RPM) in PJM, remains an important focus for us. During 2015, PJM implemented a new “Capacity Performance” (CP) mechanism that created a more robust capacity product with enhanced incentives for performance during emergency conditions and significant penalties for non-performance. The CP product was implemented fully in the May 2017 RPM auction for the 2020-2021 Delivery Year. Subsequent to its implementation, FERC approved changes to the CP construct that will enhance the participation of intermittent and demand response resources (seasonal resources). However, FERC recently scheduled a technical conference in response to two complaints requesting that FERC investigate the rules governing the participation of seasonal resources and extend the participation of the base resources for future auctions. We cannot predict the outcome of these matters.

Table of Contents

In April 2018, PJM submitted two proposed alternative and mutually exclusive capacity market reforms for FERC's approval. One option would be to implement a two-tier clearing mechanism that accommodates states' subsidies and the other option would be to extend the existing Minimum Offer Price Rule (MOPR) to units that are receiving subsidies. We are currently evaluating these two proposals. In a related matter that is currently pending at FERC, a group of suppliers requested that FERC direct PJM to expand the currently effective MOPR to apply to certain existing units seeking subsidies. The suppliers' request was intended to avoid a scenario where the subsidized generators would submit bids into the PJM capacity market that did not reflect their actual costs of operation and could artificially suppress capacity market prices. We are currently awaiting FERC action on the suppliers' request and cannot predict the outcome of these proceedings.

In November 2017, PJM issued an energy price formation proposal to address a flaw in the energy market by allowing all resources selected for dispatch, both flexible and inflexible, to set price and consequently, result in prices that more accurately reflect the true cost to serve load. PJM's proposal would allow large, inflexible units to set price. If placed into effect, this proposal will improve price formation by ensuring that the marginal costs of units serving load will be better reflected in clearing prices. We cannot predict the outcome of this matter.

**Distribution**

The BPU has enacted Infrastructure Investment Program (IIP) regulations that allow utilities to construct, install, or remediate utility plant and facilities related to reliability, resiliency, and/or safety to support the provision of safe and adequate service. Under these regulations, utilities can seek authority to make specified infrastructure investments in programs extending for up to five years with accelerated cost recovery mechanisms. The BPU characterized the IIP regulations as a regulatory initiative intended to create a financial incentive for utilities to accelerate the level of investment needed to promote the timely rehabilitation and replacement of certain non-revenue producing infrastructure that enhances reliability, resiliency, and/or safety.

In July 2017, we filed a petition with the BPU for a GSMP II program, an extension of GSMP to continue to modernize our gas system. In April 2018, we reached a settlement with the BPU Staff, Division of Rate Counsel and other parties. Under the GSMP II program, PSE&G will invest \$1.9 billion over five years beginning in 2019 to replace approximately 175 miles of cast iron and unprotected steel mains in addition to other improvements to the gas system. Approximately \$1.6 billion will be recovered through periodic rate roll-ins, with the remaining \$300 million to be recovered through a future base rate case. As part of the settlement, PSE&G agreed to file a base rate case no later than five years from the commencement of the program, to maintain a base level of gas distribution capital expenditures of \$155 million and to achieve certain leak reduction targets. The ROE and certain other elements for the program will be determined in the pending base rate case proceeding.

As previously disclosed, PSE&G's Energy Strong Program, a \$1.2 billion investment program to harden and make the electric and gas distribution system more resilient, is expected to be completed during 2018. PSE&G expects to file for a five year extension and expansion of the Energy Strong Program in the second quarter of 2018. The extension would seek to continue efforts to harden the electric system against storms and make it more resilient, to implement a more proactive life cycle replacement program to modernize the electric system and to make the gas system more reliable by mitigating the impacts of potential supply curtailments. The size and duration of the Energy Strong Program extension, as well as PSE&G's return on equity and certain other elements of the program, are subject to BPU approval.

In January 2018, PSE&G filed a distribution base rate case as required as a condition of approval of its Energy Strong Program approved by the BPU in 2014. The filing requested an approximate 1% increase in revenues and recovery of investments made to strengthen the electric and gas distribution systems. The requested increase took into account a reduction in the revenue requirement as a result of the federal corporate income tax rate reduction from 35% to 21% provided in the Tax Act, including the flow-back to customers of excess accumulated deferred income taxes. In March 2018, the BPU approved interim rate reductions for all their jurisdictional utilities, including PSE&G, reflecting the reduction in the federal corporate tax rate. The BPU approved a reduction to PSE&G's base electric and gas revenues effective April 1, 2018 by \$71 million and \$43 million, respectively, on an annual basis (or about 2% combined). The



refund to customers for over-collection of revenues at the higher tax rate for the January 1 to March 31, 2018 period, and the flow-back to customers of certain excess deferred income taxes will be addressed in PSE&G's ongoing base rate case proceeding. As a result of the base rate reduction implemented on April 1, 2018, PSE&G's requested revenue requirement in its filing will increase accordingly. PSE&G anticipates a decision by the BPU that the new base rates will go into effect in the fourth quarter of 2018.

#### Energy Efficiency

In April 2018, the New Jersey Legislature approved legislation that would require the state's electric and gas utilities to implement energy efficiency programs that would achieve energy savings of at least 2% per year for electric usage and 0.75% per year for gas usage within five years of the utility's implementation of its BPU-approved energy efficiency programs. To meet these savings targets, energy usage reductions and peak demand reductions that result from utility and non-utility based programs and investments (including building code changes) will be counted. The specific energy savings target for each public electric and gas utility will be determined from an energy efficiency study to be completed within a year from enactment of the

Table of Contents

legislation. The legislation will require utilities to make filings with the BPU outlining their planned investments and proposed programs for cost-effectively achieving the targeted energy savings. These filings are also expected to address the utility's return of and on those investments and recovery of lost revenues associated with the lower sales. PSE&G cannot predict whether the legislation will be enacted. If enacted, the BPU will issue rules to implement the legislation. PSE&G is evaluating opportunities to broaden its existing energy efficiency programs to achieve New Jersey's targeted results, as well as make investments to facilitate the development of the electric vehicle market and a pilot program for energy storage investments.

**Environmental Regulation**

We continue to advocate for the development and implementation of fair and reasonable rules by the EPA and state environmental regulators. In particular, section 316(b) of the Federal Water Pollution Control Act requires that cooling water intake structures, which are a significant part of the generation of electricity at steam-electric generating stations, reflect the best technology available for minimizing adverse environmental impacts. Implementation of Section 316(b) and related state regulations could adversely impact future nuclear and fossil operations and costs. In March 2017, the President of the United States issued an Executive Order that instructed the EPA to review the New Source Performance Standards that establish emissions standards for CO<sub>2</sub> for certain new fossil power plants, and the Clean Power Plan (CPP), a greenhouse gas emissions regulation under the Clean Air Act for existing power plants that establishes state-specific emission rate targets based on implementation of the best system of emission reduction. In October 2017, the EPA Administrator signed a proposed repeal of the CPP. The EPA Administrator concluded that the CPP exceeds the EPA's statutory authority by considering measures that are beyond the control of the owners of the affected sources (fossil fuel-fired electric generating units). The EPA is considering rulemaking to replace the CPP. PSEG cannot assess the impact of any such rulemaking on its business and future results of operations at this time.

We are subject to liability under environmental laws for the costs of remediating environmental contamination of property now or formerly owned by us and of property contaminated by hazardous substances that we generated. In particular, the historic operations of PSEG companies and the operations of numerous other companies along the Passaic and Hackensack Rivers are alleged by Federal and State agencies to have discharged substantial contamination into the Passaic River/Newark Bay Complex in violation of various statutes. We are also currently involved in a number of proceedings relating to sites where other hazardous substances may have been discharged and may be subject to additional proceedings in the future, and the costs of any such remediation efforts could be material. For further information regarding the matters described above, as well as other matters that may impact our financial condition and results of operations, see Item 1. Note 10. Commitments and Contingent Liabilities.

**FERC Compliance**

In the first quarter of 2014, Power discovered that it incorrectly calculated certain components of its cost-based bids for its New Jersey fossil generating units in the PJM energy market. Upon discovery of the errors, PSEG retained outside counsel to assist in the conduct of an investigation into the matter and self-reported the errors. As the internal investigation proceeded, additional pricing errors in the bids were identified. It was further determined that the quantity of energy that Power offered into the energy market for its fossil peaking units differed from the amount for which Power was compensated in the capacity market for those units. PSEG informed FERC, PJM and the PJM Independent Market Monitor (IMM) of these additional issues, corrected the identified errors, and modified the bid quantities for Power's peaking units. Power has implemented procedures and continues to review its policies and practices to mitigate the risk of similar issues occurring in the future.

Since September 2014, FERC Staff has been conducting a preliminary, non-public staff investigation into these matters. In April 2018, a settlement agreement was entered into between PSEG and FERC Staff, approved by FERC on April 25, 2018, pursuant to which PSEG agreed to pay approximately \$40 million for the full resolution of this matter. Accordingly, Power recorded an additional pre-tax charge to income of \$5 million in the first quarter of 2018, resulting in a total liability of approximately \$40 million accrued for the resolution of this matter. The settlement agreement does not require PSEG to change its business practices in a manner that would have a material impact on

its ongoing business operations.

#### Early Retirement of Hudson and Mercer Units

On June 1, 2017, Power completed its previously announced retirement of the generation operations of the existing coal/gas units at the Hudson and Mercer generating stations. The decision to retire the Hudson and Mercer units had a material effect on PSEG's and Power's results of operations in 2016 and continued to adversely impact their results of operations in 2017. As of June 1, 2017, Power completed recognition of the incremental Depreciation and Amortization (D&A) of \$938 million (\$964 million in total) due to the significant shortening of the expected economic useful lives of Hudson and Mercer. See Item 1. Note 4. Early Plant Retirements for additional information. Power is exploring various opportunities with these sites, including using the sites for alternative industrial activity or the disposition of one or both of the sites. If Power determines not to use the sites for alternative industrial activity, the early

Table of Contents

retirement of the units at such sites would trigger obligations under certain environmental regulations, including possible remediation. The amounts for any such remediation are neither currently probable nor estimable but may be material.

In addition, PSEG and Power continue to monitor their other coal assets, including the Keystone and Conemaugh generating stations, to assess their economic viability through the end of their designated useful lives and their continued classification as held for use. The precise timing of a change in useful lives may be dependent upon events out of PSEG's and Power's control and may impact their ability to operate or maintain certain assets in the future. These generating stations may be impacted by factors such as environmental legislation, co-owner capital requirements and continued depressed wholesale power prices or capacity factors, among other things. Any early retirement or change in the classification as held for use of our remaining coal units may have a material adverse impact on PSEG's and Power's future financial results.

#### Nuclear

Since 2013, several nuclear generating stations in the United States have closed or announced early retirement due to economic reasons, or have announced being at risk for early retirement. In February 2018, Exelon, a co-owner of the Salem units, announced its intention to accelerate the closure of its Oyster Creek nuclear plant located in New Jersey, one year earlier than previously planned for economic reasons. In addition, First Energy announced in March 2018 the early retirement of four nuclear units at the Davis-Besse, Perry Nuclear and Beaver Valley nuclear plants in Ohio and Pennsylvania by 2021. These closures and retirements are generally due to the decline in market prices of energy, resulting from low natural gas prices driven by the growth of shale gas production since 2007, the continuing cost of regulatory compliance and enhanced security for nuclear facilities, both federal and state-level policies that provide financial incentives to construct renewable energy such as wind and solar and the failure to adequately compensate nuclear generating stations for the attributes they bring similar to renewable energy production. These trends have significantly reduced the revenues of nuclear generating stations while limiting their ability to reduce the unit cost of production. This may result in the electric generation industry experiencing a further shift from nuclear generation to natural gas-fired generation, creating less diversity of the generation fleet.

In the ordinary course, management, and in the case of the Salem units the co-owner, each makes a number of decisions that impact the operation of our nuclear units beyond the current year, including whether and to what extent these units participate in RPM capacity auctions, commitments relating to refueling outages and significant capital expenditures, and decisions regarding our hedging arrangements. When considering whether to make these future commitments, management's decisions will primarily be influenced by the financial outlook of the units, including the progress, timing and continued outlook for enactment of proposed legislation in the state of New Jersey. At a co-owners meeting in February 2018, Exelon and Power agreed to cancel the funding of future capital projects at the Salem generating station that are not required to meet NRC or other regulatory requirements or that are not required to ensure its safe operation. The companies agreed that the funding of these projects may be restored when and if legislation is enacted in New Jersey that sufficiently values the attributes of nuclear generation and Salem benefits from such legislation.

If any or all of the Salem and Hope Creek units were shut down, it would significantly alter New Jersey's energy supply predominately by increasing New Jersey's reliance on natural gas generation. Such a decrease in fuel diversity could also increase the market's vulnerability to price fluctuations and power disruptions in times of high demand. In April 2018, the New Jersey Legislature voted to pass legislation that would provide a safety net in order to prevent the loss of environmental attributes from selected nuclear generating stations. Power cannot predict whether the legislation will be enacted or, if enacted, whether our nuclear generating stations in New Jersey will be selected or whether the legislation will provide a sufficient safety net for the continued operation of nuclear generating stations in New Jersey.

If market prices continue to be depressed and legislation is not enacted that adequately compensates nuclear generating stations for their attributes, Power anticipates it will no longer be covering its costs nor be adequately compensated for its market and operational risks at the Salem and Hope Creek nuclear units and would anticipate

retiring these units early. The costs associated with any such retirement, which may include, among other things, accelerated depreciation and amortization or impairment charges, accelerated asset retirement costs, severance costs, environmental remediation costs and additional funding of the NDT Fund would be material to both PSEG and Power.

#### Leveraged Lease Impairments

GenOn Energy, Inc. (GenOn) and certain of its subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code on June 14, 2017. REMA was not included in the GenOn bankruptcy filing. GenOn is currently engaged in a balance sheet restructuring, which will take an undetermined time to complete. PSEG cannot predict the outcome of GenOn's efforts to restructure its balance sheet and improve its liquidity.

PSEG continues to monitor any changes to REMA's and GenOn's status and potential impacts on Energy Holdings' lease investments, which could include further write-downs of the values of Energy Holdings' leveraged lease receivables, and continue to discuss the situation with various parties relevant to this matter. For additional information, see Item 1. Note 7. Financing Receivables. There can be no assurance that a continuation or worsening of the adverse economic conditions would

## Table of Contents

not lead to additional write-downs at any of our other generation units in our leveraged lease portfolio, and such write-downs could be material.

Additional facilities in our leveraged lease portfolio include the Joliet and Powerton generating facilities. Converted natural gas units such as Shawville and Joliet may have higher operating costs and fuel consumption as well as longer start-up times compared to newer combined cycle gas units. Powerton is a coal-fired generating facility in Illinois. Each of these three facilities may not be as economically competitive as newer combined cycle gas units and could continue to be adversely impacted by the same economic conditions experienced by other less efficient natural gas and coal generation facilities, which could require Energy Holdings to write down the residual value of the leveraged lease receivables associated with these facilities.

### Tax Legislation

In December 2017, the U.S. government enacted comprehensive tax legislation (Tax Act), which, among other things, decreased the statutory U.S. corporate income tax rate from a maximum of 35% to 21%, effective January 1, 2018, and made certain changes to bonus depreciation rules.

As a result of the enacted reduction in the statutory U.S. corporate income tax rate, as well as other aspects of the Tax Act, in December 2017 PSE&G recorded excess deferred taxes of approximately \$2.1 billion and recorded an approximate \$2.9 billion revenue impact of these excess deferred taxes as Regulatory Liabilities where it is probable that refunds will be made to customers in future rates. The amount and timing of any such refund cannot be determined at this time.

Beginning in 2018, PSEG, on a consolidated basis, is incurring lower income tax expense resulting in a decrease in its projected effective income tax rate. This is also expected to increase PSEG's and Power's net income. To the extent allowed under the Tax Act, Power's operating cash flows will reflect the full expensing of capital investments for income tax purposes. PSEG and Power expect that the interest on their debt will continue to be fully tax deductible albeit at a lower tax rate. For PSE&G, the Tax Act is expected to lead to lower customer rates due to lower income tax expense recoveries and the refund of deferred income tax regulatory liabilities, partially offset by the impacts of higher rate base. The impact of the lower federal income tax rate on PSE&G was reflected in PSE&G's recently filed distribution base rate case and its 2018 transmission formula rate filings. The Tax Act is generally expected to result in lower operating cash flows for PSE&G resulting from the elimination of bonus depreciation, partially offset by higher revenues due to the higher rate base. Due to the recent enactment of the Tax Act, the full impact of these and other provisions of the Tax Act cannot be determined at this time.

The impact of the Tax Act may differ from these estimates, possibly materially, due to, among other things, changes in interpretations and assumptions PSEG has made, guidance that may be issued and actions PSEG may take as a result of the Tax Act. For additional information, see Item 1. Note 15. Income Taxes.

As a result of the enactment of the Tax Act, various state regulatory authorities, including the BPU, have taken action to ensure that excess federal income taxes previously collected in rates are returned to customers. We have made filings to adjust the revenue requirement in certain of our rate matters as a result of the change in the federal income tax rate. We continue to assess whether we need to take any further action at this time.

In addition, FERC continues to assess whether, and if so how, it will address changes and flow-backs to customers relating to accumulated deferred income taxes and bonus depreciation. See Item 1. Note 6. Rate Filings for additional information.

### Operational Excellence

We emphasize operational performance while developing opportunities in both our competitive and regulated businesses. Flexibility in our generating fleet has allowed us to take advantage of opportunities in a rapidly evolving market as we remain diligent in managing costs. For the first three months of 2018, our utility, beginning with comprehensive storm preparation, efficiently and safely completed our customer restorations and then assisted neighboring utilities with their restoration efforts, diverse fuel mix and dispatch flexibility allowed us to generate approximately 13 terawatt hours while addressing fuel availability and price volatility, and

total nuclear fleet achieved an average capacity factor of 99.5%.

#### Financial Strength

Our financial strength is predicated on a solid balance sheet, positive operating cash flow and reasonable risk-adjusted returns on increased investment. Our financial position remained strong during the first three months of 2018 as we maintained sufficient liquidity,

70

---

Table of Contents

maintained solid investment grade credit ratings, and increased our indicative annual dividend for 2018 to \$1.80 per share.

We expect to be able to fund our planned capital requirements and manage the impacts of the Tax Act without the issuance of new equity.

**Disciplined Investment**

We utilize rigorous investment criteria when deploying capital and seek to invest in areas that complement our existing business and provide reasonable risk-adjusted returns. These areas include upgrading our energy infrastructure, responding to trends in environmental protection and providing new energy supplies in domestic markets with growing demand. In the first three months of 2018, we

made additional investments in transmission infrastructure projects,

continued to execute our GSMP, Energy Strong, Energy Efficiency and other existing BPU-approved utility programs, and

continued construction of our Keys and Sewaren 7 generation projects for targeted commercial operation in 2018 and our BH5 generation project for targeted commercial operation in mid-2019.

**Future Outlook**

Our future success will depend on our ability to continue to maintain strong operational and financial performance in a slow-growing economy and a cost-constrained environment with low gas prices, to capitalize on or otherwise address appropriately regulatory and legislative developments that impact our business and to respond to the issues and challenges described below. In order to do this, we must continue to:

focus on controlling costs while maintaining safety and reliability and complying with applicable standards and requirements,

successfully manage our energy obligations and re-contract our open supply positions in response to changes in demand,

- execute our utility capital investment program, including our Energy Strong Program, GSMP and other investments for growth that yield contemporaneous and reasonable risk-adjusted returns, while enhancing the resiliency of our infrastructure and maintaining the reliability of the service we provide to our customers, and obtain approval for the extension of these programs,

effectively manage construction of our Keys, Sewaren 7, BH5 and other generation projects,

advocate for measures to ensure the implementation by PJM and FERC of market design and transmission planning rules that continue to promote fair and efficient electricity markets,

engage multiple stakeholders, including regulators, government officials, customers and investors, and

successfully operate the LIPA T&D system and manage LIPA's fuel supply and generation dispatch obligations.

For 2018 and beyond, the key issues and challenges we expect our business to confront include:

regulatory and political uncertainty, both with regard to future energy policy, design of energy and capacity markets, transmission policy and environmental regulation, as well as with respect to the outcome of any legal, regulatory or other proceeding, settlement, investigation or claim, applicable to us and/or the energy industry,

fair and timely rate relief from the BPU and FERC for recovery of costs and return on investments, including with respect to our distribution base rate case which was filed with the BPU in January 2018,

- continuing discussions regarding the restructuring of GenOn and REMA and its potential impact on the value of our Keystone, Conemaugh and Shawville leveraged leases,

the continuing impacts of the Tax Act,

national and regional economic conditions, continuing customer conservation efforts, changes in energy usage patterns and evolving technologies, which impact customer behaviors and demand,

the potential for continued reductions in demand and sustained lower natural gas and electricity prices, both at market hubs and the locations where we operate,





Table of Contents

the impact of lower natural gas prices and increasing environmental compliance costs on the competitiveness of our nuclear and remaining coal-fired generation plants, and the potential for retirement of such plants earlier than their current useful lives,

- delays and other obstacles that might arise in connection with the construction of our T&D, generation and other development projects, including in connection with permitting and regulatory approvals, and maintaining a diverse mix of fuels to mitigate risks associated with fuel price volatility and market demand cycles. Our primary investment opportunities are in two areas: our regulated utility business and our merchant power business. We continually assess a broad range of strategic options to maximize long-term stockholder value. In assessing our options, we consider a wide variety of factors, including the performance and prospects of our businesses; the views of investors, regulators and rating agencies; our existing indebtedness and restrictions it imposes; and tax considerations, among other things. Strategic options available to us include:
    - the acquisition, construction or disposition of T&D facilities and/or generation units,
    - the disposition or reorganization of our merchant generation business or other existing businesses or the acquisition or development of new businesses,
    - the expansion of our geographic footprint,
    - continued or expanded participation in solar, demand response and energy efficiency programs, and investments in capital improvements and additions, including the installation of environmental upgrades and retrofits, improvements to system resiliency, modernizing existing infrastructure and participation in transmission projects through FERC's "open window" solicitation process.
- Power is developing a retail energy business to sell energy, which we believe complements our existing wholesale marketing business. Power began these marketing activities in 2017 and has been granted retail energy supplier licenses in New Jersey, Pennsylvania and Maryland.
- There can be no assurance, however, that we will successfully develop and execute any of the strategic options noted above, or any additional options we may consider in the future. The execution of any such strategic plan may not have the expected benefits or may have unexpected adverse consequences.

## RESULTS OF OPERATIONS

## PSEG

Our results of operations are primarily comprised of the results of operations of our principal operating subsidiaries, PSE&G and Power, excluding charges related to intercompany transactions, which are eliminated in consolidation. For additional information on intercompany transactions, see Item 1. Note 19. Related-Party Transactions.

	Three Months Ended March 31,		Increase/ (Decrease)	
	2018	2017	2018 vs. 2017	
	Millions		Million	%
Operating Revenues	\$2,818	\$2,591	\$227	9
Energy Costs	952	868	84	10
Operation and Maintenance	754	717	37	5
Depreciation and Amortization	280	828	(548)	(66)
Income from Equity Method Investments	2	3	(1)	(33)
Net Gains (Losses) on Trust Investments	(22)	28	(50)	N/A
Other Income (Deductions)	32	32	—	—
Non-Operating Pension and OPEB Credits (Costs)	19	—	19	N/A
Interest Expense	103	98	5	5

Income Tax Expense	202	29	173	N/A
--------------------	-----	----	-----	-----

72

---

Table of Contents

The following discussions for PSE&G and Power provide a detailed explanation of their respective variances.  
PSE&G

	Three Months Ended March 31,		Increase/ (Decrease)	
	2018	2017	2018 vs. 2017	
	Millions		Millions	
Operating Revenues	\$1,845	\$1,826	\$19	1
Energy Costs	782	762	20	3
Operation and Maintenance	391	370	21	6
Depreciation and Amortization	190	171	19	11
Net Gains (Losses) on Trust Investments	—	2	(2 )	N/A
Other Income (Deductions)	20	22	(2 )	(9 )
Non-Operating Pension and OPEB Credits (Costs)	15	(2 )	17	N/A
Interest Expense	81	75	6	8
Income Tax Expense	117	171	(54 )	(32 )

## Three Months Ended March 31, 2018 as Compared to 2017

Operating Revenues increased \$19 million due to changes in delivery, commodity, clause and other operating revenues.

Delivery Revenues increased \$7 million due primarily to an increase in transmission revenues.

Transmission revenues were \$8 million higher due to higher revenue requirements calculated through our transmission formula rate, primarily to recover required investments.

Gas distribution revenues increased \$5 million due to a \$17 million increase from the inclusion of the GSMP in base rates, and a \$7 million increase due to higher sales volumes. These increases were partially offset by a \$19 million decrease in Weather Normalization collections.

Electric distribution revenues decreased \$6 million due to \$7 million in lower sales volumes and lower Green Program Recovery Charges of \$1 million, partially offset by a \$2 million increase from the Energy Strong Program in base rates.

Commodity Revenues increased \$20 million as a result of higher Electric revenues partially offset by lower Gas revenues. The changes in Commodity revenues for both electric and gas are entirely offset by the changes in Energy Costs. PSE&G earns no margin on the provision of BGS and BGSS to retail customers.

Electric commodity revenues increased \$34 million due primarily to a \$29 million increase in BGS revenues due to \$21 million in higher sales volumes and \$8 million from higher prices, a \$3 million increase from sales of solar renewable energy credits and \$2 million of higher revenues from collections of Non-Utility Generation Charges.

Gas commodity revenues decreased \$14 million due to lower BGSS sales prices of \$32 million, partially offset by higher BGSS sales volumes of \$18 million.

Clause Revenues decreased \$11 million due primarily to a \$6 million decrease in Margin Adjustment Clause (MAC) revenues and lower Societal Benefit Charges (SBC) of \$5 million. The changes in the MAC and SBC amounts are entirely offset by changes in the amortization of Regulatory Assets and Regulatory Liabilities and related costs in O&M, D&A and Interest Expense. PSE&G does not earn margin on MAC or SBC collections.

## Operating Expenses

Energy Costs increased \$20 million. This is entirely offset by the change in Commodity Revenues.

Operation and Maintenance increased \$21 million, primarily due to a \$10 million increase in transmission operating expenses, a \$6 million increase in winter storm costs, a \$5 million increase in appliance service costs, a \$5 million

increase in the gas distribution tariff, a \$3 million increase in renewables and a \$5 million increase in other operating expenses. These increases were partially offset by a \$13 million reduction in clause-related expenditures.

Table of Contents

Depreciation and Amortization increased \$19 million due primarily to an \$18 million increase in depreciation due to additional plant in service and an increase of \$2 million in amortization of Regulatory Assets.

Non-Operating Pension and OPEB Credits (Costs) reflected an increase of \$17 million in credits due the adoption of new accounting guidance effective January 1, 2018 which no longer allows capitalization of any portion of these benefit costs. See Item 1. Note 2. Recent Accounting Standards.

Interest Expense increased \$6 million due primarily to debt issuances in May and December 2017.

Income Tax Expense decreased \$54 million due primarily to the decrease in the federal statutory income tax rate from 35% in 2017 to 21% in 2018, partially offset by uncertain tax positions and plant-related items.

Power

	Three Months Ended March 31,		Increase/ (Decrease)	
	2018	2017	2018 vs. 2017	
	Millions		Million%	
Operating Revenues	\$1,403	\$1,269	\$134	11
Energy Costs	746	692	54	8
Operation and Maintenance	246	232	14	6
Depreciation and Amortization	82	650	(568 )	(87 )
Income from Equity Method Investments	2	3	(1 )	(33 )
Net Gains (Losses) on Trust Investments	(22 )	19	(41 )	N/A
Other Income (Deductions)	11	11	—	—
Non-Operating Pension and OPEB Credits (Costs)	4	2	2	100
Interest Expense	7	16	(9 )	(56 )
Income Tax Expense (Benefit)	83	(116 )	199	N/A

#### Three Months Ended March 31, 2018 as Compared to 2017

Operating Revenues increased \$134 million due to changes in generation and gas supply revenues.

Generation Revenues increased \$140 million due primarily to an increase of \$134 million due to higher MTM gains in 2018 as compared to 2017. Of this amount, \$112 million was due to higher gains on positions reclassified to realized upon settlement coupled with a \$22 million increase due to changes in forward prices,

a net increase of \$10 million due primarily to higher volumes of electricity sold under wholesale load contracts in the PJM region offset by lower volumes of electricity sold under wholesale load contracts in the New England (NE) region, and

a net increase of \$7 million in capacity revenues due primarily to increases in cleared capacity auction prices in the NE region,

partially offset by a net decrease of \$13 million in energy sales due primarily to lower volumes and lower average realized prices in the PJM region offset by higher average prices in the NE and New York (NY) regions, and

a decrease of \$9 million in electricity sold under our BGS contracts due primarily to lower prices offset by higher volumes.

Gas Supply Revenues decreased \$6 million due primarily to

a decrease of \$13 million due to MTM losses in 2018 as compared to gains in 2017, and

a decrease of \$12 million related to sales to third parties due to lower average sales prices,

partially offset by an increase of \$19 million in sales under the BGSS contract due primarily to an increase in sales volumes due to colder average temperatures in the 2018 winter heating season.



## Table of Contents

### Operating Expenses

Energy Costs represent the cost of generation, which includes fuel costs for generation as well as purchased energy in the market, and gas purchases to meet Power's obligation under its BGSS contract with PSE&G. Energy Costs increased \$54 million due to

Generation costs increased \$43 million due primarily to

higher fuel costs of \$46 million reflecting utilization of higher volumes of oil in the PJM region coupled with utilization of higher volumes and higher prices of natural gas in the NY region, and an increase of \$10 million due to MTM losses in 2018 as compared to gains in 2017. Of this amount, \$6 million was due to changes in forward prices coupled with an increase of \$4 million due to higher losses on positions reclassified to realized upon settlement in 2018,

partially offset by a net decrease of \$15 million primarily due to a decrease in energy purchase volumes in the NE region to serve load obligations.

Gas costs increased \$11 million due mainly to

an increase of \$29 million related to sales under the BGSS contract due primarily to increased volumes sold, coupled with higher average gas costs due to colder average temperatures during the 2018 winter heating season, partially offset by a decrease of \$18 million related to sales to third parties due primarily to lower average gas costs and a decrease in volumes sold.

Operation and Maintenance increased \$14 million due primarily to

a \$10 million net increase at our fossil plants, due primarily to higher planned outage costs in 2018 as compared to 2017, and

a \$5 million net increase due primarily to higher planned outage costs at our 100%-owned Hope Creek nuclear plant in 2018 as compared to planned outage costs incurred in 2017 for our 57%-owned Salem Unit 2.

Depreciation and Amortization decreased \$568 million due primarily to

\$574 million of higher depreciation in 2017 for Hudson and Mercer due to the early retirement of those units, partially offset by a \$5 million increase in 2018 due to a higher nuclear asset base primarily from increased capitalized asset retirement costs.

Net Gains (Losses) on Trust Investments decreased \$41 million due primarily to the inclusion in 2018 of \$34 million of net unrealized losses on equity investments in the NDT Fund in accordance with new accounting guidance and a \$5 million decrease in net realized gains on NDT Fund investments.

Interest Expense decreased \$9 million due primarily to higher interest capitalized for the construction of the BH5, Sewaren 7 and Keys fossil stations.

Income Tax Expense (Benefit) increased \$199 million due primarily to pre-tax income in 2018 as compared to a pre-tax loss in 2017. This increase in income tax expense was diminished by the decrease in the federal statutory income tax rate from 35% in 2017 to 21% in 2018.

### LIQUIDITY AND CAPITAL RESOURCES

The following discussion of our liquidity and capital resources is on a consolidated basis, noting the uses and contributions, where material, of our two direct major operating subsidiaries.

#### Operating Cash Flows

We expect our operating cash flows combined with cash on hand and financing activities to be sufficient to fund capital expenditures and shareholder dividend payments.

For the three months ended March 31, 2018, our operating cash flow decreased \$57 million as compared to the same period in 2017. The net changes were primarily due to tax refunds in 2017 at Energy Holdings combined with net changes from our subsidiaries as discussed below.

#### PSE&G

PSE&G's operating cash flow increased \$62 million from \$515 million to \$577 million for the three months ended March 31, 2018, as compared to the same period in 2017, due primarily to an increase of \$58 million primarily due to



a reduction in

75

---

Table of Contents

unbilled revenues resulting from lower prices and volumes in 2018, an increase of \$54 million due to a change in regulatory deferrals, and higher earnings in 2018, partially offset by a tax refund in 2017.

**Power**

Power's operating cash flow decreased \$38 million from \$580 million to \$542 million for the three months ended March 31, 2018, as compared to the same period in 2017, due primarily to an increase of \$71 million in payments to counterparties and a \$22 million decrease from fuels, materials and supplies, offset by a \$69 million increase from net collections of counterparty receivables.

**Short-Term Liquidity**

PSEG meets its short-term liquidity requirements, as well as those of Power, primarily with cash and through the issuance of commercial paper. PSE&G maintains its own separate commercial paper program to meet its short-term liquidity requirements. Each commercial paper program is fully back-stopped by its own separate credit facilities. We continually monitor our liquidity and seek to add capacity as needed to meet our liquidity requirements. Each of our credit facilities is restricted as to availability and use to the specific companies as listed below; however, if necessary, the PSEG facilities can also be used to support our subsidiaries' liquidity needs.

Our total credit facilities and available liquidity as of March 31, 2018 were as follows:

Company/Facility	As of March 31, 2018		
	Total Facility	Usage	Available Liquidity
	Millions		
PSEG	\$ 1,500	\$ 609	\$ 891
PSE&G	600	16	584
Power	2,100	158	1,942
Total	\$ 4,200	\$ 783	\$ 3,417

As of March 31, 2018, our credit facility capacity was in excess of our projected maximum liquidity requirements over our 12 month planning horizon. Our maximum liquidity requirements are based on stress scenarios that incorporate changes in commodity prices and the potential impact of Power losing its investment grade credit rating from S&P or Moody's, which would represent a three level downgrade from its current S&P or Moody's ratings. In the event of a deterioration of Power's credit rating certain of Power's agreements allow the counterparty to demand further performance assurance. The potential additional collateral that we would be required to post under these agreements if Power were to lose its investment grade credit rating was approximately \$867 million and \$848 million as of March 31, 2018 and December 31, 2017, respectively.

For additional information, see Item 1. Note 11. Debt and Credit Facilities.

**Long-Term Debt Financing**

During the next twelve months, PSE&G has \$400 million of 5.30% Medium-Term Notes maturing in May 2018 and \$350 million of 2.30% Medium-Term Notes maturing in September 2018. Power has \$250 million of 2.45% Senior Notes maturing in November 2018.

For additional information see Item 1. Note 11. Debt and Credit Facilities.

**Common Stock Dividends**

On February 20, 2018, our Board of Directors approved a \$0.45 dividend per share of common stock for the first quarter of 2018. On April 17, 2018, our Board of Directors declared a \$0.45 dividend per share of common stock for the second quarter of 2018. This reflects an indicative annual dividend rate of \$1.80 per share. We expect to continue to pay cash dividends on our common stock; however, the declaration and payment of future dividends to holders of our common stock will be at the discretion of the Board of Directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our businesses, alternate investment opportunities, legal requirements, regulatory constraints, industry practice and other factors that the Board of Directors deems relevant.

For additional information related to cash dividends on our common stock, see Item 1. Note 17. Earnings Per Share (EPS) and Dividends.

76

---

Table of Contents

## Credit Ratings

If the rating agencies lower or withdraw our credit ratings, such revisions may adversely affect the market price of our securities and serve to materially increase our cost of capital and limit access to capital. Credit Ratings shown are for securities that we typically issue. Outlooks are shown for Corporate Credit Ratings (S&P) and Issuer Credit Ratings (Moody's) and can be Stable, Negative, or Positive. There is no assurance that the ratings will continue for any given period of time or that they will not be revised by the rating agencies, if, in their respective judgments, circumstances warrant. Each rating given by an agency should be evaluated independently of the other agencies' ratings. The ratings should not be construed as an indication to buy, hold or sell any security.

	Moody's (A)	S&P (B)
PSEG		
Outlook	Stable	Stable
Senior Notes	Baa1	BBB
Commercial Paper	P2	A2
PSE&G		
Outlook	Stable	Stable
Mortgage Bonds	Aa3	A
Commercial Paper	P1	A2
Power		
Outlook	Stable	Stable
Senior Notes	Baa1	BBB+

- (A) Moody's ratings range from Aaa (highest) to C (lowest) for long-term securities and P1 (highest) to NP (lowest) for short-term securities.
- (B) S&P ratings range from AAA (highest) to D (lowest) for long-term securities and A1 (highest) to D (lowest) for short-term securities.

## CAPITAL REQUIREMENTS

We expect that all of our capital requirements over the next three years will come from a combination of internally generated funds and external debt financing. There were no material changes to our projected capital expenditures as compared to amounts disclosed in our 2017 Form 10-K.

## PSE&amp;G

During the three months ended March 31, 2018, PSE&G made capital expenditures of \$759 million, primarily for T&D system reliability. This does not include expenditures for cost of removal, net of salvage, of \$38 million, which are included in operating cash flows.

## Power

During the three months ended March 31, 2018, Power made capital expenditures of \$283 million, excluding \$16 million for nuclear fuel, primarily related to our Keys, Sewaren 7, BH5 and other generation projects.

## ACCOUNTING MATTERS

For information related to recent accounting matters, see Item 1. Note 2. Recent Accounting Standards.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The risk inherent in our market-risk sensitive instruments and positions is the potential loss arising from adverse changes in commodity prices, equity security prices and interest rates as discussed in the Notes to Condensed Consolidated Financial Statements. It is our policy to use derivatives to manage risk consistent with business plans

and prudent practices. We have a Risk Management Committee comprised of executive officers who utilize a risk oversight function to ensure compliance with our corporate policies and risk management practices.

77

---

Table of Contents

Additionally, we are exposed to counterparty credit losses in the event of non-performance or non-payment. We have a credit management process, which is used to assess, monitor and mitigate counterparty exposure. In the event of non-performance or non-payment by a major counterparty, there may be a material adverse impact on our financial condition, results of operations or net cash flows.

**Commodity Contracts**

The availability and price of energy-related commodities are subject to fluctuations from factors such as weather, environmental policies, changes in supply and demand, state and federal regulatory policies, market rules and other events. To reduce price risk caused by market fluctuations, we enter into supply contracts and derivative contracts, including forwards, futures, swaps and options with approved counterparties. These contracts, in conjunction with physical sales and other services, help reduce risk and optimize the value of owned electric generation capacity.

**Value-at-Risk (VaR) Models**

VaR represents the potential losses, under normal market conditions, for instruments or portfolios due to changes in market factors, for a specified time period and confidence level. We estimate VaR across our commodity businesses. MTM VaR consists of MTM derivatives that are economic hedges. The MTM VaR calculation does not include market risks associated with activities that are subject to accrual accounting, primarily our generating facilities and some load serving activities.

The VaR models used are variance/covariance models adjusted for the change of positions with 95% and 99.5% confidence levels and a one-day holding period for the MTM activities. The models assume no new positions throughout the holding periods; however, we actively manage our portfolio.

From January through March 2018, MTM VaR varied between a low of \$8 million and a high of \$38 million at the 95% confidence level. The range of VaR was narrower for the three months ended March 31, 2018 as compared with the year ended December 31, 2017.

	MTM VaR	
	Three Months Ended March 31, 2018	Year Ended December 31, 2017
	Millions	
95% Confidence Level, Loss could exceed VaR one day in 20 days Period End	\$ 9	\$ 39
Average for the Period	\$ 21	\$ 10
High	\$ 38	\$ 39
Low	\$ 8	\$ 5
99.5% Confidence Level, Loss could exceed VaR one day in 200 days Period End	\$ 14	\$ 60
Average for the Period	\$ 32	\$ 15

High	\$	60	\$	60
Low	\$	13	\$	8

See Item 1. Note 12. Financial Risk Management Activities for a discussion of credit risk.

78

---

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

PSEG, PSE&G and Power

We have established and maintain disclosure controls and procedures as defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) that are designed to provide reasonable assurance that information required to be disclosed in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported and is accumulated and communicated to the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of each respective company, as appropriate, by others within the entities to allow timely decisions regarding required disclosure. We have established a disclosure committee which includes several key management employees and which reports directly to the CFO and CEO of each of PSEG, PSE&G and Power. The committee monitors and evaluates the effectiveness of these disclosure controls and procedures. The CFO and CEO of each of PSEG, PSE&G and Power have evaluated the effectiveness of the disclosure controls and procedures and, based on this evaluation, have concluded that disclosure controls and procedures at each respective company were effective at a reasonable assurance level as of the end of the period covered by the report.

Internal Controls

PSEG, PSE&G and Power

There have been no changes in internal control over financial reporting that occurred during the first quarter of 2018 that have materially affected, or are reasonably likely to materially affect, each registrant’s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are party to various lawsuits and environmental and regulatory matters, including in the ordinary course of business. For information regarding material legal proceedings, including updates to information reported in Item 3 of Part I of the 2017 Annual Report on Form 10-K, see Part I, Item 1. Note 10. Commitments and Contingent Liabilities and Item 5. Other Information.

ITEM 1A. RISK FACTORS

The discussion of our business and operations in this Quarterly Report on Form 10-Q should be read together with the risk factors contained in Part I, Item 1A of our 2017 Annual Report on Form 10-K and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, which describe various risks and uncertainties that could have a material adverse impact on our business, prospects, financial position, results of operations or cash flows and could cause results to differ materially from those expressed elsewhere in this report. There have been no material changes to the risk factors set forth in the above-referenced filings as of March 31, 2018.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In December 2017, we entered into a share repurchase plan that complies with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, solely with respect to the repurchase of shares to satisfy obligations under equity compensation awards that are expected to vest or be exercised in 2018 and under PSEG’s Employee Stock Purchase Plan for expected employee purchases in 2018. The following table indicates our common share repurchases in the open market during the first quarter of 2018.

Three Months Ended March 31, 2018	Total Number of Shares Purchased	Average Price Paid per Share
-----------------------------------	--	------------------------------------



Edgar Filing: PUBLIC SERVICE ENTERPRISE GROUP INC - Form 10-Q

January 1 - January 31	1,300,000	\$ 50.00
February 1 - February 28	—	\$ —
March 1- March 31	—	\$ —

79

---

Table of Contents

ITEM 5. OTHER INFORMATION

Certain information reported in the 2017 Annual Report on Form 10-K is updated below. Additionally, certain information is provided for new matters that have arisen subsequent to the filing of the 2017 Annual Report on Form 10-K. References are to the related pages on the Form 10-K as printed and distributed.

Federal Regulation

Energy Clearing Prices

December 31, 2017 Form 10-K page 16. FERC has ordered certain favorable changes to energy market price formation rules improving shortage pricing and enhancing bidding flexibility for units. We continue to advocate in this context for additional changes in market rules that would provide more transparency regarding operator actions affecting energy market prices and would promote better alignment between generation dispatch decisions and energy market price outcomes. In November 2017, PJM issued an energy price formation proposal to address a flaw in the energy market by allowing all resources selected for dispatch, both flexible and inflexible, to set price and consequently, result in prices that more accurately reflect the true cost to serve load. PJM's proposal would allow large, inflexible units to set price. If placed into effect, this proposal will improve price formation by ensuring that the marginal costs of units serving load will be better reflected in clearing prices. We cannot predict the outcome of this matter.

Capacity Market Issues—PJM

December 31, 2017 Form 10-K page 16. PJM fully implemented in the May 2017 RPM auction for the 2020-2021 Delivery Year a "Capacity Performance" (CP) mechanism that created a more robust capacity product with enhanced incentives for performance during emergency conditions and significant penalties for non-performance. The CP mechanism is intended to enhance the participation of intermittent and demand response resources (seasonal resources). Specifically, FERC approved PJM's modifications to the aggregation rules to improve the ability of seasonal resources to participate. However, FERC recently scheduled a technical conference in response to two complaints requesting that FERC investigate the rules governing the participation of seasonal resources and extend the participation of the base resources for future auctions. We cannot predict the outcome of these matters. In April, 2018, PJM submitted two proposed alternative and mutually exclusive capacity market reforms for FERC's approval. One option would be to implement a two-tier clearing mechanism that accommodates states' subsidies and the other option would be to extend the existing Minimum Offer Price Rule to units that are receiving subsidies. We are currently evaluating these two proposals.

Capacity Market Issues—ISO-NE

Recently, ISO-NE submitted proposed changes to the Forward Capacity Market referred to as the Competitive Auctions and Sponsored Policy Resources (CASPR) proposal to accommodate clean and renewable energy policy resources. The CASPR design creates a second auction that commences immediately following the Forward Capacity Auction and provides the opportunity for certain renewable, clean and alternative energy resources to acquire supply obligations when they cannot clear economically in the Forward Capacity Auction. The CASPR design also proposed to phase out the exemption from the minimum offer price rule (MOPR) in the capacity market afforded for up to 200MW annually (600 MW cumulatively) of renewable resources, an aspect of the market design that we did not support due to the capacity market suppression associated with this mechanism. In March 2018, FERC approved the filing, including the phase out of the 200MW renewables exemptions, with an effective date beginning with the next Forward Capacity Auction to be held in February 2019.

Transmission Regulation—Transmission Policy Developments

December 31, 2017 Form 10-K page 18. In February 2018, FERC issued an order finding that the transmission planning procedures used by the PJM transmission owners, a group that includes PSE&G, for supplemental projects do not adhere to the coordination and transparency principles of FERC's Order No. 890. FERC determined that certain terms and conditions in the PJM governing documents are unjust and unreasonable. FERC directed PJM and the PJM transmission owners to submit certain revisions to the manner in which the stakeholder process for supplemental

projects is conducted. PSE&G participated in the PJM transmission owners' compliance filing. A number of parties also sought rehearing of the FERC order seeking more onerous requirements that, if accepted, could be disruptive of the planning process.

State Regulation

BGSS Process

In November 2017, a filing was made by the Retail Energy Supply Association (RESA) with the BPU requesting that the BPU revisit the BGSS process and establish a gas capacity release program. This filing is applicable to all New Jersey gas utilities. In March 2018, the RESA filed an amended petition with the BPU requesting a formal proceeding to establish a gas capacity release program. This filing is applicable to all New Jersey gas utilities.

Table of Contents

ITEM 6. EXHIBITS

A listing of exhibits being filed with this document is as follows:

a. PSEG:

<u>Exhibit 12:</u>	<u>Computation of Ratios of Earnings to Fixed Charges</u>
<u>Exhibit 31:</u>	<u>Certification by Ralph Izzo Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act</u>
<u>Exhibit 31.1:</u>	<u>Certification by Daniel J. Cregg Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act</u>
<u>Exhibit 32:</u>	<u>Certification by Ralph Izzo Pursuant to Section 1350 of Chapter 63 of Title 18 of the U.S. Code</u>
<u>Exhibit 32.1:</u>	<u>Certification by Daniel J. Cregg Pursuant to Section 1350 of Chapter 63 of Title 18 of the U.S. Code</u>
Exhibit 101.INS:	XBRL Instance Document
Exhibit 101.SCH:	XBRL Taxonomy Extension Schema
Exhibit 101.CAL:	XBRL Taxonomy Extension Calculation Linkbase
Exhibit 101.LAB:	XBRL Taxonomy Extension Labels Linkbase
Exhibit 101.PRE:	XBRL Taxonomy Extension Presentation Linkbase
Exhibit 101.DEF:	XBRL Taxonomy Extension Definition Document

b. PSE&G:

<u>Exhibit 4a(15)</u>	<u>Supplemental Indenture dated April 1, 2018</u>
<u>Exhibit 12.1:</u>	<u>Computation of Ratios of Earnings to Fixed Charges Plus Preferred Securities Dividend Requirements</u>
<u>Exhibit 31.2:</u>	<u>Certification by Ralph Izzo Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act</u>
<u>Exhibit 31.3:</u>	<u>Certification by Daniel J. Cregg Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act</u>
<u>Exhibit 32.2:</u>	<u>Certification by Ralph Izzo Pursuant to Section 1350 of Chapter 63 of Title 18 of the U.S. Code</u>
<u>Exhibit 32.3:</u>	<u>Certification by Daniel J. Cregg Pursuant to Section 1350 of Chapter 63 of Title 18 of the U.S. Code</u>
Exhibit 101.INS:	XBRL Instance Document
Exhibit 101.SCH:	XBRL Taxonomy Extension Schema
Exhibit 101.CAL:	XBRL Taxonomy Extension Calculation Linkbase
Exhibit 101.LAB:	XBRL Taxonomy Extension Labels Linkbase
Exhibit 101.PRE:	XBRL Taxonomy Extension Presentation Linkbase
Exhibit 101.DEF:	XBRL Taxonomy Extension Definition Document

c. Power:

<u>Exhibit 12.2:</u>	<u>Computation of Ratios of Earnings to Fixed Charges</u>
<u>Exhibit 31.4:</u>	<u>Certification by Ralph Izzo Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act</u>
<u>Exhibit 31.5:</u>	<u>Certification by Daniel J. Cregg Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act</u>
<u>Exhibit 32.4:</u>	<u>Certification by Ralph Izzo Pursuant to Section 1350 of Chapter 63 of Title 18 of the U.S. Code</u>
<u>Exhibit 32.5:</u>	<u>Certification by Daniel J. Cregg Pursuant to Section 1350 of Chapter 63 of Title 18 of the U.S. Code</u>
Exhibit 101.INS:	XBRL Instance Document
Exhibit 101.SCH:	XBRL Taxonomy Extension Schema
Exhibit 101.CAL:	XBRL Taxonomy Extension Calculation Linkbase
Exhibit 101.LAB:	XBRL Taxonomy Extension Labels Linkbase
Exhibit 101.PRE:	XBRL Taxonomy Extension Presentation Linkbase
Exhibit 101.DEF:	XBRL Taxonomy Extension Definition Document



Table of Contents

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED  
(Registrant)

By: /S/ STUART J. BLACK  
Stuart J. Black  
Vice President and Controller  
(Principal Accounting Officer)

Date: April 30, 2018

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY  
(Registrant)

By: /S/ STUART J. BLACK  
Stuart J. Black  
Vice President and Controller  
(Principal Accounting Officer)

Date: April 30, 2018

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

PSEG POWER LLC  
(Registrant)

By: /S/ STUART J. BLACK  
Stuart J. Black  
Vice President and Controller  
(Principal Accounting Officer)

Date: April 30, 2018