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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

S **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007
OR
£ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM TO

Commission File Number	Registrants, State of Incorporation, Address, and Telephone Number	I.R.S. Employer Identification No.
001-09120	PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED (A New Jersey Corporation) 80 Park Plaza, P.O. Box 1171 Newark, New Jersey 07101-1171 973 430-7000 http://www.pseg.com	22-2625848
001-00973	PUBLIC SERVICE ELECTRIC AND GAS COMPANY (A New Jersey Corporation) 80 Park Plaza, P.O. Box 570 Newark, New Jersey 07101-0570 973 430-7000 http://www.pseg.com	22-1212800
000-49614	PSEG POWER LLC (A Delaware Limited Liability Company) 80 Park Plaza T25 Newark, New Jersey 07102-4194 973 430-7000 http://www.pseg.com	22-3663480
000-32503	PSEG ENERGY HOLDINGS L.L.C. (A New Jersey Limited Liability Company) 80 Park Plaza T20 Newark, New Jersey 07102-4194 973 430-7000 http://www.pseg.com	42-1544079

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

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

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

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

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FORWARD-LOOKING STATEMENTS

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

changes in energy policies and regulation, including market rules;

ability to attain satisfactory regulatory results;

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

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

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

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

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

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

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

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

environmental regulations that significantly impact operations;

governmental and industry responses to global climate change;

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

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

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

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

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

effectiveness of risk management and internal control systems;

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

ability to attract and retain management and other key employees;

changes in political conditions;

changes in technology that

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

continued availability of insurance coverage at commercially reasonable rates;

involvement in lawsuits, including liability claims and commercial disputes;

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

general economic conditions, including inflation or deflation;

changes in tax laws and regulations;

substantial competition in the domestic and worldwide energy markets;

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

availability of fuel and timely transportation at reasonable prices;

delays, cost escalations or unsuccessful construction and development;

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

changes in foreign currency exchange rates;

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

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

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

acts of war or terrorism.

Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements and PSEG, PSE&G, Power and Energy Holdings cannot assure you that the results or developments anticipated by management will be realized, or even if realized, will have the expected consequences to, or effects on, PSEG, PSE&G, Power and Energy Holdings or their respective business prospects, financial condition or results of operations. Undue reliance should not be placed on these forward-looking statements in making any investment decision. Each of PSEG, PSE&G, Power and Energy Holdings expressly disclaims any obligation or undertaking to release publicly any updates or revisions to these forward-looking statements to reflect events or circumstances that occur or arise or are anticipated to occur or arise after the date hereof. In making any investment decision regarding PSEG s, PSE&G s, Power s and Energy Holdings securities, PSEG, PSE&G, Power and Energy Holdings are not making, and you should not infer, any representation about the likely existence of any particular future set of facts or circumstances. The forward-looking statements contained in this report are intended to qualify for the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

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

TOTAL ASSETS	$	28,458	$	28,570

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

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

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

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007	December 31, 2006
	(Millions) (Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 33	$ 28
Accounts Receivable, net of allowances of $54 in 2007 and $46 in 2006	861	805
Unbilled Revenues	260	328
Materials and Supplies	62	50
Prepayments	339	14
Restricted Funds	7	12
Derivative Contracts	1	2
Other	41	36
Total Current Assets	1,604	1,275
PROPERTY, PLANT AND EQUIPMENT	11,364	11,061
Less: Accumulated Depreciation and Amortization	(3,913)	(3,794)
Net Property, Plant and Equipment	7,451	7,267
NONCURRENT ASSETS		
Regulatory Assets	5,238	5,694
Long-Term Investments	150	149
Other Special Funds	55	53
Other	116	115
Total Noncurrent Assets	5,559	6,011
TOTAL ASSETS	$ 14,614	$ 14,553

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

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007	December 31, 2006
	(Millions) (Unaudited)	
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$ 175	$ 284
Commercial Paper and Loans	295	31
Accounts Payable	353	254
Accounts Payable Affiliated Companies, net	338	645
Accrued Interest	55	55
Clean Energy Program	128	120
Derivative Contracts	11	2
Other	288	322
Total Current Liabilities	1,643	1,713
NONCURRENT LIABILITIES		
Deferred Income Taxes and ITC	2,428	2,517
Other Postretirement Benefit (OPEB) Costs	897	898
Accrued Pension Costs	133	133
Regulatory Liabilities	410	646
Clean Energy Program	73	133
Environmental Costs	350	367
Asset Retirement Obligations	227	221
Derivative Contracts	26	18
Long-Term Accrued Taxes due to Affiliate	59	
Other	7	6
Total Noncurrent Liabilities	4,610	4,939
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)		
CAPITALIZATION		
LONG-TERM DEBT		
Long-Term Debt	3,352	3,003
Securitization Debt	1,626	1,708
Total Long-Term Debt	4,978	4,711

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

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

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

PSEG POWER LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For The Quarters Ended June 30,				For The Six Months Ended June 30,			
	2007		2006		2007		2006	
	(Millions) (Unaudited)							
OPERATING REVENUES	$	1,305	$	1,129	$	3,454	$	3,096
OPERATING EXPENSES								
Energy Costs		694		669		2,182		2,156
Operation and Maintenance		241		262		479		494
Depreciation and Amortization		34		36		68		67
Total Operating Expenses		969		967		2,729		2,717
OPERATING INCOME		336		162		725		379
Other Income		55		34		106		75
Other Deductions		(34)		(14)		(63)		(33)
Interest Expense		(39)		(36)		(76)		(68)

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

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

PSEG POWER LLC
CONDENSED CONSOLIDATED BALANCE SHEETS

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

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

PSEG POWER LLC
CONDENSED CONSOLIDATED BALANCE SHEETS

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

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

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

PSEG POWER LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

This combined Form 10-Q is separately filed by Public Service Enterprise Group Incorporated (PSEG), Public Service Electric and Gas Company (PSE&G), PSEG Power LLC (Power) and PSEG Energy Holdings L.L.C. (Energy Holdings). Information contained herein relating to any individual company is filed by such company on its own behalf. PSE&G, Power and Energy Holdings each make representations only as to itself and make no representations as to any other company.

Note 1. Organization and Basis of Presentation

Organization

PSEG

PSEG has four principal direct wholly owned subsidiaries: PSE&G, Power, Energy Holdings and PSEG Services Corporation (Services).

PSE&G

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

PSE&G also owns PSE&G Transition Funding LLC (Transition Funding) and PSE&G Transition Funding II LLC (Transition Funding II), bankruptcy-remote entities that purchased certain transition property from PSE&G and issued transition bonds secured by such property. The transition property consists principally of the rights to receive electricity consumption-based per kilowatt-hour (kWh) charges from PSE&G electric distribution customers, which represent irrevocable rights to receive amounts sufficient to recover certain of PSE&G s transition costs related to deregulation, as approved by the BPU.

Power

Power is a multi-regional, wholesale energy supply company that integrates its generating asset operations and gas supply commitments with its wholesale energy, fuel supply, energy trading and marketing and risk management function through three principal direct wholly owned subsidiaries: PSEG Nuclear LLC (Nuclear), PSEG Fossil LLC (Fossil) and PSEG Energy Resources & Trade LLC (ER&T). Nuclear and Fossil own and operate generation and generation-related facilities. ER&T is responsible for the day-to-day management of Power s portfolio. Fossil, Nuclear and ER&T are subject to regulation by FERC, and certain Fossil subsidiaries are also subject to state regulation. Nuclear is also subject to regulation by the Nuclear Regulatory Commission (NRC).

Energy Holdings

Energy Holdings has two principal, direct, wholly owned subsidiaries: PSEG Global L.L.C. (Global), which owns and operates international and domestic projects engaged in the generation and distribution of energy and PSEG Resources L.L.C. (Resources), which has invested primarily in energy-related leveraged leases. Energy Holdings also owns Enterprise Group Development Corporation (EGDC), a commercial real estate property management business.

Services

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Basis of Presentation

PSEG, PSE&G, Power and Energy Holdings

The respective financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for Quarterly Reports on Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements (Notes) should be read in conjunction with, and update and supplement matters discussed in PSEG s, PSE&G s, Power s and Energy Holdings respective Annual Reports on Form 10-K for the year ended December 31, 2006 and Quarterly Reports on Form 10-Q and Form 10-Q/A for the quarter ended March 31, 2007.

The unaudited condensed consolidated financial information furnished herein reflects all adjustments which are, in the opinion of management, necessary to fairly state the results for the interim periods presented. All such adjustments are of a normal recurring nature. The year-end Condensed Consolidated Balance Sheets were derived from the audited Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2006.

Reclassifications

PSEG, PSE&G, Power and Energy Holdings

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

Note 2. Recent Accounting Standards

The following accounting standards were issued by the Financial Accounting Standards Board (FASB), but have not yet been adopted by PSEG, PSE&G, Power and Energy Holdings.

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

PSEG, PSE&G, Power and Energy Holdings

In September 2006, the FASB issued SFAS 157, which provides a single definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Prior to SFAS 157, guidance for applying fair value was incorporated into several accounting pronouncements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy that distinguishes between assumptions based on market data obtained from independent sources (observable inputs) and those based on an entity s own assumptions (unobservable inputs). Under SFAS 157, fair value measurements are disclosed by level within that hierarchy, with the highest priority being quoted prices in active markets. While this statement does not require any new fair value measurements, the application of this statement will change current practice for some fair value measurements.

This statement also nullifies the guidance in footnote 3 of EITF Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities (EITF 02-3). The guidance in footnote 3 applies to derivative instruments measured at fair value at initial recognition, and it precludes immediate recognition in earnings of an unrealized gain or loss, measured as the difference between the transaction price and the fair value of the instrument at initial recognition, if the fair value of the instrument is determined using significant unobservable inputs. Under EITF 02-3, an entity cannot recognize an unrealized gain or loss at inception of a derivative instrument unless the fair value of that instrument is obtained from a quoted market price in an active market or is otherwise evidenced by comparison to other observable current market transactions or based on a valuation technique incorporating observable market data. SFAS 157 requires that the principles of fair value measurement apply for derivatives and other financial instruments at initial recognition and in all subsequent periods.

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

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

PSEG, PSE&G, Power and Energy Holdings

In February 2007, the FASB issued SFAS 159, which permits entities to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. An entity will report unrealized gains and losses on items where the fair value option has been elected in earnings at each subsequent reporting date. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The decision about whether to elect the fair value option is applied instrument by instrument, with a few exceptions; the decision is irrevocable; and the decision is required to be applied to entire instruments and not to portions of instruments.

The statement requires disclosures that facilitate comparisons (a) between entities that choose different measurement attributes for similar assets and liabilities and (b) between assets and liabilities in the financial statements of an entity that selects different measurement attributes for similar assets and liabilities.

SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Upon implementation, an entity shall report the effect of the first remeasurement to fair value as a cumulative effect adjustment to the opening balance of Retained Earnings. PSEG, PSE&G, Power and Energy Holdings are currently assessing the potential impact of SFAS 159 on their respective consolidated financial positions and results of operations.

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

PSEG and Power

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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

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

PSEG, PSE&G, Power and Energy Holdings

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

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

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

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

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

Energy Holdings	$ 1	$ 6

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

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

FSP No. FAS 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction (FSP 13-2)

PSEG and Energy Holdings

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

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

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

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

Note 3. Discontinued Operations, Dispositions and Impairments

Discontinued Operations

Power

Lawrenceburg Energy Center (Lawrenceburg)

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

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

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

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

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

	As of December 31, 2006

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

Energy Holdings

Electroandes S.A. (Electroandes)

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

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

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

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

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

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

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

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

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

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

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

Dispositions

Power

In December 2006, Power recorded a pre-tax impairment loss of $44 million to write down four turbines to their estimated realizable value and reclassified them to Assets Held for Sale on Power s Condensed Consolidated Balance Sheet. In April 2007, Power sold the four turbines to a third party and received proceeds of approximately $40 million, which approximates the recorded book value.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Energy Holdings

Global

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

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

Rio Grande Energia S. A. (RGE)

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

Impairment

Energy Holdings

Venezuela

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

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

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

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Note 4. Earnings Per Share (EPS)

PSEG

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

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

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

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

Note 5. Commitments and Contingent Liabilities

Guaranteed Obligations

Power

Power contracts for electricity, natural gas, oil, coal, pipeline capacity, transportation and emission allowances and engages in risk management activities through ER&T. These activities primarily involve the purchase and sale of energy and related products under transportation, physical, financial and forward contracts at fixed and variable prices. These transactions are executed with numerous counterparties and brokers. Counterparties and brokers may require guarantees, cash or cash-related instruments to be deposited on these transactions as described below.

Power has unconditionally guaranteed payments by its subsidiaries, ER&T and PSEG Power New York Inc. (Power New York) in commodity-related transactions to support current exposure, interest and other

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costs on sums due and payable in the ordinary course of business. These payment guarantees are provided to counterparties in order to obtain credit. Under these agreements, guarantees cover lines of credit between entities and are often reciprocal in nature. The exposure between counterparties can move in either direction. The face value of the guarantees outstanding as of June 30, 2007 and December 31, 2006 was approximately $1.6 billion.

In order for Power to incur a liability for the face value of the outstanding guarantees, ER&T and Power New York would have to fully utilize the credit granted to them by every counterparty to whom Power has provided a guarantee and all of ER&T s and Power New York s contracts would have to be out-of-the-money (if the contracts are terminated, Power would owe money to the counterparties). The probability of all contracts at ER&T and Power New York being simultaneously out-of-the-money is highly unlikely due to offsetting positions within the portfolio. For this reason, the current exposure at any point in time is a more meaningful representation of the potential liability to Power under these guarantees if ER&T and/or Power New York were to default. This current exposure consists of the net of accounts receivable and accounts payable and the forward value on open positions, less any margins posted. The current exposure from such liabilities was $462 million and $518 million as of June 30, 2007 and December 31, 2006, respectively.

Power is subject to counterparty collateral calls related to commodity contracts and is subject to certain creditworthiness standards as guarantor under performance guarantees for ER&T s agreements. Changes in commodity prices, including fuel, emissions allowances and electricity, can have a material impact on margin requirements under such contracts. As of June 30, 2007 and December 31, 2006, Power had the following margin posted and received to satisfy collateral obligations and support various contractual and environmental obligations, which were primarily in the form of letters of credit:

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

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

In the event of a deterioration of Power s credit rating to below investment grade, which would represent a two level downgrade from its current ratings, many of these agreements allow the counterparty to demand that ER&T provide further performance assurance. As of June 30, 2007, if Power were to lose its investment grade rating and, assuming all counterparties to which ER&T is out-of- the-money were contractually entitled to demand, and demanded, performance assurance, ER&T could be required to post additional collateral in an amount equal to approximately $580 million. Power believes that it has sufficient liquidity to post such collateral, if necessary.

Energy Holdings

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

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

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

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

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

Environmental Matters

PSEG, PSE&G and Power

Hazardous Substances

The U.S. Environmental Protection Agency (EPA) has determined that a six-mile stretch of the Passaic River in the area of Newark, New Jersey is a facility within the meaning of that term under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA). CERCLA and the New Jersey Spill Compensation and Control Act (Spill Act) authorize Federal and state trustees for natural resources to assess damages against persons who have discharged a hazardous substance, causing an injury to natural resources. Pursuant to the Spill Act, the NJDEP requires persons conducting remediation to characterize injuries to natural resources and to address those injuries through restoration or damages. The NJDEP adopted regulations concerning site investigation and remediation that require an ecological evaluation of potential damages to natural resources in connection with an environmental investigation of contaminated sites.

PSE&G and certain of its predecessors conducted industrial operations at properties adjacent to the Passaic River facility. The operations included one operating electric generating station (Essex Site), one former generating station and four former manufactured gas plants (MGPs). PSE&G s costs to clean up former MGPs are recoverable from utility customers through the Societal Benefits Clause (SBC). PSE&G has sold the site of the former generating station and obtained releases and indemnities for liabilities arising out of the site in connection with the sale. The Essex Site was transferred to Power in August 2000. Power assumed any environmental liabilities of PSE&G associated with the electric generating stations that PSE&G transferred to it, including the Essex Site.

In 2003, the EPA notified 41 potentially responsible parties (PRPs), including PSE&G and Power, that it was expanding its assessment of the Passaic River Study Area to the entire 17-mile tidal reach of the lower Passaic River. The EPA further indicated, with respect to PSE&G, that it believed that hazardous substances had been released from the Essex Site and a former MGP located in Harrison, New Jersey (Harrison Site), which also includes facilities for PSE&G s ongoing gas operations. The EPA estimated that its study would require five to eight years to complete and would cost approximately $20 million, of which it would seek to recover $10 million from the PRPs, including PSE&G and Power. In 2006, the EPA notified the PRPs that the cost of its study will greatly exceed the $20 million initially estimated and after discussion, approximately 70 PRPs, including PSE&G and Power, have agreed to assume responsibility for the study pursuant to an Administrative Order on Consent and to divide the associated costs among themselves according to a mutually agreed-upon formula. The percentage allocable to Power and PSE&G varies depending on the number of PRPs who have agreed to divide the costs. Currently, it is 6.25%. Power has provided notice to insurers concerning this potential claim.

In June 2007 the EPA announced a Focused Feasibility Study (FFS) that proposes six options with estimated costs ranging from $900 million to $2.3 billion to address contamination cleanup in the lower eight miles of the Passaic River in addition to a No Action alternative. The work contemplated by the FFS is not subject to the Administrative Order on Consent or the cost sharing agreement.

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The New Jersey Department of Environmental Protection (NJDEP) has regulations in effect concerning site investigation and remediation that require an ecological evaluation of potential damages to natural resources in connection with an environmental investigation of contaminated sites. In 2003, PSEG, PSE&G and 56 other PRPs received a Directive and Notice to Insurers from the NJDEP that directed the PRPs to arrange for a natural resource damage assessment and interim compensatory restoration of natural resource injuries along the lower Passaic River and its tributaries pursuant to the New Jersey Spill Compensation and Control Act. The NJDEP alleged in the Directive that it had determined that hazardous substances had been discharged from the Essex Site and the Harrison Site. The NJDEP announced that it had estimated the cost of interim natural resource injury restoration activities along the lower Passaic River to approximate $950 million.

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

PSE&G

MGP Remediation Program

PSE&G is currently working with the NJDEP under a program to assess, investigate and remediate environmental conditions at PSE&G s former MGP sites (Remediation Program). To date, 38 sites have been identified as sites requiring some level of remedial action. In addition, the NJDEP has announced initiatives to accelerate the investigation and subsequent remediation of the riverbeds underlying surface water bodies that have been impacted by hazardous substances from adjoining sites. Specifically, in 2005, the NJDEP initiated a program on the Delaware River aimed at identifying the 10 most significant sites for cleanup. One of the sites identified is a former MGP facility located in Camden. The Remediation Program is periodically reviewed, and the estimated costs are revised by PSE&G based on regulatory requirements, experience with the program and available remediation technologies. Since the inception of the Remediation Program in 1988 through June 30, 2007, PSE&G has had expenditures of approximately $400 million.

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

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

Power

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

The PSD/NSR regulations, promulgated under the Clean Air Act (CAA), require major sources of certain air pollutants to obtain permits, install pollution control technology and obtain offsets, in some circumstances, when those sources undergo a major modification, as defined in the regulations. The federal government may order companies not in compliance with the PSD/NSR regulations to install the best available control technology at the affected plants and to pay monetary penalties of up to approximately $27,500 for each day of continued violation.

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

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

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