PUBLIC SERVICE ELECTRIC & GAS CO
Form 10-Q
May 01, 2013
Table of Contents

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 March 31, 2013
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
001-34232	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
001-00973	PUBLIC SERVICE ELECTRIC AND GAS COMPANY (A New Jersey Corporation) 80 Park Plaza, P.O. Box 570 Newark, New Jersey 07101-0570 973 430-7000 http://www.pseg.com	22-1212800

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes 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 or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company" in Rule 12b-2 of the Exchange Act.

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

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 April 16, 2013, Public Service Enterprise Group Incorporated had outstanding 505,968,562 shares of its sole class of Common Stock, without par value.

As of April 16, 2013, Public Service Electric and Gas Company had issued and outstanding 132,450,344 shares of Common Stock, without nominal or par value, all of which were privately held, beneficially and of record by Public Service Enterprise Group Incorporated.

PSEG Power LLC and Public Service Electric and Gas Company are wholly owned subsidiaries of Public Service Enterprise Group Incorporated and meet the conditions set forth in General Instruction H(1) (a) and (b) of Form 10-Q. Each is filing its Quarterly Report on Form 10-Q with the reduced disclosure format authorized by General Instruction H.

Table of Contents

		Page
FORWARD-LOOKING STATEMENTS		ii
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Public Service Enterprise Group Incorporated	1
	PSEG Power LLC	6
	Public Service Electric and Gas Company	11
	Notes to Condensed Consolidated Financial Statements	
	Note 1. Organization and Basis of Presentation	16
	Note 2. Recent Accounting Standards	16
	Note 3. Variable Interest Entities (VIEs)	17
	Note 4. Rate Filings	17
	Note 5. Financing Receivables	18
	Note 6. Available-for-Sale Securities	20
	Note 7. Pension and Other Postretirement Benefits (OPEB)	25
	Note 8. Commitments and Contingent Liabilities	26
	Note 9. Changes in Capitalization	34
	Note 10. Financial Risk Management Activities	34
	Note 11. Fair Value Measurements	41
	Note 12. Other Income and Deductions	49
	Note 13. Income Taxes	49
	Note 14. Accumulated Other Comprehensive Income (Loss), Net of Tax	50
	Note 15. Earnings Per Share (EPS) and Dividends	52
	Note 16. Financial Information by Business Segments	53
	Note 17. Related-Party Transactions	54
	Note 18. Guarantees of Debt	56
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	58
	Overview of 2013 and Future Outlook	58
	Results of Operations	61
	Liquidity and Capital Resources	66
	Capital Requirements	68
	Accounting Matters	68
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	68
Item 4.	Controls and Procedures	69
PART II. OTHER INFORMATION		70
Item 1.	Legal Proceedings	70
Item 1A.	Risk Factors	70
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	70
Item 5.	Other Information	70
Item 6.	Exhibits	74
	Signatures	75

Table of Contents

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," "should," "hypothetical," "potential," "forecas variations of such words and similar expressions are intended to identify forward-looking statements. Factors that may cause actual results to differ are often presented with the forward-looking statements themselves. Other factors that could cause actual results to differ materially from those contemplated in any forward-looking statements made by us herein are discussed in Item 1. Financial Statements—Note 8. Commitments and Contingent Liabilities, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, and other factors discussed in filings we make with the United States Securities and Exchange Commission (SEC). These factors include, but are not limited to:

- adverse changes in the demand for or the price of the capacity and energy that we sell into wholesale electricity markets,
- adverse changes in energy industry law, policies and regulation, including market structures and a potential shift away from competitive markets toward subsidized market mechanisms, transmission planning and cost allocation rules, including rules regarding how transmission is planned and who is permitted to build transmission in the future, and reliability standards,
- any inability of our transmission and distribution businesses to obtain adequate and timely rate relief and regulatory approvals from federal and state regulators,
- changes in federal and state environmental regulations that could increase our costs or limit our operations,
- changes in nuclear regulation and/or general developments in the nuclear power industry, including various impacts from any accidents or incidents experienced at our facilities or by others in the industry, that could limit operations of our nuclear generating units,
- actions or activities at one of our nuclear units located on a multi-unit site that might adversely affect our ability to continue to operate that unit or other units located at the same site,
- any inability to balance our energy obligations, available supply and risks,
- any deterioration in our credit quality or the credit quality of our counterparties, including in our leveraged leases,
- availability of capital and credit at commercially reasonable terms and conditions and our ability to meet cash needs,
- changes in the cost of, or interruption in the supply of, fuel and other commodities necessary to the operation of our generating units,
- delays in receipt of necessary permits and approvals for our construction and development activities,
- delays or unforeseen cost escalations in our construction and development activities,
- any inability to achieve, or continue to sustain, our expected levels of operating performance,
- any equipment failures, accidents, severe weather events or other incidents that impact our ability to provide safe and reliable service to our customers, and any inability to sufficiently obtain coverage or recover proceeds of insurance on such matters,
- increase in competition in energy supply markets as well as competition for certain rate-based transmission projects,
- any inability to realize anticipated tax benefits or retain tax credits,
- challenges associated with recruitment and/or retention of a qualified workforce,
- adverse performance of our decommissioning and defined benefit plan trust fund investments and changes in funding requirements, and
- changes in technology and customer usage patterns.

All of the forward-looking statements made in this report are qualified by these cautionary statements and we cannot assure you that the results or developments anticipated by management will be realized or even if realized, will have the expected consequences to, or effects on, us or our business prospects, financial condition or results of operations.

Readers are cautioned not to place undue reliance on these forward-looking statements in making any investment decision. Forward-looking statements made in this report 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 if internal estimates change, unless otherwise required by applicable securities laws.

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

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
OPERATING REVENUES	$2,786	$2,875
OPERATING EXPENSES		
Energy Costs	1,155	1,179
Operation and Maintenance	710	628
Depreciation and Amortization	290	256
Taxes Other Than Income Taxes	21	29
Total Operating Expenses	2,176	2,092
OPERATING INCOME	610	783
Income from Equity Method Investments	2	—
Other Income	61	44
Other Deductions	(29)	(16)
Other-Than-Temporary Impairments	(2)	(5)
Interest Expense	(102)	(101)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	540	705
Income Tax (Expense) Benefit	(220)	(212)
NET INCOME	$320	$493
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (THOUSANDS):		
BASIC	505,942	506,010
DILUTED	507,220	507,029
EARNINGS PER SHARE:		
BASIC		
INCOME FROM CONTINUING OPERATIONS	$0.63	$0.97
NET INCOME	$0.63	$0.97
DILUTED		
INCOME FROM CONTINUING OPERATIONS	$0.63	$0.97
NET INCOME	$0.63	$0.97
DIVIDENDS PAID PER SHARE OF COMMON STOCK	$0.3600	$0.3550

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See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
NET INCOME	$320	$493
Other Comprehensive Income (Loss), net of tax		
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of $(27) and $(38) for 2013 and 2012, respectively	27	37
Change in Fair Value of Derivative Instruments, net of tax (expense) benefit of $0 and $(14) for 2013 and 2012, respectively	—	20
Reclassification Adjustments for Net Amounts included in Net Income, net of tax (expense) benefit of $2 and $15 for 2013 and 2012, respectively	(4)	(20)
Pension/OPEB adjustment, net of tax (expense) benefit of $(7) and $(5) for 2013 and 2012, respectively	10	7
Other Comprehensive Income (Loss), net of tax	33	44
COMPREHENSIVE INCOME	$353	$537

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	March 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$420	$379
Accounts Receivable, net of allowances of $64 and $56 in 2013 and 2012, respectively	1,457	1,069
Tax Receivable	226	227
Unbilled Revenues	265	314
Fuel	318	583
Materials and Supplies, net	436	422
Prepayments	87	283
Derivative Contracts	77	138
Deferred Income Taxes	38	49
Regulatory Assets	282	349
Other	50	56
Total Current Assets	3,656	3,869
PROPERTY, PLANT AND EQUIPMENT	27,932	27,402
Less: Accumulated Depreciation and Amortization	(7,807)	(7,666)
Net Property, Plant and Equipment	20,125	19,736
NONCURRENT ASSETS		
Regulatory Assets	3,643	3,830
Regulatory Assets of Variable Interest Entities (VIEs)	658	713
Long-Term Investments	1,320	1,324
Nuclear Decommissioning Trust (NDT) Fund	1,602	1,540
Other Special Funds	202	191
Goodwill	16	16
Other Intangibles	37	34
Derivative Contracts	102	153
Restricted Cash of VIEs	22	23
Other	329	296
Total Noncurrent Assets	7,931	8,120
TOTAL ASSETS	$31,712	$31,725

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	March 31, 2013	December 31, 2012
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$876	$1,026
Securitization Debt of VIEs Due Within One Year	229	226
Commercial Paper and Loans	165	263
Accounts Payable	1,078	1,304
Derivative Contracts	27	46
Accrued Interest	114	91
Accrued Taxes	92	17
Deferred Income Taxes	10	72
Clean Energy Program	92	153
Obligation to Return Cash Collateral	125	122
Regulatory Liabilities	120	67
Other	478	390
Total Current Liabilities	3,406	3,777
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	6,604	6,542
Regulatory Liabilities	245	209
Regulatory Liabilities of VIEs	10	10
Asset Retirement Obligations	636	627
Other Postretirement Benefit (OPEB) Costs	1,270	1,285
Accrued Pension Costs	724	876
Environmental Costs	464	537
Derivative Contracts	123	122
Long-Term Accrued Taxes	160	164
Other	114	108
Total Noncurrent Liabilities	10,350	10,480
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)		
CAPITALIZATION		
LONG-TERM DEBT		
Long-Term Debt	6,542	6,148
Securitization Debt of VIEs	442	496
Project Level, Non-Recourse Debt	25	43
Total Long-Term Debt	7,009	6,687
STOCKHOLDERS’ EQUITY		
Common Stock, no par, authorized 1,000,000,000 shares; issued, 2013 and 2012—533,556,660 shares	4,833	4,833
Treasury Stock, at cost, 2013—27,692,398 shares; 2012—27,664,188 shares	(612)	(607)
Retained Earnings	7,080	6,942

Accumulated Other Comprehensive Loss	(355)	(388)
Total Common Stockholders’ Equity	10,946	10,780
Noncontrolling Interest	1	1
Total Stockholders’ Equity	10,947	10,781
Total Capitalization	17,956	17,468
TOTAL LIABILITIES AND CAPITALIZATION	$31,712	$31,725

See Notes to Condensed Consolidated Financial Statements.

4

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$320	$493
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	290	256
Amortization of Nuclear Fuel	50	43
Provision for Deferred Income Taxes (Other than Leases) and ITC	(5)	12
Non-Cash Employee Benefit Plan Costs	61	68
Leveraged Lease Income, Adjusted for Rents Received and Deferred Taxes	(6)	140
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	165	—
Deferred Storm Costs	(46)	4
Net Change in Regulatory Assets and Liabilities	80	(26)
Cost of Removal	(24)	(20)
Net Realized (Gains) Losses and (Income) Expense from NDT Fund	(24)	(15)
Net Change in Certain Current Assets and Liabilities	207	279
Employee Benefit Plan Funding and Related Payments	(192)	(154)
Other	1	8
Net Cash Provided By (Used In) Operating Activities	877	1,088
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(724)	(687)
Proceeds from Sales of Available-for-Sale Securities	258	499
Investments in Available-for-Sale Securities	(271)	(511)
Other	4	(7)
Net Cash Provided By (Used In) Investing Activities	(733)	(706)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Commercial Paper and Loans	(98)	29
Issuance of Long-Term Debt	400	—
Redemption of Long-Term Debt, including Securitization Debt	(201)	(115)
Cash Dividends Paid on Common Stock	(182)	(179)
Other	(22)	(20)
Net Cash Provided By (Used In) Financing Activities	(103)	(285)
Net Increase (Decrease) in Cash and Cash Equivalents	41	97
Cash and Cash Equivalents at Beginning of Period	379	834
Cash and Cash Equivalents at End of Period	$420	$931
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	$3	$3
Interest Paid, Net of Amounts Capitalized	$82	$84

Accrued Property, Plant and Equipment Expenditures	$265	$202

See Notes to Condensed Consolidated Financial Statements.

5

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
OPERATING REVENUES	$1,447	$1,561
OPERATING EXPENSES		
Energy Costs	860	822
Operation and Maintenance	282	241
Depreciation and Amortization	64	57
Total Operating Expenses	1,206	1,120
OPERATING INCOME	241	441
Other Income	47	30
Other Deductions	(28)	(15)
Other-Than-Temporary Impairments	(2)	(5)
Interest Expense	(30)	(30)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	228	421
Income Tax (Expense) Benefit	(91)	(168)
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	$137	$253

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
Millions
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
NET INCOME	$137	$253
Other Comprehensive Income (Loss), net of tax		
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of $(27) and ($39) for 2013 and 2012, respectively	27	37
Change in Fair Value of Derivative Instruments, net of tax (expense) benefit of $0 and $(14) for 2013 and 2012, respectively	—	20
Reclassification Adjustments for Net Amounts included in Net Income, net of tax (expense) benefit of $2 and $15 for 2013, and 2012, respectively	(4)	(20)
Pension/OPEB adjustment, net of tax (expense) benefit of $(5) and $(5) for 2013 and 2012, respectively	9	7
Other Comprehensive Income (Loss), net of tax	32	44
COMPREHENSIVE INCOME	$169	$297

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

Table of Contents

PSEG POWER LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
Millions
(Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$6	$7
Accounts Receivable	405	269
Accounts Receivable—Affiliated Companies, net	170	340
Short-Term Loan to Affiliate	748	574
Fuel	318	583
Materials and Supplies, net	313	307
Derivative Contracts	52	118
Prepayments	11	17
Deferred Income Taxes	28	—
Other	1	19
Total Current Assets	2,052	2,234
PROPERTY, PLANT AND EQUIPMENT	9,786	9,697
Less: Accumulated Depreciation and Amortization	(2,793)	(2,679)
Net Property, Plant and Equipment	6,993	7,018
NONCURRENT ASSETS		
Nuclear Decommissioning Trust (NDT) Fund	1,602	1,540
Goodwill	16	16
Other Intangibles	38	34
Other Special Funds	38	36
Derivative Contracts	6	49
Other	120	105
Total Noncurrent Assets	1,820	1,780
TOTAL ASSETS	$10,865	$11,032

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

Table of Contents

PSEG POWER LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
Millions
(Unaudited)

	March 31, 2013	December 31, 2012
LIABILITIES AND MEMBER’S EQUITY		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$300	$300
Accounts Payable	408	498
Derivative Contracts	27	46
Deferred Income Taxes	—	16
Accrued Interest	41	26
Other	96	81
Total Current Liabilities	872	967
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	1,628	1,575
Asset Retirement Obligations	374	369
Other Postretirement Benefit (OPEB) Costs	224	221
Derivative Contracts	14	15
Accrued Pension Costs	230	272
Long-Term Accrued Taxes	38	50
Other	87	84
Total Noncurrent Liabilities	2,595	2,586
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)		
LONG-TERM DEBT		
Total Long-Term Debt	2,040	2,040
MEMBER’S EQUITY		
Contributed Capital	2,028	2,028
Basis Adjustment	(986)	(986)
Retained Earnings	4,612	4,725
Accumulated Other Comprehensive Loss	(296)	(328)
Total Member’s Equity	5,358	5,439
TOTAL LIABILITIES AND MEMBER’S EQUITY	$10,865	$11,032

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

Table of Contents

PSEG POWER LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Millions
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$137	$253
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	64	57
Amortization of Nuclear Fuel	50	43
Provision for Deferred Income Taxes and ITC	(33)	101
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	165	—
Non-Cash Employee Benefit Plan Costs	17	18
Net Realized (Gains) Losses and (Income) Expense from NDT Fund	(24)	(15)
Net Change in Certain Current Assets and Liabilities:		
Fuel, Materials and Supplies	259	188
Margin Deposit	(117)	(34)
Accounts Receivable	3	47
Accounts Payable	(67)	(11)
Accounts Receivable/Payable-Affiliated Companies, net	121	145
Accrued Interest Payable	15	17
Other Current Assets and Liabilities	22	(39)
Employee Benefit Plan Funding and Related Payments	(45)	(38)
Other	5	(1)
Net Cash Provided By (Used In) Operating Activities	572	731
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(143)	(237)
Proceeds from Sales of Available-for-Sale Securities	244	375
Investments in Available-for-Sale Securities	(256)	(385)
Short-Term Loan—Affiliated Company, net	(174)	(128)
Other	8	10
Net Cash Provided By (Used In) Investing Activities	(321)	(365)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Dividend Paid	(250)	(300)
Redemption of Long-Term Debt	—	(66)
Other	(2)	(7)
Net Cash Provided By (Used In) Financing Activities	(252)	(373)
Net Increase (Decrease) in Cash and Cash Equivalents	(1)	(7)
Cash and Cash Equivalents at Beginning of Period	7	12
Cash and Cash Equivalents at End of Period	$6	$5
Supplemental Disclosure of Cash Flow Information:		

Income Taxes Paid (Received)	$2	$(2)
Interest Paid, Net of Amounts Capitalized	$18	$15
Accrued Property, Plant and Equipment Expenditures	$41	$59

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

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
OPERATING REVENUES	$1,995	$1,939
OPERATING EXPENSES		
Energy Costs	967	1,002
Operation and Maintenance	427	376
Depreciation and Amortization	215	190
Taxes Other Than Income Taxes	21	29
Total Operating Expenses	1,630	1,597
OPERATING INCOME	365	342
Other Income	13	11
Other Deductions	(1)	(1)
Interest Expense	(73)	(73)
INCOME BEFORE INCOME TAXES	304	279
Income Tax (Expense) Benefit	(125)	(82)
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	$179	$197

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

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
NET INCOME	$179	$197
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of $0 and $1 for 2013 and 2012, respectively	—	(1)
COMPREHENSIVE INCOME	$179	$196

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)

	March 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$61	$116
Accounts Receivable, net of allowances of $64 and $56 in 2013 and 2012, respectively	1,032	783
Unbilled Revenues	265	314
Materials and Supplies	121	114
Prepayments	9	29
Regulatory Assets	282	349
Derivative Contracts	10	5
Deferred Income Taxes	38	49
Other	15	24
Total Current Assets	1,833	1,783
PROPERTY, PLANT AND EQUIPMENT	17,494	17,006
Less: Accumulated Depreciation and Amortization	(4,780)	(4,726)
Net Property, Plant and Equipment	12,714	12,280
NONCURRENT ASSETS		
Regulatory Assets	3,643	3,830
Regulatory Assets of VIEs	658	713
Long-Term Investments	361	348
Other Special Funds	61	61
Derivative Contracts	59	62
Restricted Cash of VIEs	22	23
Other	137	123
Total Noncurrent Assets	4,941	5,160
TOTAL ASSETS	$19,488	$19,223

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)

	March 31, 2013	December 31, 2012
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$575	$725
Securitization Debt of VIEs Due Within One Year	229	226
Commercial Paper and Loans	165	263
Accounts Payable	539	630
Accounts Payable—Affiliated Companies, net	89	73
Accrued Interest	73	65
Clean Energy Program	92	153
Deferred Income Taxes	43	60
Obligation to Return Cash Collateral	125	122
Regulatory Liabilities	120	67
Other	351	269
Total Current Liabilities	2,401	2,653
NONCURRENT LIABILITIES		
Deferred Income Taxes and ITC	4,249	4,223
Other Postretirement Benefit (OPEB) Costs	992	1,011
Accrued Pension Costs	369	463
Regulatory Liabilities	245	209
Regulatory Liabilities of VIEs	10	10
Environmental Costs	413	486
Asset Retirement Obligations	254	250
Derivative Contracts	109	107
Long-Term Accrued Taxes	39	32
Other	44	38
Total Noncurrent Liabilities	6,724	6,829
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)		
CAPITALIZATION		
LONG-TERM DEBT		
Long-Term Debt	4,467	4,070
Securitization Debt of VIEs	442	496
Total Long-Term Debt	4,909	4,566
STOCKHOLDER’S EQUITY		
Common Stock; 150,000,000 shares authorized; issued and outstanding, 2013 and 2012—132,450,344 shares	892	892
Contributed Capital	520	420
Basis Adjustment	986	986
Retained Earnings	3,054	2,875
Accumulated Other Comprehensive Income	2	2

Total Stockholder's Equity	5,454	5,175
Total Capitalization	10,363	9,741
TOTAL LIABILITIES AND CAPITALIZATION	$19,488	$19,223

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)

	Three Months Ended March 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$179	$197
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	215	190
Provision for Deferred Income Taxes and ITC	29	8
Non-Cash Employee Benefit Plan Costs	39	44
Cost of Removal	(24)	(20)
Deferred Storm Costs	(46)	4
Net Change in Regulatory Assets and Liabilities	80	(26)
Net Change in Certain Current Assets and Liabilities:		
Accounts Receivable and Unbilled Revenues	(200)	(14)
Materials and Supplies	(7)	(3)
Prepayments	20	52
Accounts Receivable/Payable-Affiliated Companies, net	64	(8)
Other Current Assets and Liabilities	112	51
Employee Benefit Plan Funding and Related Payments	(120)	(103)
Other	(12)	(6)
Net Cash Provided By (Used In) Operating Activities	329	366
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(572)	(435)
Proceeds from Sale of Available-for-Sale Securities	6	51
Investments in Available-for-Sale Securities	(6)	(51)
Solar Loan Investments	(7)	(19)
Restricted Funds	1	—
Net Cash Provided By (Used In) Investing Activities	(578)	(454)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Short-Term Debt	(98)	29
Issuance of Long-Term Debt	400	—
Redemption of Long-Term Debt	(150)	—
Redemption of Securitization Debt	(51)	(49)
Contributed Capital	100	—
Other	(7)	—
Net Cash Provided By (Used In) Financing Activities	194	(20)
Net Increase (Decrease) In Cash and Cash Equivalents	(55)	(108)
Cash and Cash Equivalents at Beginning of Period	116	143
Cash and Cash Equivalents at End of Period	$61	$35

Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	$—	$(22)
Interest Paid, Net of Amounts Capitalized	$63	$69
Accrued Property, Plant and Equipment Expenditures	$224	$143

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

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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

Note 1. Organization and Basis of Presentation

Organization

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

- Power—which is a multi-regional, wholesale energy supply company that integrates its generating asset operations and gas supply commitments with its wholesale energy, fuel supply and energy trading functions through three principal direct wholly owned subsidiaries. Power's subsidiaries are subject to regulation by the Federal Energy Regulatory Commission (FERC), the Nuclear Regulatory Commission (NRC) and the states in which they operate.
- PSE&G—which is an operating public utility engaged principally in the transmission of electricity and distribution of electricity and natural gas in certain areas of New Jersey. PSE&G is subject to regulation by the New Jersey Board of Public Utilities (BPU) and the FERC. PSE&G also invests in solar generation projects and has implemented energy efficiency and demand response programs, which are regulated by the BPU.
- PSEG Energy Holdings L.L.C. (Energy Holdings)—which primarily has investments in leveraged leases and solar generation projects through its direct wholly owned subsidiaries. Certain Energy Holdings' subsidiaries are subject to regulation by the FERC and the states in which they operate. Energy Holdings has also been awarded a contract to manage the transmission and distribution assets of the Long Island Power Authority (LIPA) starting in 2014.
- PSEG Services Corporation (Services)—which provides management, administrative and general services to PSEG and its subsidiaries at cost.

Basis of Presentation

The respective financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) applicable to Quarterly Reports on Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements (Notes) should be read in conjunction with, and update and supplement matters discussed in, the Annual Report on Form 10-K for the year ended December 31, 2012.

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, except as discussed in Note 17. Related-Party Transactions. 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, 2012.

Note 2. Recent Accounting Standards

New Standards Adopted during 2013

Disclosures about Offsetting Assets and Liabilities

This accounting standard requires enhanced disclosures regarding assets and liabilities that are either offset in the financial statements, or are subject to an enforceable master netting arrangement or similar agreement. The guidance is

applicable to certain financial instruments (e.g. derivatives) and securities borrowing and lending transactions. This standard requires entities:

- to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on an entity's financial position, and

16

Table of Contents

- to present both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities.

We adopted this standard retrospectively effective January 1, 2013. As this standard requires disclosures only, it did not have any impact on our consolidated financial position, results of operations or cash flows. For additional information, see Note 10. Financial Risk Management Activities.

Reclassification Adjustments out of Accumulated Other Comprehensive Income (AOCI)

This accounting standard requires entities to disclose the following information about reclassification adjustments related to AOCI:

- changes in AOCI balances by component; and
- significant amounts reclassified out of AOCI by respective line items of net income (for amounts that are required by GAAP to be reclassified to net income in their entirety in the same reporting period).

We adopted this standard prospectively effective January 1, 2013. As this standard requires disclosures only, it did not have any impact on our consolidated financial position, results of operations or cash flows. For additional information, see Note 14. Accumulated Other Comprehensive Income (Loss), Net of Tax.

Note 3. Variable Interest Entities (VIEs)

Variable Interest Entities for which PSE&G is the Primary Beneficiary

PSE&G is the primary beneficiary and consolidates two marginally capitalized VIEs, PSE&G Transition Funding LLC (Transition Funding) and PSE&G Transition Funding II LLC (Transition Funding II), which were created for the purpose of issuing transition bonds and purchasing bond transitional property of PSE&G, which is pledged as collateral to a trustee. PSE&G acts as the servicer for these entities to collect securitization transition charges authorized by the BPU. These funds are remitted to Transition Funding and Transition Funding II and are used for interest and principal payments on the transition bonds and related costs.

The assets and liabilities of these VIEs are presented separately on the face of the Condensed Consolidated Balance Sheets of PSEG and PSE&G because the Transition Funding and Transition Funding II assets are restricted and can only be used to settle their respective obligations. No Transition Funding or Transition Funding II creditor has any recourse to the general credit of PSE&G in the event the transition charges are not sufficient to cover the bond principal and interest payments of Transition Funding or Transition Funding II, respectively.

PSE&G’s maximum exposure to loss is equal to its equity investment in these VIEs which was $16 million as of March 31, 2013 and December 31, 2012. The risk of actual loss to PSE&G is considered remote. PSE&G did not provide any financial support to Transition Funding or Transition Funding II during the first three months of 2013 or in 2012. Further, PSE&G does not have any contractual commitments or obligations to provide financial support to Transition Funding or Transition Funding II.

Note 4. Rate Filings

The following information discusses significant updates regarding orders and pending 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, 2012.

- Weather Normalization Clause (WNC)—On April 29, 2013, the BPU approved PSE&G's filing with respect to deficiency revenues from the 2011-2012 Winter Period. As a result, provisional rates were approved which are recovering $41 million from customers during the 2012-2013 Winter Period, with a carryover deficiency of $24 million to the 2013-2014 Winter Period.
- Remediation Adjustment Charge (RAC)—In April 2013, PSE&G filed a RAC 20 petition with the BPU requesting a decrease in electric and gas RAC revenues on an annual basis of $12 million and $7 million, respectively.

17

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

Note 5. 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. The loans are generally paid back with Solar Renewable Energy Certificates (SRECs) generated from the installed solar electric system. The following table reflects the outstanding loans by class of customer, none of which are considered "non-performing."

Credit Risk Profile Based on Payment Activity

Consumer Loans	As of March 31, 2013	As of December 31, 2012
	Millions	
Commercial/Industrial	$185	$174
Residential	16	15
Total	$201	$189

Energy Holdings
Energy Holdings, through various 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' investments in the leases are comprised of the total expected lease receivables on its investments 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.
The table below shows Energy Holdings' gross and net lease investment as of March 31, 2013 and December 31, 2012, respectively.

	As of March 31, 2013	As of December 31, 2012
	Millions	
Lease Receivables (net of Non-Recourse Debt)	$705	$721
Estimated Residual Value of Leased Assets	529	535
	1,234	1,256
Unearned and Deferred Income	(412)	(416)
Gross Investments in Leases	822	840
Deferred Tax Liabilities	(704)	(723)
Net Investments in Leases	$118	$117

The corresponding receivables associated with the lease portfolio are reflected below, net of non-recourse debt. The ratings in the table represent the ratings of the entities providing payment assurance to Energy Holdings. "Not Rated" counterparties relate to investments in leases of commercial real estate properties.

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

Counterparties' Credit Rating (Standard & Poor's (S&P)) As of March 31, 2013	Lease Receivables, Net of Non-Recourse Debt As of March 31, 2013	As of December 31, 2012
	Millions	
AA	$20	$21
AA-	58	73
BBB+ - BBB-	316	316
B	166	166
D	134	134
Not Rated	11	11
Total	$705	$721

The “B” and "D" ratings above represent lease receivables related to coal-fired assets in Pennsylvania and Illinois, respectively. As of March 31, 2013, the gross investment in the leases of such assets, net of non-recourse debt, was $560 million ($30 million, net of deferred taxes). A more detailed description of such assets under lease is presented in the table below.

Asset	Location	Gross Investment	% Owned	Total	Fuel Type	Counter-parties' S&P Credit Ratings		Counterparty
		Millions		MW				
Powerton Station Units 5 and 6	IL	$134	64 %	1,538	Coal	D	(A)	Edison Mission Energy
Joliet Station Units 7 and 8	IL	$84	64 %	1,044	Coal	D	(A)	Edison Mission Energy
Keystone Station Units 1 and 2	PA	$116	17 %	1,711	Coal	B		GenOn REMA, LLC
Conemaugh Station Units 1 and 2	PA	$116	17 %	1,711	Coal	B		GenOn REMA, LLC
Shawville Station Units 1, 2, 3 and 4	PA	$110	100 %	603	Coal	B		GenOn REMA, LLC

(A) On April 9, 2013, S&P withdrew its credit rating.
The credit exposure for lessors is partially mitigated through various credit enhancement mechanisms within the lease transactions. These credit enhancement features vary from lease to lease and may include letters of credit or affiliate guarantees. Upon the occurrence of certain defaults, indirect subsidiary companies of Energy Holdings would exercise their rights and attempt to 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 investments and trigger certain material tax obligations. A bankruptcy of a lessee would likely delay 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 lease by the lenders. If foreclosures were to occur, Energy Holdings could potentially record a pre-tax write-off up to its gross investment in

these facilities and may also be required to pay significant cash tax liabilities.

Of facilities under lease by indirect subsidiary companies of Energy Holdings to GenOn REMA, LLC (GenOn REMA), a subsidiary of GenOn Energy Inc. (GenOn), which was acquired by NRG Energy, Inc. in December 2012, Keystone has installed flue gas desulfurization control for sulfur dioxide (SO_2), selective catalytic reduction (SCR) equipment for nitrogen oxide (NOx) and mercury control to meet current environmental requirements. Conemaugh has flue gas desulfurization control, while SCR and mercury control are scheduled to be installed and operational in the first quarter of 2015. GenOn has disclosed its plan for the coal-fired units at the Shawville facility to place them in a “long-term protective layup” by April 2015 while continuing to pay the required rent and maintaining the facility in accordance with the lease terms or terminating the lease for

obsolescence in which case the lessee would be required, among other things, to pay the contractual termination value structured to recover Energy Holdings' indirect subsidiaries' lease investment as specified in the lease agreement. Although all lease payments from the GenOn REMA leases are current, no assurances can be given that future payments in accordance with the lease contracts will continue. Factors which 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 and electricity, overall financial condition of lease counterparties and the quality and condition of assets under lease.

With respect to Energy Mission Energy's (EME) Midwest Generation (MWG) leases on the Powerton and Joliet coal units in Illinois, the lessee, MWG, substantially completed investments in mercury removal (Activated Carbon Injection) and NOx emission controls (low NOx burners and Selective Non-Catalytic Reduction systems), and plans to invest in SO_2 emission controls (Dry Sorbent Injection (Trona) systems). On April 4, 2013, MWG obtained approval from the Illinois Pollution Control Board to defer capital investments for up to two additional years to meet upcoming air emission compliance deadlines under Illinois law. Also, as previously disclosed, EME and MWG remain in litigation with the U.S. Environmental Protection Agency (EPA) and the State of Illinois regarding certain air emissions. EME does not anticipate a material change in this current approach in order to comply with existing federal and Illinois environmental rules.

On December 17, 2012, EME and MWG filed for relief under Chapter 11 of the U.S. Bankruptcy Code. Immediately prior to that filing, EME, MWG, Nesbitt Asset Recovery, LLC (Nesbitt) (an indirect, wholly owned subsidiary of Energy Holdings), and Associates Capital Investments, L.L.P. (Associates) (an affiliate of Citigroup, and, together with Nesbitt, the "Owner Participants"), as well as certain affiliated owner lessors and owner participants, entered into a forbearance agreement with holders of a majority of the lease debt that financed the original sale-leaseback transaction. The forbearance agreement, which was approved by the bankruptcy court, expired on April 5, 2013. In the absence of a forbearance agreement, the lease indenture trustee has the ability to accelerate or exercise other remedies with respect to the nonrecourse debt and, in June 2013, initiate foreclosure proceedings on the leased assets. Nesbitt is actively involved in the bankruptcy proceedings and is evaluating its options. In April 2013, MWG obtained an unopposed extension from the bankruptcy court to defer the deadline upon which it must assume or reject those leases, from April to July 2013, thereby providing it additional time to evaluate its position, including a potential restructuring. MWG did not make its scheduled $48 million rent payments on January 2, 2013 (which related to the prior six month period) on the Powerton and Joliet leases. A partial $5 million payment for the period from the date of the petition filing through January 2, 2013 was received in mid-February, pursuant to the terms of the forbearance agreement. The difference is a lessor pre-petition bankruptcy claim, while rent for the utilization of the facilities by MWG during pendency of the bankruptcy will likely be treated as an administrative expense in bankruptcy.

Note 6. Available-for-Sale Securities

Nuclear Decommissioning Trust (NDT) Fund

Power maintains an external master nuclear decommissioning trust to fund its share of decommissioning for its five nuclear facilities upon 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 trust funds are managed by third-party investment advisers who operate under investment guidelines developed by Power.

Power classifies investments in the NDT Fund as available-for-sale. The following tables show the fair values and gross unrealized gains and losses for the securities held in the NDT Fund:

	As of March 31, 2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	$628	$205	$(4)	$829
Debt Securities				
Government Obligations	370	9	(1)	378
Other Debt Securities	309	19	(1)	327
Total Debt Securities	679	28	(2)	705
Other Securities	68	—	—	68
Total NDT Available-for-Sale Securities	$1,375	$233	$(6)	$1,602

	As of December 31, 2012			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	$648	$147	$(6)	$789
Debt Securities				
Government Obligations	274	11	—	285
Other Debt Securities	320	22	—	342
Total Debt Securities	594	33	—	627
Other Securities	124	—	—	124
Total NDT Available-for-Sale Securities	$1,366	$180	$(6)	$1,540

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

	As of March 31, 2013	As of December 31, 2012
	Millions	
Accounts Receivable	$51	$18
Accounts Payable	$70	$53

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

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

	As of March 31, 2013				As of December 31, 2012			
	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)	$67	$(4)	$—	$—	$139	$(6)	$—	$—
Debt Securities								
Government Obligations (B)	92	(1)	1	—	34	—	1	—
Other Debt Securities (C)	53	(1)	1	—	31	—	6	—
Total Debt Securities	145	(2)	2	—	65	—	7	—
Other Securities	—	—	—	—	—	—	—	—
NDT Available-for-Sale Securities	$212	$(6)	$2	$—	$204	$(6)	$7	$—

(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. The unrealized losses are distributed over a broad range of securities with limited impairment durations. Power does not consider these securities to be other-than-temporarily impaired as of March 31, 2013.

(B) Debt Securities (Government)—Unrealized losses on Power's NDT investments in United States Treasury obligations and Federal Agency asset-backed securities were caused by interest rate changes. Since these investments are guaranteed by the United States government or an agency of the United States government, it is not expected that these securities will settle for less than their amortized cost basis, since Power does not intend to sell nor will it be more-likely-than-not required to sell. Power does not consider these securities to be other-than-temporarily impaired as of March 31, 2013.

(C) Debt Securities (Corporate)—Power's investments in corporate bonds are limited to 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 March 31, 2013.

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

	Three Months Ended March 31,	
	2013	2012
	Millions	
Proceeds from NDT Fund Sales	$241	$345
Net Realized Gains (Losses) on NDT Fund:		
Gross Realized Gains	$37	$16
Gross Realized Losses	(19)	(6)
Net Realized Gains (Losses) on NDT Fund	$18	$10

Net realized gains disclosed in the above table were recognized in Other Income and Other Deductions in PSEG's and Power's Condensed Consolidated Statements of Operations. Net unrealized gains of $111 million (after-tax) were a component of Accumulated Other Comprehensive Loss on Power's Condensed Consolidated Balance Sheet as of March 31, 2013.

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

The NDT available-for-sale debt securities held as of March 31, 2013 had the following maturities:

Time Frame	Fair Value
	Millions
Less than one year	$65
1 - 5 years	144
6 - 10 years	183
11 - 15 years	47
16 - 20 years	11
Over 20 years	255
Total NDT Available-for-Sale Debt Securities	$705

The cost of these securities was determined on the basis of specific identification.
Power periodically assesses individual securities whose fair value is less than amortized cost to determine whether the investments are considered to be other-than-temporarily impaired. For equity securities, management considers the ability and intent to hold for a reasonable time to permit recovery in addition to the severity and duration of the loss. For fixed income 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). In 2013, other-than-temporary impairments of $2 million were recognized on securities in the NDT Fund. 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 the “Rabbi Trust.”
PSEG classifies investments in the Rabbi Trust as available-for-sale. The following tables show the fair values, gross unrealized gains and losses and amortized cost basis for the securities held in the Rabbi Trust.

	As of March 31, 2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	$13	$6	$—	$19
Debt Securities				
Government Obligations	113	2	—	115
Other Debt Securities	46	1	—	47
Total Debt Securities	159	3	—	162
Other Securities	15	—	—	15
Total Rabbi Trust Available-for-Sale Securities	$187	$9	$—	$196

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	As of December 31, 2012			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	$13	$5	$—	$18
Debt Securities				
Government Obligations	114	3	—	117
Other Debt Securities	45	2	—	47
Total Debt Securities	159	5	—	164
Other Securities	3	—	—	3
Total Rabbi Trust Available-for-Sale Securities	$175	$10	$—	$185

As of March 31, 2013, amounts in the above table do not include Accounts Receivable of $7 million and Accounts Payable of $6 million for Rabbi Trust Fund transactions which had not yet settled. These amounts are included on the Condensed Consolidated Balance Sheets.

In March 2012, PSEG restructured the fixed income component of the Rabbi Trust. The proceeds from the sales of and the net realized gains on securities in the Rabbi Trust Fund were:

	Three Months Ended March 31,	
	2013	2012
	Millions	
Proceeds from Rabbi Trust Sales	$17	$154
Net Realized Gains (Losses) on Rabbi Trust:		
Gross Realized Gains	$—	$5
Gross Realized Losses	—	—
Net Realized Gains (Losses) on Rabbi Trust	$—	$5

Gross realized gains disclosed in the above table were recognized in Other Income in the Condensed Consolidated Statements of Operations. Net unrealized gains of $6 million (after-tax) were a component of Accumulated Other Comprehensive Loss on the Condensed Consolidated Balance Sheets as of March 31, 2013. The Rabbi Trust available-for-sale debt securities held as of March 31, 2013 had the following maturities:

Time Frame	Fair Value
	Millions
Less than one year	$—
1 - 5 years	61
6 - 10 years	29
11 - 15 years	10
16 - 20 years	5
Over 20 years	57
Total Rabbi Trust Available-for-Sale Debt Securities	$162

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

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

PSEG periodically assesses individual securities whose fair value is less than amortized cost to determine whether the investments are considered to be other-than-temporarily impaired. For equity securities, the Rabbi Trust is invested in a commingled indexed mutual fund. Due to the commingled nature of this fund, PSEG does not have the ability to hold these securities until expected recovery. As a result, any declines in fair market value below cost are recorded as a charge to earnings. For fixed income securities, management considers its intent to sell or requirement to sell a security prior to expected recovery. In those cases where a sale is expected, any impairment would be recorded through earnings. For fixed income securities where there is no intent to sell or likely requirement to sell, management evaluates whether credit loss is a component of the impairment. If so, that portion is recorded through earnings while the noncredit loss component is recorded through Accumulated Other Comprehensive Income (Loss). The assessment of fair market value compared to cost is applied on a weighted average basis taking into account various purchase dates and initial cost of the securities.
The fair value of assets in the Rabbi Trust related to PSEG, Power and PSE&G are detailed as follows:

	As of March 31, 2013	As of December 31, 2012
	Millions	
Power	$38	$36
PSE&G	61	61
Other	97	88
Total Rabbi Trust Available-for-Sale Securities	$196	$185

Note 7. Pension and OPEB
PSEG sponsors several qualified and nonqualified pension plans and OPEB plans covering PSEG's and its participating affiliates' current and former employees who meet certain eligibility criteria. The following table provides the components of net periodic benefit costs relating to all qualified and nonqualified pension and OPEB plans on an aggregate basis.
Pension and OPEB costs for PSEG are detailed as follows:

	Pension Benefits Three Months Ended March 31,		OPEB Three Months Ended March 31,	
	2013	2012	2013	2012
	Millions			
Components of Net Periodic Benefit Cost				
Service Cost	$29	$25	$5	$4
Interest Cost	54	56	16	16
Expected Return on Plan Assets	(87)	(76)	(5)	(4)
Amortization of Net				
Transition Obligation	—	—	—	1
Prior Service Cost (Credit)	(5)	(5)	(4)	(4)
Actuarial Loss	47	42	11	8
Net Periodic Benefit Cost	$38	$42	$23	$21
Effect of Regulatory Asset	—	—	—	5

Total Benefit Costs, Including Effect of Regulatory Asset	$38	$42	$23	$26

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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

	Pension Benefits Three Months Ended March 31,		OPEB Three Months Ended March 31,	
	2013	2012	2013	2012
	Millions			
Power	$11	$13	$6	$5
PSE&G	23	24	16	20
Other	4	5	1	1
Total Benefit Costs	$38	$42	$23	$26

During the three months ended March 31, 2013, PSEG contributed its entire planned contributions for the year 2013 of $145 million and $14 million into its pension and postretirement healthcare plans, respectively.

Note 8. Commitments and Contingent Liabilities

Guaranteed Obligations

Power's activities primarily involve the purchase and sale of energy and related products under transportation, physical, financial and forward contracts at fixed and variable prices. These transactions are with numerous counterparties and brokers that may require cash, cash-related instruments or guarantees.

Power has unconditionally guaranteed payments to counterparties by its subsidiaries in commodity-related transactions in order to

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

Under these agreements, guarantees cover lines of credit between entities and are often reciprocal in nature. The exposure between counterparties can move in either direction.

In order for Power to incur a liability for the face value of the outstanding guarantees, its subsidiaries would have to

- fully utilize the credit granted to them by every counterparty to whom Power has provided a guarantee, and
- all of the related contracts would have to be "out-of-the-money" (if the contracts are terminated, Power would owe money to the counterparties).

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

Power is subject to

- counterparty collateral calls related to commodity contracts, and
- certain creditworthiness standards as guarantor under performance guarantees of its subsidiaries.

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

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

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

The face value of Power's outstanding guarantees, current exposure and margin positions as of March 31, 2013 and December 31, 2012 are shown below:

	As of March 31, 2013	As of December 31, 2012
	Millions	
Face Value of Outstanding Guarantees	$1,564	$1,508
Exposure under Current Guarantees	$259	$226
Letters of Credit Margin Posted	$119	$124
Letters of Credit Margin Received	$61	$69
Cash Deposited and Received		
Counterparty Cash Margin Deposited	$6	$15
Counterparty Cash Margin Received	(1)	(4)
Net Broker Balance Deposited (Received)	149	26
In the Event Power were to Lose its Investment Grade Rating:		
Additional Collateral that Could be Required	$675	$654
Liquidity Available under PSEG’s and Power’s Credit Facilities to Post Collateral	$3,536	$3,531
Additional Amounts Posted		
Other Letters of Credit	$45	$45

As part of determining credit exposure, Power nets receivables and payables with the corresponding net energy contract balances. See Note 10. Financial Risk Management Activities for further discussion. In accordance with PSEG's accounting policy, where it is applicable, cash (received)/deposited is allocated against derivative asset and liability positions with the same counterparty on the face of the Balance Sheet. The remaining balances of net cash (received)/deposited after allocation are generally included in Accounts Payable and Receivable, respectively.

In the event of a deterioration of Power’s credit rating to below investment grade, which would represent a three level downgrade from its current S&P's, Moody’s and Fitch ratings, many of these agreements allow the counterparty to demand further performance assurance. See table above.

The SEC and the Commodity Futures Trading Commission (CFTC) continue efforts to implement new rules to enact stricter regulation over swaps and derivatives. In 2012, the CFTC issued Final Rules regarding the definition of a swap dealer and the definition of a swap, and established reporting and record-keeping requirements for commercial end users including PSEG. In September 2012, a federal court vacated the CFTC's rule on monitoring of position limits for several commodities, including natural gas, thereby indefinitely delaying the effectiveness of these position limits rules. PSEG is carefully monitoring all of these new rules as they are issued to analyze the potential impact on its swap and derivatives transactions, including any potential increase in its collateral requirements.

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

Environmental Matters

Passaic River

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

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

The EPA has determined that an eight-mile stretch of the Passaic River in the area of Newark, New Jersey is a "facility" within the meaning of that term under CERCLA. The EPA has determined the need to perform a study of the entire 17-mile tidal reach of the lower Passaic River.

Table of Contents

PSE&G and certain of its predecessors conducted operations at properties in this area on or adjacent to the Passaic River. The properties included one operating electric generating station (Essex Site), which was transferred to Power, one former generating station and four former manufactured gas plant (MGP) sites. When the Essex Site was transferred from PSE&G to Power, PSE&G obtained releases and indemnities for liabilities arising out of the former Essex generating station and Power assumed any environmental liabilities.

The EPA believes that certain hazardous substances were released from the Essex Site and one of PSE&G’s former MGP locations (Harrison Site). In 2006, the EPA notified the potentially responsible parties (PRPs) that the cost of its Remedial Investigation and Feasibility Study (RI/FS) would greatly exceed the original estimated cost of $20 million. The total cost of the RI/FS is now estimated at approximately $110 million. Seventy-three PRPs, including Power and PSE&G, agreed to assume responsibility for the RI/FS and formed the Cooperating Parties Group (CPG) to divide the associated costs according to a mutually agreed upon formula. The CPG group, currently 70 members, is presently executing the RI/FS. Approximately five percent of the RI/FS costs are attributable to PSE&G’s former MGP sites and approximately one percent to Power’s generating stations. Power has provided notice to insurers concerning this potential claim.

In 2007, the EPA released a draft “Focused Feasibility Study” (FFS) that proposed six options to address the contamination cleanup of the lower eight miles of the Passaic River. The EPA estimated costs for the proposed remedy range from $1.3 billion to $3.7 billion. The work contemplated by the FFS is not subject to the cost sharing agreement discussed above. The EPA's revised proposed FFS may be released for public comment as early as the second quarter of 2013.

In June 2008, an agreement was announced between the EPA and Tierra Solutions, Inc. and Maxus Energy Corporation (Tierra/Maxus) for removal of a portion of the contaminated sediment in the Passaic River at an estimated cost of $80 million. Phase I of the removal work has been completed. Phase II is contingent on the approval of an appropriate sediment disposal facility. Tierra/Maxus have reserved their rights to seek contribution for the removal costs from the other PRPs, including Power and PSE&G.

The EPA has advised that the levels of contaminants at Passaic River mile 10.9 will require removal in advance of the completion of the RI/FS. The CPG members, with the exception of Tierra/Maxus, which are no longer members, have agreed to fund the removal, currently estimated at approximately $30 million. PSEG’s share of that effort is approximately three percent.

Except for the Passaic River 10.9 mile removal, Power and PSE&G are unable to estimate their portion of the possible loss or range of loss related to the Passaic River matters.

New Jersey Spill Compensation and Control Act (Spill Act)

In 2005, the New Jersey Department of Environmental Protection (NJDEP) filed suit against a PRP (Occidental Chemical Corporation (OCC)) and its related companies in the New Jersey Superior Court seeking damages and reimbursement for costs expended by the State of New Jersey to address the effects of the PRP’s discharge of hazardous substances into both the Passaic River and the balance of the Newark Bay Complex. Power and PSE&G are alleged to have owned, operated or contributed hazardous substances to a total of 11 sites or facilities that impacted these water bodies. In February 2009, third party complaints were filed against some 320 third party defendants, including Power and PSE&G, claiming that each of the third party defendants is responsible for its proportionate share of the clean-up costs for the hazardous substances it allegedly discharged into the Passaic River and the Newark Bay Complex. The third party complaints seek statutory contribution and contribution under the Spill Act to recover past and future removal costs and damages. Power and PSE&G filed answers to the complaints in June 2010. A special master for discovery has been appointed by the court and document production has commenced. In October 2012, the Court issued a 90 day stay of discovery for the third party defendants to explore a possible settlement of this matter with the State of New Jersey. That settlement effort is ongoing. On March 22, 2013, Power and PSE&G signed an agreement to settle the NJDEP vs. OCC litigation at a nominal cost. That settlement is contingent upon a public comment and NJDEP response period that will extend for at least 120 days and the issuance of an order approving the

settlement by the Court after conducting a fairness hearing. The stay of third-party discovery remains in place and has been extended. Power and PSE&G believe they have good and valid defenses to the allegations contained in the third party complaints and will vigorously assert those defenses. Power and PSE&G are unable to estimate their portion of the possible loss or range of loss related to this matter.

Natural Resource Damage Claims

In 2003, the NJDEP directed PSEG, PSE&G and 56 other PRPs to arrange for a natural resource damage assessment and interim compensatory restoration of natural resource injuries along the lower Passaic River and its tributaries pursuant to the Spill Act. The NJDEP alleged that hazardous substances had been discharged from the Essex Site and the Harrison Site. The NJDEP estimated the cost of interim natural resource injury restoration activities along the lower Passaic River at approximately $950 million. In 2007, agencies of the United States Department of Commerce and the United States Department of the Interior sent letters to PSE&G and other PRPs inviting participation in an assessment of injuries to natural

resources that the agencies intended to perform. In 2008, PSEG and a number of other PRPs agreed to share certain immaterial costs the trustees have incurred and will incur going forward, and to work with the trustees to explore whether some or all of the trustees' claims can be resolved in a cooperative fashion. That effort is continuing. PSEG is unable to estimate its portion of the possible loss or range of loss related to this matter.

Newark Bay Study Area

The EPA has established the Newark Bay Study Area, which it defines as Newark Bay and portions of the Hackensack River, the Arthur Kill and the Kill Van Kull. In August 2006, the EPA sent PSEG and 11 other entities notices that it considered each of the entities to be a PRP with respect to contamination in the Study Area. The notice letter requested that the PRPs fund an EPA-approved study in the Newark Bay Study Area and encouraged the PRPs to contact OCC to discuss participating in the RI/FS that OCC was conducting. The notice stated the EPA's belief that hazardous substances were released from sites owned by PSEG companies and located on the Hackensack River, including two operating electric generating stations (Hudson and Kearny sites) and one former MGP site. PSEG has participated in and partially funded the second phase of this study. Notices to fund the next phase of the study have been received but it is uncertain at this time whether the PSEG companies will consent to fund the third phase. Power and PSE&G are unable to estimate their portion of the possible loss or range of loss related to this matter.

MGP Remediation Program

PSE&G is working with the NJDEP to assess, investigate and remediate environmental conditions at its former MGP sites. To date, 38 sites requiring some level of remedial action have been identified. Based on its current studies, PSE&G has determined that the estimated cost to remediate all MGP sites to completion could range between $513 million and $649 million through 2021. Since no amount within the range is considered to be most likely, PSE&G has recorded a liability of $513 million as of March 31, 2013. Of this amount, $111 million was recorded in Other Current Liabilities and $402 million was reflected as Environmental Costs in Noncurrent Liabilities. PSE&G has recorded a $513 million Regulatory Asset with respect to these costs. PSE&G periodically updates its studies taking into account any new regulations or new information which could impact future remediation costs and adjusts its recorded liability accordingly.

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 that are not in compliance with the PSD/NSR regulations to install the best available control technology at the affected plants and to pay monetary penalties ranging from $25,000 to $37,500 per day for each violation, depending upon when the alleged violation occurred.

In 2009, the EPA issued a notice of violation to Power and the other owners of the Keystone coal-fired plant in Pennsylvania, alleging, among other things, that various capital improvement projects were completed at the plant which are considered modifications (or major modifications) causing significant net emission increases of PSD/NSR air pollutants, beginning in 1985 for Keystone Unit 1 and in 1984 for Keystone Unit 2. The notice of violation states that none of these modifications underwent PSD/NSR permitting process prior to being put into service, which the EPA alleges was required under the CAA. The notice of violation states that the EPA may issue an order requiring compliance with the relevant CAA provisions and may seek injunctive relief and/or civil penalties. Power owns approximately 23% of the plant. Power cannot predict the outcome of this matter.

Hazardous Air Pollutants Regulation

In accordance with a ruling of the U.S. Court of Appeals of the District of Columbia (Court of Appeals), the EPA published a Maximum Achievable Control Technology (MACT) regulation on February 16, 2012. These Mercury Air Toxics Standards (MATS) are scheduled to go into effect on April 16, 2015 and establish allowable emission levels for mercury as well as other hazardous air pollutants pursuant to the CAA. In February 2012, members of the electric generating industry filed a petition challenging the existing source National Emission Standard for Hazardous Air

Pollutants (NESHAP), new source NESHAP and the New Source Performance Standard (NSPS). In March 2012, PSEG filed a motion to intervene with the Court of Appeals in support of the EPA's implementation of MATS. Litigation of these matters remains pending and the impact on the implementation schedule is unknown at this time.

Power believes that it will not be necessary to install any additional material controls at its New Jersey facilities. Additional controls may be necessary at Power’s Bridgeport Harbor coal-fired unit at an immaterial cost. In December 2011, to comply with the MACT regulators, a decision was reached to upgrade the previously planned two flue gas desulfurization scrubbers and install Selective Catalytic Reduction (SCR) systems at Power’s jointly owned coal-fired generating facility at Conemaugh

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

in Pennsylvania. This installation is expected to be completed in the first quarter of 2015. Power's share of this investment is approximately $147 million.

NOx Regulation

In April 2009, the NJDEP finalized revisions to NO_x emission control regulations that impose new NO_x emission reduction requirements and limits for New Jersey fossil fuel-fired electric generation units. The rule has an impact on Power's generation fleet, as it imposes NO_x emissions limits that will require capital investment for controls or the retirement of up to 86 combustion turbines (approximately 1,750 MW) and four older New Jersey steam electric generation units (approximately 400 MW) by May 30, 2015. Retirement notifications for the combustion turbines, except for Salem Unit 3, have been filed with the PJM Interconnection, LLC (PJM). The Salem Unit 3 combustion turbine (38 MW) will be transitioning to an emergency generator. Evaluations are ongoing for the steam electric generation units.

Under current Connecticut regulations, Power's Bridgeport and New Haven facilities have been utilizing Discrete Emission Reduction Credits (DERCs) to comply with certain NO_x emission limitations that were incorporated into the facilities' operating permits. In 2010, Power negotiated new agreements with the State of Connecticut extending the continued use of DERCs for certain emission units and equipment until May 31, 2014.

Clean Water Act Permit Renewals

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

One of the most significant NJPDES permits governing cooling water intake structures at Power is for Salem. In 2001, the NJDEP issued a renewed NJPDES permit for Salem, expiring in July 2006, allowing for the continued operation of Salem with its existing cooling water intake system. In February 2006, Power filed with the NJDEP a renewal application allowing Salem to continue operating under its existing NJPDES permit until a new permit is issued. Power prepared its renewal application in accordance with the FWPCA Section 316(b) and the 316(b) rules published in 2004.

As a result of several legal challenges to the 2004 316(b) rule by certain northeast states, environmentalists and industry groups, the rule has been suspended and has been returned to the EPA to be consistent with a 2009 United States Supreme Court decision which concluded that the EPA could rely upon cost-benefit analysis in setting the national performance standards and in providing for cost-benefit variances from those standards as part of the Phase II regulations.

In late 2010, the EPA entered into a settlement agreement with environmental groups that established a schedule to develop a new 316(b) rule by July 27, 2012. In April 2011, the EPA published a new proposed rule which did not establish any particular technology as the best technology available (e.g. closed cycle cooling). Instead, the proposed rule established marine life mortality standards for existing cooling water intake structures with a design flow of more than two million gallons per day. In June 2012, the EPA posted two Notices of Data Availability (NODA) requesting comment on aspects of the April 2011 proposed rule. In July 2012, PSEG and industry trade associations submitted comments on both NODAs and the EPA and environmental groups agreed to delay the deadline for finalization of the Rule to June 27, 2013 to allow for more time to address public comments and analyze data submitted in response to the NODAs.

Power is unable to predict the outcome of this proposed rulemaking, the final form that the proposed regulations may take and the effect, if any, that they may have on its future capital requirements, financial condition, results of operations or cash flows. The results of further proceedings on this matter could have a material impact on Power's ability to renew permits at its larger once-through cooled plants, including Salem, Hudson, Mercer, Bridgeport and

possibly Sewaren and New Haven, without making significant upgrades to existing intake structures and cooling systems. The costs of those upgrades to one or more of Power's once-through cooled plants would be material, and would require economic review to determine whether to continue operations at these facilities. For example, in Power's application to renew its Salem permit, filed with the NJDEP in February 2006, the estimated costs for adding cooling towers for Salem were approximately $1 billion, of which Power's share would have been approximately $575 million. These cost estimates have not been updated. Currently, potential costs associated with any closed cycle cooling requirements are not included in Power's forecasted capital expenditures.

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

Capital Expenditures
The construction programs of PSEG and its subsidiaries are currently estimated to include a base level total investment of approximately $6.1 billion for the three years ended 2015. The three-year projected capital expenditures for PSEG, Power and PSE&G are as follows:

	2013	2014	2015
	Millions		
Power	$400	$365	$305
PSE&G	2,040	1,680	1,180
Other	95	40	30
Total PSEG	$2,535	$2,085	$1,515

Power's projected capital expenditures include baseline maintenance (investments to replace major parts and enhance operational performance), investments in response to environmental, regulatory or legal mandates and nuclear expansion. PSE&G's projections include material additions and replacements in its transmission and distribution systems to meet expected growth and manage reliability.
Power
During the three months ended March 31, 2013, Power made $102 million of capital expenditures, including interest capitalized during construction (IDC) but excluding $41 million for nuclear fuel, primarily related to various projects at its fossil and nuclear generation stations.
PSE&G
During the three months ended March 31, 2013, PSE&G made $583 million of capital expenditures, including $572 million of investment in plant, primarily for reliability of transmission and distribution systems and $11 million in solar loan investments. This does not include expenditures for cost of removal, net of salvage, of $24 million, which is included in operating cash flows.
Energy Holdings
Included in Other for 2013 in the preceding table is a 19MW solar project currently under construction in Arizona for which Energy Holdings had issued an outstanding guarantee of $41 million as of March 31, 2013.
Basic Generation Service (BGS) and Basic Gas Supply Service (BGSS)
PSE&G obtains its electric supply requirements for customers who do not purchase electric supply from third party suppliers through the annual New Jersey BGS auctions. Pursuant to applicable BPU rules, PSE&G enters into the Supplier Master Agreement with the winners of these BGS auctions following the BPU’s approval of the auction results. PSE&G has entered into contracts with Power, as well as with other winning BGS suppliers, to purchase BGS for PSE&G’s load requirements. The winners of the auction (including Power) are responsible for fulfilling all the requirements of a PJM Load Serving Entity including the provision of capacity, energy, ancillary services, transmission and any other services required by PJM. BGS suppliers assume all volume risk and customer migration risk and must satisfy New Jersey’s renewable portfolio standards.
Power seeks to mitigate volatility in its results by contracting in advance for the sale of most of its anticipated electric output as well as its anticipated fuel needs. As part of its objective, Power has entered into contracts to directly supply PSE&G and other New Jersey electric distribution companies (EDCs) with a portion of their respective BGS requirements through the New Jersey BGS auction process, described above.

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

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

	Auction Year				
	2010	2011	2012	2013	
36-Month Terms Ending	May 2013	May 2014	May 2015	May 2016	(A)
Load (MW)	2,800	2,800	2,900	2,800	
$ per kWh	0.09577	0.09430	0.08388	0.09218	

(A) Prices set in the 2013 BGS auction will become effective on June 1, 2013 when the 2010 BGS auction agreements expire.

PSE&G has a full requirements contract with Power to meet the gas supply requirements of PSE&G’s gas customers. Power has entered into hedges for a portion of these anticipated BGSS obligations, as permitted by the BPU. The BPU permits PSE&G to recover the cost of gas hedging up to 115 billion cubic feet or 80% of its residential gas supply annual requirements through the BGSS tariff. Current plans call for Power to hedge on behalf of PSE&G approximately 70 billion cubic feet or 50% of its residential gas supply annual requirements. For additional information, see Note 17. Related-Party Transactions.

Minimum Fuel Purchase Requirements

Power has various long-term fuel purchase commitments for coal through 2017 to support its fossil generation stations and for supply of nuclear fuel for the Salem, Hope Creek and Peach Bottom nuclear generating stations and for firm transportation and storage capacity for natural gas.

Power’s strategy is to maintain certain levels of uranium and to make periodic purchases to support such levels. As such, the commitments referred to in the following table may include estimated quantities to be purchased that deviate from contractual nominal quantities. Power’s nuclear fuel commitments cover approximately 100% of its estimated uranium, enrichment and fabrication requirements through 2015 and a portion through 2017 at Salem, Hope Creek and Peach Bottom.

Power’s various multi-year contracts for firm transportation and storage capacity for natural gas are primarily used to meet its gas supply obligations to PSE&G. These purchase obligations are consistent with Power’s strategy to enter into contracts for its fuel supply in comparable volumes to its sales contracts.

As of March 31, 2013, the total minimum purchase requirements included in these commitments were as follows:

Fuel Type	Power’s Share of Commitments through 2017
	Millions
Nuclear Fuel	
Uranium	$483
Enrichment	$444
Fabrication	$145
Natural Gas	$1,035
Coal	$508

Table of Contents

Regulatory Proceedings

New Jersey Clean Energy Program

In 2008, the BPU approved funding requirements for each New Jersey EDC applicable to its Renewable Energy and Energy Efficiency programs for the years 2009 to 2012. In late 2012, the BPU approved additional funding requirements for these programs for the first half of 2013. The aggregate funding for the first half of 2013 is $195 million. PSE&G has a current liability of $92 million as of March 31, 2013 for its outstanding share of the funding. The liability is reduced as normal payments are made. The liability has been recorded with an offsetting Regulatory Asset, since the costs associated with this program are recovered from PSE&G ratepayers through the Societal Benefits Charge (SBC).

The BPU has started a new Comprehensive Resource Analysis proceeding to determine SBC funding for the years 2013-2016. The proceeding has no impact on current SBC assessments.

Long-Term Capacity Agreement Pilot Program (LCAPP)

In 2011, New Jersey enacted the LCAPP Act that resulted in the selection of three generators to build a total of approximately 2,000 MW of new combined-cycle generating facilities located in New Jersey. Each of the New Jersey EDCs, including PSE&G, was directed to execute a standard offer capacity agreement (SOCA) with the three selected generators, but did so under protest preserving their legal rights. The SOCA provides for the EDCs to guarantee specified annual capacity payments to the generators subject to the terms and conditions of the agreement. Legal challenges to the BPU’s implementation of the LCAPP Act were filed in New Jersey appellate court and this appeal is pending. In addition, the LCAPP Act itself has been challenged on constitutional grounds in federal court and that proceeding is ongoing.

In May 2012, two of the three generators cleared the Reliability Pricing Model auction for the 2015/2016 delivery year in the aggregate notional amount of approximately 1,300 MW of installed capacity. SOCA payments are for a 15-year term, which are scheduled to commence for one of the generators in the 2015/2016 delivery year and for the other generator in the 2016/2017 delivery year. Based upon the expected percentage of state load that PSE&G will be serving during the term of these contracts, PSE&G would be responsible for approximately 52% or 676 MW of this amount.

The current estimated fair value of the SOCAs is recorded as a Derivative Asset or Liability with an offsetting Regulatory Asset or Liability on PSE&G’s Consolidated Balance Sheets. See Note 11. Fair Value Measurements for additional information.

Superstorm Sandy

In late October 2012, Superstorm Sandy caused severe damage to PSE&G's transmission and distribution system throughout its service territory as well as to some of Power's generation infrastructure in the northern part of New Jersey. Strong winds resulted in a storm surge that caused damage to switching stations, substations and generating infrastructure.

Power incurred an additional $28 million of storm-related expense for the three months ended March 31, 2013, primarily for repairs at certain generating stations in Power's fossil fleet. These costs were recognized in Operation and Maintenance Expense. Power expects it will incur additional future costs, primarily relating to repairs to, and replacement of, equipment and property, which could be material.

PSEG maintains insurance coverage against loss or damage to plants and certain properties, subject to certain exceptions and limitations, to the extent such property is usually insured and insurance is available at a reasonable cost. PSEG is seeking recovery from its insurers for the property damage, above its self-insured retentions; however, no assurances can be given relative to the timing or amount of such recovery. PSEG received $25 million from its insurance carriers as an advance payment which was recorded in the fourth quarter of 2012. PSEG believes that additional insurance recoveries are not estimable as of March 31, 2013. PSEG is documenting its insurance claim which then will need to be submitted to and reviewed by its insurers. PSEG does not believe that it has a basis for

estimating additional probable insurance recoveries at this time.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Leveraged Lease Investments

On January 31, 2012, PSEG entered into a specific matter closing agreement with the Internal Revenue Service (IRS) settling all matters related to cross border lease transactions. This agreement settled the leasing dispute with finality for all tax periods in which PSEG realized tax deductions from these transactions. On January 31, 2012, PSEG also signed a Form 870-AD settlement agreement covering all audit issues for tax years 1997 through 2003. On March 26, 2012, PSEG executed a Form 870-AD settlement agreement covering all audit issues for tax years 2004 through 2006. These two agreements concluded ten years of audits for PSEG and the leasing issue for all tax years. For PSEG, the impact of these agreements was an increase in financial statement Income Tax Expense of approximately $175 million in the first quarter of 2012. In prior periods, PSEG had established financial statement tax liabilities for uncertain tax positions in the amount of $246 million with respect to these tax years. Accordingly, the settlement resulted in a net $71 million decrease in the first quarter of 2012 in the Income Tax Expense of PSEG.

Cash Impact

For tax years 1997 through 2003, the tax and interest PSEG owes the IRS as a result of this settlement will be reduced by the $320 million PSEG has on deposit with the IRS for this matter. PSEG paid a net deficiency for these years of approximately $4 million during the second quarter of 2012. Based upon the closing agreement and the Form 870-AD for tax years 2004 through 2006, PSEG owes the IRS approximately $620 million in tax and interest for tax years from 2004 through 2006. Based on the settlement of the leasing dispute, for tax years 2007 through 2010, the IRS owes PSEG approximately $676 million. PSEG has filed amended returns for tax years 2007-2010 reflecting the impact of the settlement. These returns have been audited by the IRS and accepted as filed. As required by statute, the IRS presented the refund claim to the Joint Committee on Taxation for approval. On October 16, 2012, PSEG was notified that the Joint Committee took no exception to the refund claim. In April 2013, PSEG received confirmation from the IRS which shows that overpayments from the 2008 through 2010 tax years have been applied to satisfy the liabilities due with respect to tax years 2004 through 2007. Accordingly, no further cash payments will be required with respect to the contested leasing transactions. In addition to the above, PSEG will claim a tax deduction for the accrued deficiency interest associated with this settlement in 2012, which gives rise to a cash tax savings of approximately $100 million.

Note 9. Changes in Capitalization

The following capital transactions occurred in the first three months of 2013:

Power

- paid cash dividends of $250 million to PSEG.

PSE&G

- paid $150 million of 5.00% Secured Medium-Term Notes at maturity,
- issued $400 million of 3.80% Secured Medium-Term Notes, Series H due January 2043,
- received $100 million capital contribution from PSEG, and
- paid $51 million of Transition Funding's securitization debt.

Energy Holdings

- reclassified $18 million of non-recourse long-term debt associated with a commercial real estate property held for sale to Other Current Liabilities. For additional information, see Note 11. Fair Value Measurements.

Note 10. Financial Risk Management Activities

The operations of PSEG, Power and PSE&G are exposed to market risks from changes in commodity prices, interest rates and equity prices that could affect their results of operations and financial condition. Exposure to these risks is

managed through normal operating and financing activities and, when appropriate, through hedging transactions.

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

Hedging transactions use derivative instruments to create a relationship in which changes to the value of the assets, liabilities or anticipated transactions exposed to market risks are expected to be offset by changes in the value of these derivative instruments.

Commodity Prices

The availability and price of energy commodities are subject to fluctuations due to weather, environmental policies, changes in supply and demand, state and federal regulatory policies, market conditions, transmission availability and other events. Power uses physical and financial transactions in the wholesale energy markets to mitigate the effects of adverse movements in fuel and electricity prices. Derivative contracts that do not qualify for hedge accounting or normal purchases/normal sales treatment are marked to market (MTM) with changes in fair value recorded in the income statement. The fair value for the majority of these contracts is obtained from quoted market sources. Modeling techniques using assumptions reflective of current market rates, yield curves and forward prices are used to interpolate certain prices when no quoted market exists.

Cash Flow Hedges

Power uses forward sale and purchase contracts, swaps and futures contracts to hedge

- forecasted energy sales from its generation stations and the related load obligations, and
- certain forecasted natural gas sales and purchases made to support the BGSS contract with PSE&G.

Certain of these derivative transactions are designated and effective as cash flow hedges. During the second quarter of 2012, Power de-designated certain of its commodity derivative transactions that had previously qualified as cash flow hedges as they were deemed to no longer be highly effective as required by the relevant accounting guidance. As a result, subsequent to June 1, 2012, Power recognizes all gains and losses from changes in the fair value of these derivatives immediately in earnings rather than deferring any such amounts in Accumulated Other Comprehensive Income (Loss). The fair values of Power's de-designated hedges were frozen in Accumulated Other Comprehensive Income (Loss) as the original forecasted transactions are still expected to occur and are reclassified into earnings as the original derivative transactions settle.

As of March 31, 2013 and December 31, 2012, the fair value and the impact on Accumulated Other Comprehensive Income (Loss) associated with accounting hedge activity was as follows:

	As of March 31, 2013	As of December 31, 2012
	Millions	
Fair Value of Cash Flow Hedges	$—	$3
Impact on Accumulated Other Comprehensive Income (Loss) (after tax)	$5	$9

The expiration date of the longest-dated cash flow hedge at Power is in 2014. Power's after-tax unrealized gains on these derivatives that are expected to be reclassified to earnings during the next 12 months are $4 million. There was no ineffectiveness associated with qualifying hedges as of March 31, 2013.

Trading Derivatives

The primary purpose of Power's wholesale marketing operation is to optimize the value of the output of the generating facilities via various products and services available in the markets it serves. Historically, Power engaged in trading of electricity and energy-related products where such transactions were not associated with the output or fuel purchase requirements of its facilities. This trading consisted mostly of energy supply contracts where Power secured sales commitments with the intent to supply the energy services from purchases in the market rather than from its owned generation. Such trading activities were marked to market through the income statement and represented less than one percent of gross margin (revenues less energy costs) on an annual basis. Effective July 2011, Power discontinued

trading activities and anticipates that it will not enter into any more trading derivative contracts.

Other Derivatives

Power enters into additional contracts that are derivatives, but do not qualify for or are not designated as cash flow hedges. These transactions are intended to mitigate exposure to fluctuations in commodity prices and optimize the value of its expected generation. Trade types include financial options, futures, swaps, fuel purchases and forward purchases and sales of electricity.

Changes in the fair market value of these contracts are recorded in earnings. PSE&G is a party to certain long-term natural gas sales contracts to optimize its pipeline capacity utilization. In addition, as further described in Note 8. Commitments and Contingent Liabilities, PSE&G was directed to execute long-term SOCAs with certain generators to support the LCAPP Act. These contracts qualify as derivatives and are marked to fair value with the offset recorded to Regulatory Assets and Liabilities.

Interest Rates

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

Fair Value Hedges

PSEG enters into fair value hedges to convert fixed-rate debt into variable-rate debt. As of March 31, 2013, PSEG had 7 interest rate swaps outstanding totaling $850 million. These swaps convert Power’s $300 million of 5.5% Senior Notes due December 2015, $300 million of Power’s $303 million of 5.32% Senior Notes due September 2016 and Power’s $250 million of 2.75% Senior Notes due September 2016 into variable-rate debt. These interest rate swaps are designated and effective as fair value hedges. The fair value changes of the interest rate swaps are fully offset by the changes in the fair value of the underlying forecasted interest payments of the debt. As of March 31, 2013 and December 31, 2012, the fair value of all the underlying hedges was $52 million and $57 million, respectively.

Cash Flow Hedges

PSEG uses interest rate swaps and other derivatives, which are designated and effective as cash flow hedges, to manage its exposure to the variability of cash flows, primarily related to variable-rate debt instruments. The Accumulated Other Comprehensive Income (Loss) (after tax) related to interest rate derivatives designated as cash flow hedges was $(2) million as of March 31, 2013 and December 31, 2012.

Fair Values of Derivative Instruments

The following are the fair values of derivative instruments on the Condensed Consolidated Balance Sheets. The following tables also include disclosures for offsetting derivative assets and liabilities which are subject to a master netting or similar agreement. See Note 2. Recent Accounting Standards. In general, the terms of our agreements provide that in the event of an early termination the counterparties have the right to offset amounts owed or owing under that and any other agreement with the same counterparty. Accordingly, and in accordance with our accounting policy, these positions have been offset in the Consolidated Balance Sheets of Power, PSE&G and PSEG. The following tabular disclosure does not include the offsetting of trade receivables and payables.

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

	As of March 31, 2013						
	Power (A)				PSE&G(A)	PSEG (A)	Consolidated
Balance Sheet Location	Cash Flow Hedges Energy-Related Contracts	Non Hedges Energy-Related Contracts	Netting (B)	Total Power	Non Hedges Energy-Related Contracts	Fair Value Hedges Interest Rate Swaps	Total Derivatives
	Millions						
Derivative Contracts							
Current Assets	$—	$356	$(304)	$52	$10	$15	$77
Noncurrent Assets	—	50	(44)	6	59	37	102
Total Mark-to-Market Derivative Assets	$—	$406	$(348)	$58	$69	$52	$179
Derivative Contracts							
Current Liabilities	$—	$(343)	$316	$(27)	$—	$—	$(27)
Noncurrent Liabilities	—	(72)	58	(14)	(109)	—	(123)
Total Mark-to-Market Derivative (Liabilities)	$—	$(415)	$374	$(41)	$(109)	$—	$(150)
Total Net Mark-to-Market Derivative Assets (Liabilities)	$—	$(9)	$26	$17	$(40)	$52	$29

	As of December 31, 2012						
	Power (A)				PSE&G (A)	PSEG (A)	Consolidated
Balance Sheet Location	Cash Flow Hedges Energy-Related Contracts	Non Hedges Energy-Related Contracts	Netting (B)	Total Power	Non Hedges Energy-Related Contracts	Fair Value Hedges Interest Rate Swaps	Total Derivatives
	Millions						
Derivative Contracts							
Current Assets	$3	$332	$(217)	$118	$5	$15	$138
Noncurrent Assets	—	75	(26)	49	62	42	153
Total Mark-to-Market Derivative Assets	$3	$407	$(243)	$167	$67	$57	$291
Derivative Contracts							
Current Liabilities	$—	$(265)	$219	$(46)	$—	$—	$(46)
Noncurrent Liabilities	—	(41)	26	(15)	(107)	—	(122)
Total Mark-to-Market Derivative (Liabilities)	$—	$(306)	$245	$(61)	$(107)	$—	$(168)
Total Net Mark-to-Market Derivative Assets	$3	$101	$2	$106	$(40)	$57	$123

(Liabilities)

(A) Substantially all of Power's and PSEG's derivative instruments are contracts subject to master netting agreements. Contracts not subject to master netting or similar agreements are immaterial and did not have any collateral posted or received as of March 31, 2013 and December 31, 2012. PSE&G does not have any derivative contracts subject to master netting or similar agreements.

(B) Represents the netting of fair value balances with the same counterparty (where the right of offset exists) and the application of collateral. All cash collateral received or posted that has been allocated to derivative positions, where

37

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

the right of offset exists, has been offset in the statement of financial position. As of March 31, 2013 and December 31, 2012, net cash collateral paid of $26 million and $2 million, respectively, were netted against the corresponding net derivative contract positions. Of the $26 million as of March 31, 2013, cash collateral of $12 million and $14 million were netted against current liabilities and noncurrent liabilities, respectively. Of the $2 million as of December 31, 2012, cash collateral of $(3) million and $5 million were netted against current assets and current liabilities, respectively.
Certain of Power's derivative instruments contain provisions that require Power to post collateral. This collateral may be posted in the form of cash or credit support with thresholds contingent upon Power's credit rating from each of the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. These credit risk-related contingent features stipulate that if Power were to be downgraded or lose its investment grade credit rating, it would be required to provide additional collateral. This incremental collateral requirement can offset collateral requirements related to other derivative instruments that are assets with the same counterparty, where the contractual right of offset exists under applicable master agreements. Power also enters into commodity transactions on the New York Mercantile Exchange (NYMEX) and Intercontinental Exchange (ICE). The NYMEX and ICE clearing houses act as counterparties to each trade. Transactions on NYMEX and ICE must adhere to comprehensive collateral and margin requirements.
The aggregate fair value of all derivative instruments with credit risk-related contingent features in a liability position that are not fully collateralized (excluding transactions on NYMEX and ICE that are fully collateralized) was $80 million and $98 million as of March 31, 2013 and December 31, 2012, respectively. As of March 31, 2013 and December 31, 2012, Power had the contractual right of offset of $61 million related to derivative instruments that are assets with the same counterparty under agreements and net of margin posted. If Power had been downgraded or lost its investment grade rating, it would have had additional collateral obligations of $19 million and $37 million as of March 31, 2013 and December 31, 2012, respectively, related to its derivatives, net of the contractual right of offset under master agreements and the application of collateral. This potential additional collateral is included in the $675 million and $654 million as of March 31, 2013 and December 31, 2012, respectively, discussed in Note 8. Commitments and Contingent Liabilities.
The following shows the effect on the Condensed Consolidated Statements of Operations and on Accumulated Other Comprehensive Income (AOCI) of derivative instruments designated as cash flow hedges for the three months ended March 31, 2013 and 2012:

Derivatives in Cash Flow Hedging Relationships	Amount of Pre-Tax Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) Three Months Ended March 31,		Location of Pre-Tax Gain (Loss) Reclassified from AOCI into Income	Amount of Pre-Tax Gain (Loss) Reclassified from AOCI into Income (Effective Portion) Three Months Ended March 31,		Location of Pre-Tax Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)	Amount of Pre-Tax Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) Three Months Ended March 31,	
	2013	2012		2013	2012		2013	2012
	Millions							
PSEG								
Energy-Related Contracts	$—	$38	Operating Revenues	$6	$39	Operating Revenues	$—	$(1)

Energy-Related Contracts	—	(4)	Energy Costs	—	(4)		—	—
Total PSEG Power	$—	$34		$6	$35		$—	$(1)
Energy-Related Contracts	$—	$38	Operating Revenues	$6	$39	Operating Revenues	$—	$(1)
Energy-Related Contracts	—	(4)	Energy Costs	—	(4)		—	—
Total Power	$—	$34		$6	$35		$—	$(1)

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

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

Accumulated Other Comprehensive Income	Pre-Tax	After-Tax
	Millions	
Balance as of December 31, 2011	$54	$31
Gain Recognized in AOCI	28	17
Less: Gain Reclassified into Income	(70)	(41)
Balance as of December 31, 2012	$12	$7
Less: Gain Reclassified into Income	(6)	(4)
Balance as of March 31, 2013	$6	$3

The following shows the effect on the Condensed Consolidated Statements of Operations of derivative instruments not designated as hedging instruments or as normal purchases and sales for the three months ended March 31, 2013 and 2012:

Derivatives Not Designated as Hedges	Location of Pre-Tax Gain (Loss) Recognized in Income on Derivatives	Pre-Tax Gain (Loss) Recognized in Income on Derivatives	
		Three Months Ended March 31,	
		2013	2012
		Millions	
PSEG and Power			
Energy-Related Contracts	Operating Revenues	$(209)	$195
Energy-Related Contracts	Energy Costs	58	(26)