PUBLIC SERVICE ENTERPRISE GROUP INC
Form 10-Q
August 01, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED June 30, 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 File Number	Registrants, State of Incorporation, Address, and Telephone Number	I.R.S. Employer Identification No.
001-09120	PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED (A New Jersey Corporation) 80 Park Plaza Newark, New Jersey 07102 973 430-7000	22-2625848
001-00973	PUBLIC SERVICE ELECTRIC AND GAS COMPANY (A New Jersey Corporation) 80 Park Plaza Newark, New Jersey 07102 973 430-7000	22-1212800
001-34232	PSEG POWER LLC (A Delaware Limited Liability Company) 80 Park Plaza Newark, New Jersey 07102 973 430-7000	22-3663480

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 ý 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 ý 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.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

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 ý

As of July 17, 2018, Public Service Enterprise Group Incorporated had outstanding 505,323,326 shares of its sole class of Common Stock, without par value.

As of July 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) of Form 10-Q. Each is filing its Quarterly Report on Form 10-Q with the reduced disclosure format authorized by General Instruction H.

Table of Contents

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, and PSE&G's ability to recover costs and earn returns on authorized investments;
- 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;

Table of Contents

- our inability to exercise control over the operations of generation facilities in which we do not maintain a controlling interest;
- 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 Contents

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Millions, except per share data
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
OPERATING REVENUES	$2,016	$2,142	$4,834	$4,733
OPERATING EXPENSES				
Energy Costs	600	588	1,552	1,456
Operation and Maintenance	725	718	1,479	1,435
Depreciation and Amortization	280	641	560	1,469
Total Operating Expenses	1,605	1,947	3,591	4,360
OPERATING INCOME	411	195	1,243	373
Income from Equity Method Investments	5	5	7	8
Net Gains (Losses) on Trust Investments	8	25	(14)	53
Other Income (Deductions)	34	33	66	65
Non-Operating Pension and OPEB Credits (Costs)	19	1	38	1
Interest Expense	(111)	(91)	(214)	(189)
INCOME BEFORE INCOME TAXES	366	168	1,126	311
Income Tax Expense	(97)	(59)	(299)	(88)
NET INCOME	$269	$109	$827	$223
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
BASIC	504	505	504	505
DILUTED	507	507	507	507
NET INCOME PER SHARE:				
BASIC	$0.53	$0.22	$1.64	$0.44
DILUTED	$0.53	$0.22	$1.63	$0.44
DIVIDENDS PAID PER SHARE OF COMMON STOCK	$0.45	$0.43	$0.90	$0.86

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Millions
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
NET INCOME	$ 269	$ 109	$ 827	$ 223
Other Comprehensive Income (Loss), net of tax				
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of $4, $(9), $13 and $(25) for the three and six months ended 2018 and 2017, respectively	(5)	10	(19)	25
Unrealized Gains (Losses) on Cash Flow Hedges, net of tax (expense) benefit of $1, $0, $1 and $0 for the three and six months ended 2018 and 2017, respectively	(1)	—	(1)	—
Pension/Other Postretirement Benefit Costs (OPEB) adjustment, net of tax (expense) benefit of $(3), $(4), $(6) and $(8) for the three and six months ended 2018 and 2017, respectively	7	6	15	12
Other Comprehensive Income (Loss), net of tax	1	16	(5)	37
COMPREHENSIVE INCOME	$ 270	$ 125	$ 822	$ 260

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$95	$ 313
Accounts Receivable, net of allowances of $59 in 2018 and 2017	1,163	1,348
Tax Receivable	111	127
Unbilled Revenues	189	296
Fuel	218	289
Materials and Supplies, net	574	577
Prepayments	324	118
Derivative Contracts	24	29
Regulatory Assets	296	211
Other	11	4
Total Current Assets	3,005	3,312
PROPERTY, PLANT AND EQUIPMENT	42,809	41,231
Less: Accumulated Depreciation and Amortization	(9,658)	(9,434)
Net Property, Plant and Equipment	33,151	31,797
NONCURRENT ASSETS		
Regulatory Assets	3,225	3,222
Long-Term Investments	924	932
Nuclear Decommissioning Trust (NDT) Fund	2,049	2,133
Long-Term Receivable of Variable Interest Entity (VIE)	688	686
Rabbi Trust Fund	224	231
Goodwill	16	16
Other Intangibles	127	114
Derivative Contracts	21	7
Other	277	266
Total Noncurrent Assets	7,551	7,607
TOTAL ASSETS	$43,707	$ 42,716

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	June 30, 2018	December 31, 2017
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$1,550	$ 1,000
Commercial Paper and Loans	270	542
Accounts Payable	1,348	1,694
Derivative Contracts	23	16
Accrued Interest	105	103
Accrued Taxes	104	48
Clean Energy Program	203	128
Obligation to Return Cash Collateral	131	129
Regulatory Liabilities	32	47
Other	478	461
Total Current Liabilities	4,244	4,168
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	5,475	5,240
Regulatory Liabilities	2,937	2,948
Clean Energy Program	27	—
Asset Retirement Obligations	1,047	1,024
OPEB Costs	1,423	1,455
OPEB Costs of Servco	551	542
Accrued Pension Costs	480	537
Accrued Pension Costs of Servco	122	129
Environmental Costs	332	357
Derivative Contracts	1	5
Long-Term Accrued Taxes	177	175
Other	223	221
Total Noncurrent Liabilities	12,795	12,633
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 10)		
CAPITALIZATION		
LONG-TERM DEBT	12,510	12,068
STOCKHOLDERS' EQUITY		
Common Stock, no par, authorized 1,000 shares; issued, 2018 and 2017—534 shares	4,955	4,961
Treasury Stock, at cost, 2018—30 shares; 2017—29 shares	(813)	(763)
Retained Earnings	10,426	9,878
Accumulated Other Comprehensive Loss	(410)	(229)
Total Stockholders' Equity	14,158	13,847
Total Capitalization	26,668	25,915
TOTAL LIABILITIES AND CAPITALIZATION	$43,707	$ 42,716

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$827	$223
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	560	1,469
Amortization of Nuclear Fuel	95	101
Emission Allowances and Renewable Energy Credit (REC) Compliance Accrual	46	51
Provision for Deferred Income Taxes (Other than Leases) and ITC	213	91
Non-Cash Employee Benefit Plan Costs	35	45
Leveraged Lease (Income) Loss, Adjusted for Rents Received and Deferred Taxes	8	(30)
Net (Gain) Loss on Lease Investments	14	45
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	(54)	(42)
Net Change in Regulatory Assets and Liabilities	(58)	(124)
Cost of Removal	(84)	(47)
Net (Gains) Losses and (Income) Expense from NDT Fund	(8)	(58)
Net Change in Certain Current Assets and Liabilities:		
Tax Receivable	16	69
Accrued Taxes	57	15
Margin Deposit	24	59
Other Current Assets and Liabilities	2	(58)
Employee Benefit Plan Funding and Related Payments	(58)	(49)
Other	(2)	(5)
Net Cash Provided By (Used In) Operating Activities	1,633	1,755
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(2,005)	(1,981)
Purchase of Emissions Allowances and RECs	(44)	(29)
Proceeds from Sales of Trust Investments	821	711
Purchases of Trust Investments	(829)	(726)
Other	30	36
Net Cash Provided By (Used In) Investing Activities	(2,027)	(1,989)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Commercial Paper and Loans	(272)	(388)
Issuance of Long-Term Debt	1,400	1,125
Redemption of Long-Term Debt	(400)	—
Cash Dividends Paid on Common Stock	(455)	(435)
Other	(83)	(62)
Net Cash Provided By (Used In) Financing Activities	190	240
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	(204)	6
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	315	426

Cash, Cash Equivalents and Restricted Cash at End of Period	$111	$432
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	$52	$(30)
Interest Paid, Net of Amounts Capitalized	$205	$189
Accrued Property, Plant and Equipment Expenditures	$625	$513

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
OPERATING REVENUES	$1,386	$1,393	$3,231	$3,219
OPERATING EXPENSES				
Energy Costs	488	488	1,270	1,250
Operation and Maintenance	353	359	744	729
Depreciation and Amortization	187	166	377	337
Total Operating Expenses	1,028	1,013	2,391	2,316
OPERATING INCOME	358	380	840	903
Net Gains (Losses) on Trust Investments	—	—	—	2
Other Income (Deductions)	20	21	40	43
Non-Operating Pension and OPEB Credits (Costs)	15	(1)	30	(3)
Interest Expense	(82)	(69)	(163)	(144)
INCOME BEFORE INCOME TAXES	311	331	747	801
Income Tax Expense	(80)	(123)	(197)	(294)
NET INCOME	$231	$208	$550	$507

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
NET INCOME	$231	$208	$550	$507
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of $0, $0, $0 and $1 for the three and six months ended 2018 and 2017, respectively	1	—	—	(1)
COMPREHENSIVE INCOME	$232	$208	$550	$506

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

Table of Contents

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

	June 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$20	$ 242
Accounts Receivable, net of allowances of $59 in 2018 and 2017	796	882
Accounts Receivable—Affiliated Companies	18	—
Unbilled Revenues	189	296
Materials and Supplies	195	197
Prepayments	205	44
Regulatory Assets	296	211
Other	10	4
Total Current Assets	1,729	1,876
PROPERTY, PLANT AND EQUIPMENT	30,396	29,117
Less: Accumulated Depreciation and Amortization	(6,200)	(6,101)
Net Property, Plant and Equipment	24,196	23,016
NONCURRENT ASSETS		
Regulatory Assets	3,225	3,222
Long-Term Investments	285	280
Rabbi Trust Fund	45	46
Other	123	114
Total Noncurrent Assets	3,678	3,662
TOTAL ASSETS	$29,603	$ 28,554

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

Table of Contents

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

	June 30, 2018	December 31, 2017
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$600	$ 750
Commercial Paper and Loans	195	—
Accounts Payable	704	728
Accounts Payable—Affiliated Companies	150	340
Accrued Interest	79	78
Clean Energy Program	203	128
Obligation to Return Cash Collateral	131	129
Regulatory Liabilities	32	47
Other	376	311
Total Current Liabilities	2,470	2,511
NONCURRENT LIABILITIES		
Deferred Income Taxes and ITC	3,570	3,391
OPEB Costs	1,066	1,103
Accrued Pension Costs	189	226
Regulatory Liabilities	2,937	2,948
Clean Energy Program	27	—
Environmental Costs	255	283
Asset Retirement Obligations	214	212
Long-Term Accrued Taxes	94	91
Other	111	114
Total Noncurrent Liabilities	8,463	8,368
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 10)		
CAPITALIZATION		
LONG-TERM DEBT	8,286	7,841
STOCKHOLDER'S EQUITY		
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	7,411	6,861
Total Stockholder's Equity	10,384	9,834
Total Capitalization	18,670	17,675
TOTAL LIABILITIES AND CAPITALIZATION	$29,603	$ 28,554

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 CASH FLOWS
Millions
(Unaudited)

	Six Months Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$550	$507
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	377	337
Provision for Deferred Income Taxes and ITC	160	330
Non-Cash Employee Benefit Plan Costs	19	25
Cost of Removal	(84)	(47)
Net Change in Regulatory Assets and Liabilities	(58)	(124)
Net Change in Certain Current Assets and Liabilities:		
Accounts Receivable and Unbilled Revenues	195	108
Materials and Supplies	2	(15)
Prepayments	(161)	(184)
Accounts Payable	(30)	(30)
Accounts Receivable/Payable—Affiliated Companies, net	(204)	(72)
Other Current Assets and Liabilities	66	14
Employee Benefit Plan Funding and Related Payments	(50)	(42)
Other	(20)	(38)
Net Cash Provided By (Used In) Operating Activities	762	769
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(1,447)	(1,389)
Proceeds from Sales of Trust Investments	9	28
Purchases of Trust Investments	(10)	(29)
Solar Loan Investments	(11)	(3)
Other	3	5
Net Cash Provided By (Used In) Investing Activities	(1,456)	(1,388)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Short-Term Debt	195	—
Issuance of Long-Term Debt	700	425
Redemption of Long-Term Debt	(400)	—
Other	(9)	(5)
Net Cash Provided By (Used In) Financing Activities	486	420
Net Increase (Decrease) In Cash, Cash Equivalents and Restricted Cash	(208)	(199)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	244	393
Cash, Cash Equivalents and Restricted Cash at End of Period	$36	$194
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	$97	$(75)
Interest Paid, Net of Amounts Capitalized	$157	$144
Accrued Property, Plant and Equipment Expenditures	$436	$319

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
OPERATING REVENUES	$767	$918	$2,170	$2,187
OPERATING EXPENSES				
Energy Costs	373	386	1,119	1,078
Operation and Maintenance	268	256	514	488
Depreciation and Amortization	84	465	166	1,115
Total Operating Expenses	725	1,107	1,799	2,681
OPERATING INCOME (LOSS)	42	(189)	371	(494)
Income from Equity Method Investments	5	5	7	8
Net Gains (Losses) on Trust Investments	8	24	(14)	43
Other Income (Deductions)	13	12	24	23
Non-Operating Pension and OPEB Credits (Costs)	3	2	7	4
Interest Expense	(11)	(13)	(18)	(29)
INCOME (LOSS) BEFORE INCOME TAXES	60	(159)	377	(445)
Income Tax Benefit (Expense)	(19)	62	(102)	178
NET INCOME (LOSS)	$41	$(97)	$275	$(267)

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
NET INCOME (LOSS)	$41	$(97)	$275	$(267)
Other Comprehensive Income (Loss), net of tax				
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of $3, $(9), $11 and $(27) for the three and six months ended 2018 and 2017, respectively	(4)	10	(15)	29
Pension/OPEB adjustment, net of tax (expense) benefit of $(2), $(3), $(5) and $(7) for the three and six months ended 2018 and 2017, respectively	6	5	12	10
Other Comprehensive Income (Loss), net of tax	2	15	(3)	39
COMPREHENSIVE INCOME (LOSS)	$43	$(82)	$272	$(228)

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)

	June 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$20	$ 32
Accounts Receivable	313	380
Accounts Receivable—Affiliated Companies	81	221
Short-Term Loan to Affiliate	519	—
Fuel	218	289
Materials and Supplies, net	376	376
Derivative Contracts	24	29
Prepayments	10	11
Other	4	3
Total Current Assets	1,565	1,341
PROPERTY, PLANT AND EQUIPMENT	12,046	11,755
Less: Accumulated Depreciation and Amortization	(3,267)	(3,159)
Net Property, Plant and Equipment	8,779	8,596
NONCURRENT ASSETS		
NDT Fund	2,049	2,133
Long-Term Investments	87	87
Goodwill	16	16
Other Intangibles	127	114
Rabbi Trust Fund	56	57
Derivative Contracts	21	7
Other	72	67
Total Noncurrent Assets	2,428	2,481
TOTAL ASSETS	$12,772	$ 12,418

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)

	June 30, 2018	December 31, 2017
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$250	$ 250
Accounts Payable	468	712
Accounts Payable—Affiliated Companies	148	57
Short-Term Loan from Affiliate	—	281
Derivative Contracts	23	16
Accrued Interest	22	20
Other	62	99
Total Current Liabilities	973	1,435
NONCURRENT LIABILITIES		
Deferred Income Taxes and ITC	1,451	1,406
Asset Retirement Obligations	831	810
OPEB Costs	287	283
Derivative Contracts	1	5
Accrued Pension Costs	169	184
Long-Term Accrued Taxes	45	52
Other	143	140
Total Noncurrent Liabilities	2,927	2,880
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 10)		
LONG-TERM DEBT	2,833	2,136
MEMBER'S EQUITY		
Contributed Capital	2,214	2,214
Basis Adjustment	(986)	(986)
Retained Earnings	5,161	4,911
Accumulated Other Comprehensive Loss	(350)	(172)
Total Member's Equity	6,039	5,967
TOTAL LIABILITIES AND MEMBER'S EQUITY	$12,772	$ 12,418

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)

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	$275	$(267)
Adjustments to Reconcile Net Income (Loss) to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	166	1,115
Amortization of Nuclear Fuel	95	101
Provision for Deferred Income Taxes and ITC	51	(226)
Interest Accretion on Asset Retirement Obligation	20	15
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	(54)	(42)
Emission Allowances and Renewable Energy Credit (REC) Compliance Accrual	46	51
Non-Cash Employee Benefit Plan Costs	11	14
Net (Gains) Losses and (Income) Expense from NDT Fund	(8)	(58)
Net Change in Certain Current Assets and Liabilities:		
Fuel, Materials and Supplies	71	58
Margin Deposit	24	59
Accounts Receivable	84	36
Accounts Payable	(90)	(14)
Accounts Receivable/Payable—Affiliated Companies, net	227	75
Other Current Assets and Liabilities	(35)	7
Employee Benefit Plan Funding and Related Payments	(5)	(4)
Other	(9)	12
Net Cash Provided By (Used In) Operating Activities	869	932
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(547)	(576)
Purchase of Emissions Allowances and RECs	(44)	(29)
Proceeds from Sales of Trust Investments	785	602
Purchases of Trust Investments	(793)	(616)
Short-Term Loan—Affiliated Company	(519)	(146)
Other	23	30
Net Cash Provided By (Used In) Investing Activities	(1,095)	(735)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Long-Term Debt	700	—
Cash Dividend Paid	(200)	(175)
Short-Term Loan—Affiliated Company	(281)	—
Other	(5)	(4)
Net Cash Provided By (Used In) Financing Activities	214	(179)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	(12)	18
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	32	11

Cash, Cash Equivalents and Restricted Cash at End of Period	$20	$29
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	$(72)	$66
Interest Paid, Net of Amounts Capitalized	$18	$29
Accrued Property, Plant and Equipment Expenditures	$189	$194

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 six months ended

June 30, 2018.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
Table of Contents

	PSE&G	Power	Other (A)	Consolidated
	Millions			
As of December 31, 2017				
Cash and Cash Equivalents	$242	$ 32	$ 39	$ 313
Restricted Cash in Other Current Assets	—	—	—	—
Restricted Cash in Other Noncurrent Assets	2	—	—	2
Cash, Cash Equivalents and Restricted Cash	$244	$ 32	$ 39	$ 315
As of June 30, 2018				
Cash and Cash Equivalents	$20	$ 20	$ 55	$ 95
Restricted Cash in Other Current Assets	4	—	—	4
Restricted Cash in Other Noncurrent Assets	12	—	—	12
Cash, Cash Equivalents and Restricted Cash	$36	$ 20	$ 55	$ 111

(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 $25 million and $39 million, Energy Costs by $16 million and $25 million, and Operation and Maintenance (O&M) Expense by $9 million and $14 million for the three and six months ended June 30, 2017, respectively. At Power, retrospective adjustments reduced Operating Revenues and Energy Costs by $11 million and $26 million for the three and six months ended June 30, 2017, respectively. 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 measured at fair value with the unrealized gains and losses now 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 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 June 30, 2018 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 is eligible for capitalization, when applicable. As a result of adopting this standard, PSE&G reduced its charge to expense for the three and six months ended June 30, 2018 by approximately $15 million and $29 million, respectively. The Condensed Consolidated Statements of Operations were recast to show retrospective adjustments of the non-service cost components of net benefit credits (costs) of $(1) million and $(3) million at PSE&G and $2 million and $4 million at Power, for the three and six months ended June 30, 2017, 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, updated by ASUs 2018-01, 2018-10 and 2018-11

This accounting standard, and related updates, 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 allows lessees and lessors to apply either (i) 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, or (ii) a prospective transition approach for leases existing as of January 1, 2019 with a cumulative effect adjustment to be recorded to Retained Earnings. PSEG intends to adopt this standard on a prospective basis. Existing guidance related to leveraged leases does not change.

This standard 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.

PSEG is currently analyzing the impact of this standard on its consolidated financial statements while undertaking the following implementation activities: (i) reviewing all contract types throughout PSEG to determine the lease population; (ii) implementing a lease accounting system to capture and account for long-term (greater than one year) leases to be operational on January 1, 2019; (iii) developing internal lease accounting policies and determining the practical expedients PSEG will elect; and (iv) drafting lease disclosures required in 2019. PSEG expects adoption of this standard to have a material impact on the balance sheets of PSEG and PSE&G, but has not yet quantified this impact.

The standard is effective for annual and interim periods beginning after December 15, 2018.

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. The amendments also permit an entity to measure the interest rate risk on the hedged item in a partial-term fair value hedge assuming the hedged item has a term that reflects only the designated cash flows being hedged. 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 analyzed the impact of this standard on its consolidated financial statements and has determined that the standard could enable PSEG to enter into certain transactions that can be deemed hedges that previously would not have qualified. Adoption of this standard is not expected to have a material impact on PSEG's 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 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 does not expect adoption of this standard to have a material impact on 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 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 index 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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
Table of Contents

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.

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 June 30, 2018					
Revenues from Contracts with Customers					
Electric Distribution	$754	$—	$—	$ —	$ 754
Gas Distribution	248	—	—	(4)	244
Transmission	301	—	—	—	301
Electricity and Related Product Sales					
PJM					
Third Party Sales	—	373	—	—	373
Sales to Affiliates	—	147	—	(147)	—
New York ISO	—	46	—	—	46
ISO New England	—	14	—	—	14
Gas Sales					
Third Party Sales	—	30	—	—	30
Sales to Affiliates	—	108	—	(108)	—
Other Revenues from Contracts with Customers (A)	63	13	125	(1)	200
Total Revenues from Contracts with Customers	1,366	731	125	(260)	1,962
Revenues Unrelated to Contracts with Customers (B)	20	36	(2)	—	54
Total Operating Revenues	$1,386	$ 767	$123	$ (260)	$ 2,016

21

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
Table of Contents

	PSE&G	Power	Other	Eliminations	Consolidated
	Millions				
Six Months Ended June 30, 2018					
Revenues from Contracts with Customers					
Electric Distribution	$1,444	$—	$—	$ —	$ 1,444
Gas Distribution	1,007	—	—	(7)	1,000
Transmission	613	—	—	—	613
Electricity and Related Product Sales					
PJM					
Third Party Sales	—	871	—	—	871
Sales to Affiliates	—	323	—	(323)	—
New York ISO	—	105	—	—	105
ISO New England	—	61	—	—	61
Gas Sales					
Third Party Sales	—	94	—	—	94
Sales to Affiliates	—	505	—	(505)	—
Other Revenues from Contracts with Customers (A)	135	23	262	(2)	418
Total Revenues from Contracts with Customers	3,199	1,982	262	(837)	4,606
Revenues Unrelated to Contracts with Customers (B)	32	188	8	—	228
Total Operating Revenues	$3,231	$2,170	$ 270	$ (837)	$ 4,834

	PSE&G	Power	Other	Eliminations	Consolidated
	Millions				
Three Months Ended June 30, 2017					
Revenues from Contracts with Customers					
Electric Distribution	$757	$—	$—	$ —	$ 757
Gas Distribution	233	—	—	(6)	227
Transmission	307	—	—	—	307
Electricity and Related Product Sales					
PJM					
Third Party Sales	—	302	—	—	302
Sales to Affiliates	—	171	—	(171)	—
New York ISO	—	50	—	—	50
ISO New England	—	9	—	—	9
Gas Sales					
Third Party Sales	—	11	—	—	11
Sales to Affiliates	—	107	—	(107)	—
Other Revenues from Contracts with Customers (A)	67	12	128	(1)	206
Total Revenues from Contracts with Customers	1,364	662	128	(285)	1,869
Revenues Unrelated to Contracts with Customers (B)	29	256	(12)	—	273

Total Operating Revenues	$1,393	$918	$116	$ (285)	$ 2,142

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
Table of Contents

	PSE&G	Power	Other	Eliminations	Consolidated
	Millions				
Six Months Ended June 30, 2017					
Revenues from Contracts with Customers					
Electric Distribution	$1,458	$—	$—	$ —	$ 1,458
Gas Distribution	988	—	—	(7)	981
Transmission	606	—	—	—	606
Electricity and Related Product Sales					
PJM					
Third Party Sales	—	616	—	—	616
Sales to Affiliates	—	355	—	(355)	—
New York ISO	—	86	—	—	86
ISO New England	—	20	—	—	20
Gas Sales					
Third Party Sales	—	63	—	—	63
Sales to Affiliates	—	508	—	(508)	—
Other Revenues from Contracts with Customers (A)	129	22	256	(2)	405
Total Revenues from Contracts with Customers	3,181	1,670	256	(872)	4,235
Revenues Unrelated to Contracts with Customers (B)	38	517	(57)	—	498
Total Operating Revenues	$3,219	$2,187	$199	$ (872)	$ 4,733

(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. For the three and six months ended June 30, 2018, Other includes a $20 million loss and for the three and six months ended June 30, 2017, Other includes a $22 million loss and a $77 million loss, respectively, related to Energy Holdings' investments in leases.

Contract Balances

PSE&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 June 30, 2018 and December 31, 2017. Substantially all of PSE&G's accounts receivable result from contracts with customers. Allowances represented approximately seven percent of accounts receivable as of June 30, 2018 and December 31, 2017.

Power

Power generally collects consideration upon satisfaction of performance obligations, and therefore, Power had no material contract balances as of June 30, 2018 and December 31, 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 June 30, 2018 and December 31, 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 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 Reliability Pricing Model (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 2018 to May 2019	$205	9,200
June 2019 to May 2020	$116	8,900
June 2020 to May 2021	$174	7,800
June 2021 to May 2022	$178	7,700

Capacity Payments from the New England ISO Forward Capacity Market—The Forward Capacity Market Auction (FCM) is conducted annually three years in advance of the operating period. The table below includes Power’s cleared capacity in the FCM for the Bridgeport Harbor Station 5, which cleared the 2019/2020 auction at $231/MW-day for seven years, with escalations based on the Handy-Whitman Index and the planned retirement of Bridgeport Harbor Station 3 in 2021. Power expects to realize the following average capacity prices for capacity obligations to be satisfied resulting from the FCM auctions which have been completed:

Delivery Year	$ per MW-Day	MW Cleared
June 2018 to May 2019	$314	820
June 2019 to May 2020	$231	1,330
June 2020 to May 2021	$195	1,330
June 2021 to May 2022	$192	950
June 2022 to May 2023	$231	480
June 2023 to May 2024	$231	480
June 2024 to May 2025	$231	480
June 2025 to May 2026	$231	480

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 annual fixed and incentive components. The fixed fee for the provision of services thereunder in 2018 is $64 million and could increase each year based on the change in the Consumer Price Index (CPI). The incentive for 2018 can range from zero to approximately $10 million and could increase each year thereafter based on the change in the CPI.

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 and six months ended June 30, 2017, Power recognized total Depreciation and Amortization of $390 million and $964 million, respectively, for the Hudson and Mercer units to reflect the significant shortening of their expected economic useful lives in 2017. In the three and six months ended June 30, 2018, Power recognized pre-tax charges (credits) in Energy Costs of $(1) million and $3 million, respectively, primarily for coal inventory lower of cost or market adjustments. In the three and six months ended June 30, 2017, Power recognized pre-tax charges of the same nature in Energy Costs of $2 million and $9 million, respectively. In the three and six months ended June 30, 2017, Power also recognized pre-tax charges in O&M of $4 million of shut down costs and a net increase in the Asset Retirement Obligation liability due to settlements and changes in cash flow estimates, partially offset by changes in employee-related severance costs. 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.

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 selection of the units under the newly enacted legislation in the state of New Jersey. Power and Exelon have 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. Power and Exelon have agreed to continue to assess and, when appropriate, approve the funding of individual capital projects to ensure compliance with regulatory requirements and the safe operation of the Salem generating station and that the funding of these projects may be restored if legislation enacted in New Jersey 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 May 2018, the governor of New Jersey signed legislation that would provide a safety net in order to prevent the loss of environmental attributes from selected nuclear generating stations referred to as the zero emissions certificate (ZEC) program. The legislation calls for the BPU (within a 330-day period from enactment) to establish a collection process for a customer charge, determine eligibility and certification of need, and ultimately select nuclear plants to potentially receive ZECs starting in April 2019. Power cannot predict 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 energy market prices continue to be depressed, there are adverse impacts from potential changes to the capacity market construct being considered by FERC, or the ZEC program does not adequately compensate our 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.
The following table provides the balance sheet amounts by generating station as of June 30, 2018 for significant assets and liabilities associated with Power's owned share of its nuclear assets.

	As of June 30, 2018			
	Hope Creek	Salem	Support Facilities and Other (A)	Peach Bottom
	Millions			
Assets				
Materials and Supplies Inventory	$83	$ 82	$ —	$ 42
Nuclear Production, net of Accumulated Depreciation	688	646	203	786
Nuclear Fuel In-Service, net of Accumulated Depreciation	171	89	—	119
Construction Work in Progress (including nuclear fuel)	140	105	2	24
Total Assets	$1,082	$ 922	$ 205	$ 971
Liability				
Asset Retirement Obligation	$309	$ 255	$ —	$ 210
Total Liabilities	$309	$ 255	$ —	$ 210
Net Assets	$773	$ 667	$ 205	$ 761
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 $109 million and $112 million for the three months and $229 million and $224 million for the six months ended June 30, 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.

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 I (ESP I) 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 overcollection 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. In May 2018, PSE&G updated its base rate filing to include nine months of actual data. As a result of the base rate reduction implemented on April 1, 2018, among other factors, PSE&G's updated filing requests an approximate 3% increase in revenues. 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.

In June 2018, PSE&G filed its 2017 true-up adjustment pertaining to its transmission formula rates in effect for 2017. This resulted in an adjustment of $27 million more than the 2017 originally filed revenues, the impact of which PSE&G had primarily recognized in its Consolidated Statement of Operations for the year ended December 31, 2017.

BGSS—In June 2018, PSE&G made its annual BGSS filing with the BPU requesting a decrease in the annual BGSS revenues of $26 million. If approved, the BGSS rate would be decreased from approximately 37 cents to 35 cents per therm for residential gas customers to be effective October 1, 2018. This matter is pending.

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 $125 million were credited to customers for the months of January through April 2018.

ESP I Recovery Filing—In March and September of each year, PSE&G files with the BPU for base rate recovery of ESP I 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 ESP I 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 were effective April 1, 2018.

Weather Normalization Clause (WNC)—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 (October 1 through May 31), which resulted in a deficiency of $31 million, plus a carryover balance of $24 million from the 2015-2016 Winter Period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
Table of Contents

In June 2018, PSE&G filed its 2017-2018 WNC petition seeking a net recovery of $14 million to be collected over the 2018-2019 Winter Period. The $14 million net recovery is the result of $9 million of excess revenues from the colder-than- normal 2017-2018 Winter Period offset by $23 million of remaining prior Winter Period undercollection.
Green Program Recovery Charges (GPRC)—In June 2018, PSE&G filed its 2018 GPRC cost recovery petition requesting recovery of approximately $65 million and $6 million in electric and gas revenues, respectively, on an annual basis. This matter is pending.
Gas System Modernization Program I (GSMP I)—In July 2018, PSE&G filed its annual GSMP I cost recovery petition seeking BPU approval to recover in gas base rates an estimated annual revenue increase of $26 million effective January 1, 2019. This increase represents the return of and on investment for GSMP I investments expected to be in service through September 30, 2018. This request will be updated in October 2018 for actual costs.

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.”

Outstanding Loans by Class of Customer

Consumer Loans	As of June 30, 2018	As of December 31, 2017
	Millions	
Commercial/Industrial	$169	$ 158
Residential	9	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, 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. Additional pre-tax charges of $22 million (including $7 million related to residual value impairment) were recorded in the quarter ended June 30, 2017. Subject to the terms of the Credit Support Forbearance and Rent Payment Forbearance described below, lease payments and adjustments to qualifying credit support on the REMA leases are due semiannually in January and July of each year.

Based on an ongoing review of (i) the liquidity challenges facing REMA and (ii) available alternatives, Energy Holdings recorded an additional $20 million pre-tax charge in the quarter ended June 30, 2018 for its current best estimate of loss related to lease receivables. Pre-tax charges were reflected in Operating Revenues in the first half of 2018 and 2017 and are included in Gross Investment in Leases as of June 30, 2018.

Certain subsidiaries of Energy Holdings, REMA, certain holders of the pass-through certificates and other parties have entered into a forbearance agreement (Credit Support Forbearance) relating to REMA’s obligation to procure additional qualifying credit support for the Conemaugh facility. In addition, certain subsidiaries of Energy Holdings, REMA, certain holders of the pass-through certificates and other parties have entered into forbearance agreements (Rent Payment Forbearance) relating to the Keystone, Conemaugh and Shawville facilities. The parties to the Rent Payment Forbearance have agreed to permit REMA to enter into agreements with third parties relating to certain energy management, operation and maintenance and other services and have agreed to temporarily forbear from exercising rights and remedies related to certain events of default relating to certain periodic lease rent payments required to be made by REMA in July 2018.

The Credit Support 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 Credit Support Forbearance occurs. The Rent Payment Forbearance for each facility will remain effective until the earlier of (i) August 17, 2018 and (ii) the date on which any of the following events occur: (a) a new event of default occurs and is continuing under the operative documents governing the respective facilities; (b) REMA commences a case under title 11 of the United States Bankruptcy Code or (c) REMA terminates discussions with Energy Holdings and/or the consenting pass-through certificate holders regarding a potential restructuring by REMA.

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). Also, if energy markets continue to deteriorate, it is possible that additional write-downs, including residual value impairment, could occur.

The following table shows Energy Holdings’ gross and net lease investment as of June 30, 2018 and December 31, 2017.

	As of June 30, 2018	As of December 31, 2017
	Millions	
Lease Receivables (net of Non-Recourse Debt)	$525	$ 546
Estimated Residual Value of Leased Assets	326	326
Total Investment in Rental Receivables	851	872
Unearned and Deferred Income	(299)	(307)
Gross Investment in Leases	552	565
Deferred Tax Liabilities	(500)	(480)
Net Investment in Leases	$52	$ 85

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
Table of Contents

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 June 30, 2018	Lease Receivables, Net of Non-Recourse Debt As of June 30, 2018
	Millions
AA	$ 14
BBB+ — BBB-	316
BB-	133
CCC-	62
Total	$ 525

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 June 30, 2018, the gross investment in the leases of such assets, net of non-recourse debt, was $315 million ($(112) million, net of deferred taxes). A more detailed description of such assets under lease is presented in the following table.

Asset	Location	Gross Investment	% Owned	Total MW	Fuel Type	Counterparties' S&P Credit Ratings	Counterparty
		Millions					
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	$ 10	17 %	1,711	Coal	CCC-	REMA (A)
Conemaugh Station Units 1 and 2	PA	$ 10	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 have entered into a Credit Support Forbearance relating to the Conemaugh facility and the Rent Payment Forbearance relating to the Keystone, Conemaugh and Shawville facilities, as described above.

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 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
Table of Contents

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 June 30, 2018			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities				
Domestic	$471	$ 235	$ (8)	$698
International	321	76	(14)	383
Total Equity Securities	792	311	(22)	1,081
Available-for Sale Debt Securities				
Government	528	1	(12)	517
Corporate	464	—	(14)	450
Total Available-for-Sale Debt Securities	992	1	(26)	967
Other	1	—	—	1
Total NDT Fund Investments	$1,785	$ 312	$ (48)	$2,049

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

Net unrealized gains (losses) on debt securities of $(14) million (after-tax) were included in Accumulated Other Comprehensive Loss on PSEG’s and Power’s Condensed Consolidated Balance Sheets as of June 30, 2018. The portion of net unrealized gains (losses) recognized during the second quarter and first half of 2018 related to equity securities still held at the end of June 30, 2018 were $12 million and $(3) million, respectively.
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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
Table of Contents

	As of June 30, 2018	As of December 31, 2017
	Millions	
Accounts Receivable	$11	$ 24
Accounts Payable	$8	$ 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 June 30, 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	$79	$ (8)	$—	$ —	$40	$ (2)	$—	$ —
International	74	(13)	4	(1)	29	(3)	2	—
Total Equity Securities	153	(21)	4	(1)	69	(5)	2	—
Available-for Sale Debt Securities								
Government (B)	402	(9)	64	(3)	343	(2)	91	(2)
Corporate (C)	358	(12)	25	(2)	191	(1)	27	(1)
Total Available-for-Sale Debt Securities	760	(21)	89	(5)	534	(3)	118	(3)
NDT Trust Investments	$913	$ (42)	$93	$ (6)	$603	$ (8)	$120	$ (3)

(A) Equity Securities—Investments in marketable equity securities within the NDT Fund are 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.

(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 June 30, 2018.

(C)

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 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 June 30, 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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	Millions			
Proceeds from NDT Fund Sales (A)	$402	$320	$774	$567
Net Realized Gains (Losses) on NDT Fund				
Gross Realized Gains	$34	$32	$58	$53
Gross Realized Losses	(10)	(5)	(22)	(9)
Net Realized Gains (Losses) on NDT Fund (B)	$24	$27	$36	$44
Unrealized Gains (Losses) on Equity Securities in NDT Fund (C)	(16)	N/A	(50)	N/A
Other-Than-Temporary-Impairments	$—	$(3)	—	(4)
Net Gains (Losses) on NDT Fund Investments	$8	$24	$(14)	$40

(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 June 30, 2018 had the following maturities:

Time Frame	Fair Value
	Millions
Less than one year	$ 10
1 - 5 years	298
6 - 10 years	196
11 - 15 years	45
16 - 20 years	71
Over 20 years	347
Total NDT Available-for-Sale Debt Securities	$ 967

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.”

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 June 30, 2018			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities				
Domestic	$21	$ 3	$ —	$ 24
International	—	—	—	—
Total Equity Securities	21			