

PUBLIC SERVICE ELECTRIC & GAS CO  
Form 10-Q  
May 02, 2012

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

**FORM 10-Q**

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2012

OR

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

FOR THE TRANSITION PERIOD FROM      TO

<b>Commission</b>	<b>Registrants, State of Incorporation,</b>	<b>I.R.S. Employer</b>
<b>File Number</b> 001-09120	<b>Address, and Telephone Number</b> PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED (A New Jersey Corporation) 80 Park Plaza, P.O. Box 1171 Newark, New Jersey 07101-1171 973 430-7000 <a href="http://www.pseg.com">http://www.pseg.com</a>	<b>Identification No.</b> 22-2625848
001-34232	PSEG POWER LLC (A Delaware Limited Liability Company) 80 Park Plaza T25 Newark, New Jersey 07102-4194 973 430-7000 <a href="http://www.pseg.com">http://www.pseg.com</a>	22-3663480
001-00973	PUBLIC SERVICE ELECTRIC AND GAS COMPANY (A New Jersey Corporation)	22-1212800

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80 Park Plaza, P.O. Box 570  
Newark, New Jersey 07101-0570  
973 430-7000  
<http://www.pseg.com>

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

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

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

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

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

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

As of April 17, 2012, Public Service Enterprise Group Incorporated had outstanding 505,894,915 shares of its sole class of Common Stock, without par value.

As of April 17, 2012, Public Service Electric and Gas Company had issued and outstanding 132,450,344 shares of Common Stock, without nominal or par value, all of which were privately held, beneficially and of record by Public Service Enterprise Group Incorporated.

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

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## FORWARD-LOOKING STATEMENTS

Certain of the matters discussed in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. When used herein, the words anticipate, intend, estimate, believe, expect, plan, should, hypothetical, potential, 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 trading 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,

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

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

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

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

any inability to achieve, or continue to sustain, our expected levels of operating performance,

increase in competition in energy supply markets as well as competition for certain rate-based transmission projects,

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

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

changes in technology and customer usage patterns.

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.

## PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Millions

(Unaudited)

For The Three Months Ended  
March 31,

2012                      2011

	2012	2011
OPERATING REVENUES	\$ 2,875	\$ 3,354
OPERATING EXPENSES		
Energy Costs	1,179	1,563
Operation and Maintenance	628	651
Depreciation and Amortization	256	241
Taxes Other Than Income Taxes	29	43
Total Operating Expenses	2,092	2,498
OPERATING INCOME	783	856
Income from Equity Method Investments	0	3
Other Income	44	76
Other Deductions	(16)	(13)
Other-Than-Temporary Impairments	(5)	(4)
Interest Expense	(101)	(127)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	705	791
Income Tax (Expense) Benefit	(212)	(329)
INCOME FROM CONTINUING OPERATIONS	493	462
Income (Loss) from Discontinued Operations, including Gain on Disposal, net of tax (expense) benefit of \$(36) for the period ended 2011	0	64
NET INCOME	\$ 493	\$ 526
WEIGHTED AVERAGE COMMON SHARE OUTSTANDING (THOUSANDS):		
BASIC	506,010	505,979
DILUTED	507,029	507,132
EARNINGS PER SHARE:		
BASIC		
INCOME FROM CONTINUING OPERATIONS	\$ 0.97	\$ 0.91
NET INCOME	\$ 0.97	\$ 1.04
DILUTED		
INCOME FROM CONTINUING OPERATIONS	\$ 0.97	\$ 0.91
NET INCOME	\$ 0.97	\$ 1.04
DIVIDENDS PAID PER SHARE OF COMMON STOCK	\$ 0.3550	\$ 0.3425

See Notes to Condensed Consolidated Financial Statements.

## PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Millions

(Unaudited)

	For The Three Months Ended March 31,	
	2012	2011
NET INCOME	\$ 493	\$ 526
Other Comprehensive Income, net of tax		
Available-for-Sale Securities, net of tax of \$38 and \$(8)	37	(5)
Change in Fair Value of Derivative Instruments, net of tax of \$14 and \$6	20	9
Reclassification Adjustments for Net Amounts included in Net Income, net of tax of \$(15) and \$(28)	(20)	(41)
Pension/OPEB adjustment, net of tax of \$5 and \$4	7	6
Other Comprehensive Income, net of tax	44	(31)
COMPREHENSIVE INCOME	\$ 537	\$ 495

See Notes to Condensed Consolidated Financial Statements.



## PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED

## CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	March 31, 2012	December 31, 2011
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## ASSETS

## CURRENT ASSETS

Cash and Cash Equivalents	\$ 931	\$ 834
Accounts Receivable, net of allowances of \$61 and \$56 in 2012 and 2011, respectively	992	967
Tax Receivable	16	16
Unbilled Revenues	230	289
Fuel	491	685
Materials and Supplies, net	375	367
Prepayments	315	308
Derivative Contracts	202	156
Regulatory Assets	381	167
Other	28	122
<b>Total Current Assets</b>	<b>3,961</b>	<b>3,911</b>

## PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT	25,596	25,080
Less: Accumulated Depreciation and Amortization	(7,363)	(7,231)
<b>Net Property, Plant and Equipment</b>	<b>18,233</b>	<b>17,849</b>

## NONCURRENT ASSETS

Regulatory Assets	3,437	3,805
Regulatory Assets of Variable Interest Entities (VIEs)	877	925
Long-Term Investments	1,276	1,303
Nuclear Decommissioning Trust (NDT) Fund	1,449	1,349
Other Special Funds	226	172
Goodwill	16	16
Other Intangibles	136	131
Derivative Contracts	131	106
Restricted Cash of VIEs	22	22
Other	238	232
<b>Total Noncurrent Assets</b>	<b>7,808</b>	<b>8,061</b>

<b>TOTAL ASSETS</b>	<b>\$ 30,002</b>	<b>\$ 29,821</b>
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See Notes to Condensed Consolidated Financial Statements.

## PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED

## CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	March 31, 2012	December 31, 2011
<b>LIABILITIES AND CAPITALIZATION</b>		
<b>CURRENT LIABILITIES</b>		
Long-Term Debt Due Within One Year (includes \$50 at fair value in 2012 and 2011)	\$ 501	\$ 417
Securitization Debt of VIEs Due Within One Year	218	216
Commercial Paper and Loans	29	0
Accounts Payable	1,030	1,184
Derivative Contracts	154	131
Accrued Interest	115	97
Accrued Taxes	59	30
Deferred Income Taxes	258	170
Clean Energy Program	199	214
Obligation to Return Cash Collateral	119	107
Regulatory Liabilities	81	100
Other	345	291
<b>Total Current Liabilities</b>	<b>3,108</b>	<b>2,957</b>
<b>NONCURRENT LIABILITIES</b>		
Deferred Income Taxes and Investment Tax Credits (ITC)	5,693	5,458
Regulatory Liabilities	216	228
Regulatory Liabilities of VIEs	10	9
Asset Retirement Obligations	497	489
Other Postretirement Benefit (OPEB) Costs	1,115	1,127
Accrued Pension Costs	613	734
Clean Energy Program	0	39
Environmental Costs	606	643
Derivative Contracts	20	26
Long-Term Accrued Taxes	154	292
Other	85	86
<b>Total Noncurrent Liabilities</b>	<b>9,009</b>	<b>9,131</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)</b>		
<b>CAPITALIZATION</b>		
<b>LONG-TERM DEBT</b>		
Long-Term Debt	6,544	6,694
Securitization Debt of VIEs	671	723
Project Level, Non-Recourse Debt	44	44
<b>Total Long-Term Debt</b>	<b>7,259</b>	<b>7,461</b>
<b>STOCKHOLDERS EQUITY</b>		
Common Stock, no par, authorized 1,000,000,000 shares; issued, 2012 and 2011 533,556,660 shares	4,823	4,823
Treasury Stock, at cost, 2012 27,663,745 shares; 2011 27,611,374 shares	(605)	(601)
Retained Earnings	6,699	6,385

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Accumulated Other Comprehensive Loss	(293)	(337)
Total Common Stockholders Equity	10,624	10,270
Noncontrolling Interest	2	2
Total Stockholders Equity	10,626	10,272
Total Capitalization	17,885	17,733
TOTAL LIABILITIES AND CAPITALIZATION	\$ 30,002	\$ 29,821

See Notes to Condensed Consolidated Financial Statements.

## PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions

(Unaudited)

For the Three Months Ended  
March 31,

2012 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 493	\$ 526
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Gain on Disposal of Discontinued Operations	0	(81)
Depreciation and Amortization	256	245
Amortization of Nuclear Fuel	43	39
Provision for Deferred Income Taxes (Other than Leases) and ITC	12	(152)
Non-Cash Employee Benefit Plan Costs	68	53
Leveraged Lease Income, Adjusted for Rents Received and Deferred Taxes	140	(11)
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	0	8
Over (Under) Recovery of Electric Energy Costs (BGS and NTC) and Gas Costs	21	31
Over (Under) Recovery of Societal Benefits Charge (SBC)	0	23
Cost of Removal	(20)	(13)
Net Realized (Gains) Losses and (Income) Expense from NDT Funds	(15)	(60)
Net Change in Tax Receivable	0	441
Net Change in Certain Current Assets and Liabilities	279	455
Employee Benefit Plan Funding and Related Payments	(154)	(446)
Other	(35)	(16)
Net Cash Provided By (Used In) Operating Activities	1,088	1,042
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Property, Plant and Equipment	(687)	(497)
Proceeds from Sale of Discontinued Operations	0	351
Proceeds from Sales of Available-for-Sale Securities	499	315
Investments in Available-for-Sale Securities	(511)	(331)
Other	(7)	7
Net Cash Provided By (Used In) Investing Activities	(706)	(155)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Change in Commercial Paper and Loans	29	(43)
Redemption of Long-Term Debt	(66)	0
Redemption of Securitization Debt	(49)	(46)
Repayment of Non-Recourse Debt	0	(1)
Cash Dividends Paid on Common Stock	(179)	(173)
Other	(20)	(4)
Net Cash Provided By (Used In) Financing Activities	(285)	(267)
Net Increase (Decrease) in Cash and Cash Equivalents	97	620
Cash and Cash Equivalents at Beginning of Period	834	280
Cash and Cash Equivalents at End of Period	\$ 931	\$ 900

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Supplemental Disclosure of Cash Flow Information:

Income Taxes Paid (Received)	\$ 3	\$ 8
Interest Paid, Net of Amounts Capitalized	\$ 84	\$ 85

See Notes to Condensed Consolidated Financial Statements.

**PSEG POWER LLC****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

Millions

(Unaudited)

For The Three Months Ended  
March 31,

2012                      2011

OPERATING REVENUES	\$ 1,561	\$ 1,967
OPERATING EXPENSES		
Energy Costs	822	1,135
Operation and Maintenance	241	277
Depreciation and Amortization	57	54
Total Operating Expenses	1,120	1,466
OPERATING INCOME	441	501
Other Income	30	70
Other Deductions	(15)	(12)
Other-Than-Temporary Impairments	(5)	(2)
Interest Expense	(30)	(51)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	421	506
Income Tax (Expense) Benefit	(168)	(208)
INCOME FROM CONTINUING OPERATIONS	253	298
Income (Loss) from Discontinued Operations, including Gain on Disposal, net of tax (expense) benefit of \$(36) for the period ended 2011	0	64
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	\$ 253	\$ 362

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

**PSEG POWER LLC****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****Millions****(Unaudited)**

	<b>For The Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
NET INCOME	\$ 253	\$ 362
Other Comprehensive Income, net of tax		
Available-for-Sale Securities, net of tax of \$39 and \$(9)	37	(7)
Change in Fair Value of Derivative Instruments, net of tax of \$14 and \$6	20	9
Reclassification Adjustments for Net Amounts included in Net Income, net of tax of \$(15) and \$(28)	(20)	(41)
Pension/OPEB adjustment, net of tax of \$5 and \$4	7	6
Other Comprehensive Income, net of tax	44	(33)
COMPREHENSIVE INCOME	\$ 297	\$ 329

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

**PSEG POWER LLC****CONDENSED CONSOLIDATED BALANCE SHEETS**

Millions

(Unaudited)

	March 31, 2012	December 31, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 5	\$ 12
Accounts Receivable	219	267
Accounts Receivable - Affiliated Companies, net	243	381
Short-Term Loan to Affiliate	1,035	907
Fuel	491	685
Materials and Supplies, net	278	272
Derivative Contracts	186	139
Prepayments	48	24
<b>Total Current Assets</b>	<b>2,505</b>	<b>2,687</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
PROPERTY, PLANT AND EQUIPMENT	9,345	9,191
Less: Accumulated Depreciation and Amortization	(2,550)	(2,460)
<b>Net Property, Plant and Equipment</b>	<b>6,795</b>	<b>6,731</b>
<b>NONCURRENT ASSETS</b>		
Nuclear Decommissioning Trust (NDT) Fund	1,449	1,349
Goodwill	16	16
Other Intangibles	136	131
Other Special Funds	44	33
Derivative Contracts	51	55
Other	93	85
<b>Total Noncurrent Assets</b>	<b>1,789</b>	<b>1,669</b>
<b>TOTAL ASSETS</b>	<b>\$ 11,089</b>	<b>\$ 11,087</b>

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



## PSEG POWER LLC

## CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	March 31, 2012	December 31, 2011
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## LIABILITIES AND MEMBER S EQUITY

## CURRENT LIABILITIES

Long-Term Debt Due Within One Year	\$ 0	\$ 66
Accounts Payable	473	541
Derivative Contracts	152	124
Deferred Income Taxes	56	53
Accrued Interest	49	32
Other	67	86
<b>Total Current Liabilities</b>	<b>797</b>	<b>902</b>

## NONCURRENT LIABILITIES

Deferred Income Taxes and Investment Tax Credits (ITC)	1,364	1,266
Asset Retirement Obligations	264	259
Other Postretirement Benefit (OPEB) Costs	183	180
Derivative Contracts	18	24
Accrued Pension Costs	200	236
Long-Term Accrued Taxes	52	8
Other	84	83
<b>Total Noncurrent Liabilities</b>	<b>2,165</b>	<b>2,056</b>

## COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)

## LONG-TERM DEBT

<b>Total Long-Term Debt</b>	<b>2,685</b>	<b>2,685</b>
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## MEMBER S EQUITY

Contributed Capital	2,028	2,028
Basis Adjustment	(986)	(986)
Retained Earnings	4,632	4,678
Accumulated Other Comprehensive Loss	(232)	(276)
<b>Total Member s Equity</b>	<b>5,442</b>	<b>5,444</b>

<b>TOTAL LIABILITIES AND MEMBER S EQUITY</b>	<b>\$ 11,089</b>	<b>\$ 11,087</b>
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See disclosures regarding PSEG Power LLC included in the Notes to the Condensed Consolidated Financial Statements.

## PSEG POWER LLC

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions

(Unaudited)

	For the Three Months Ended March 31,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 253	\$ 362
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Gain on Disposal of Discontinued Operations	0	(81)
Depreciation and Amortization	57	58
Amortization of Nuclear Fuel	43	39
Provision for Deferred Income Taxes and ITC	101	(139)
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	0	8
Non-Cash Employee Benefit Plan Costs	18	13
Net Realized (Gains) Losses and (Income) Expense from NDT Funds	(15)	(60)
Net Change in Certain Current Assets and Liabilities:		
Fuel, Materials and Supplies	188	286
Margin Deposit	(34)	(23)
Accounts Receivable	47	145
Accounts Payable	(11)	(126)
Accounts Receivable/Payable-Affiliated Companies, net	145	500
Other Current Assets and Liabilities	(22)	58
Employee Benefit Plan Funding and Related Payments	(38)	(124)
Other	(1)	(13)
Net Cash Provided By (Used In) Operating Activities	731	903
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Property, Plant and Equipment	(237)	(155)
Proceeds from Sale of Discontinued Operations	0	351
Proceeds from Sales of Available-for-Sale Securities	375	315
Investments in Available-for-Sale Securities	(385)	(331)
Short-Term Loan Affiliated Company, net	(128)	(926)
Other	10	17
Net Cash Provided By (Used In) Investing Activities	(365)	(729)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash Dividend Paid	(300)	(175)
Redemption of Long-Term Debt	(66)	0
Other	(7)	0
Net Cash Provided By (Used In) Financing Activities	(373)	(175)
Net Increase (Decrease) in Cash and Cash Equivalents	(7)	(1)
Cash and Cash Equivalents at Beginning of Period	12	11
Cash and Cash Equivalents at End of Period	\$ 5	\$ 10

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Supplemental Disclosure of Cash Flow Information:

Income Taxes Paid (Received)	\$ (2)	\$ 9
Interest Paid, Net of Amounts Capitalized	\$ 15	\$ 10

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

## PUBLIC SERVICE ELECTRIC AND GAS COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Millions

(Unaudited)

	For The Three Months Ended March 31,	
	2012	2011
OPERATING REVENUES	\$ 1,939	\$ 2,306
OPERATING EXPENSES		
Energy Costs	1,002	1,366
Operation and Maintenance	376	368
Depreciation and Amortization	190	179
Taxes Other Than Income Taxes	29	43
Total Operating Expenses	1,597	1,956
OPERATING INCOME	342	350
Other Income	11	5
Other Deductions	(1)	(1)
Other-Than-Temporary Impairments	0	(1)
Interest Expense	(73)	(79)
INCOME BEFORE INCOME TAXES	279	274
Income Tax (Expense) Benefit	(82)	(111)
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	\$ 197	\$ 163

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

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**Millions**

**(Unaudited)**

	<b>For The Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
NET INCOME	\$ 197	\$ 163
Available-for-Sale Securities, net of tax of \$(1) and \$1	(1)	1
COMPREHENSIVE INCOME	\$ 196	\$ 164

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

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY****CONDENSED CONSOLIDATED BALANCE SHEETS**

Millions

(Unaudited)

	March 31, 2012	December 31, 2011
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**ASSETS****CURRENT ASSETS**

Cash and Cash Equivalents	\$ 35	\$ 143
Accounts Receivable, net of allowances of \$61 in 2012 and \$56 in 2011, respectively	764	691
Tax Receivable	16	16
Unbilled Revenues	230	289
Materials and Supplies	97	94
Deferred Income Taxes	5	0
Prepayments	65	117
Regulatory Assets	381	167
Other	18	21

Total Current Assets	1,611	1,538
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**PROPERTY, PLANT AND EQUIPMENT**

Less: Accumulated Depreciation and Amortization	(4,572)	(4,539)
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Net Property, Plant and Equipment	11,065	10,767
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**NONCURRENT ASSETS**

Regulatory Assets	3,437	3,805
Regulatory Assets of VIEs	877	925
Long-Term Investments	299	280
Other Special Funds	75	57
Derivative Contracts	34	4
Restricted Cash of VIEs	22	22
Other	94	89

Total Noncurrent Assets	4,838	5,182
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<b>TOTAL ASSETS</b>	<b>\$ 17,514</b>	<b>\$ 17,487</b>
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See disclosures regarding Public Service Electric and Gas Company included in the Notes to Condensed Consolidated Financial Statements.

## PUBLIC SERVICE ELECTRIC AND GAS COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	March 31, 2012	December 31, 2011
<b>LIABILITIES AND CAPITALIZATION</b>		
<b>CURRENT LIABILITIES</b>		
Long-Term Debt Due Within One Year	\$ 450	\$ 300
Securitization Debt of VIEs Due Within One Year	218	216
Commercial Paper and Loans	29	0
Accounts Payable	421	498
Accounts Payable - Affiliated Companies, net	280	280
Accrued Interest	65	65
Clean Energy Program	199	214
Derivative Contracts	2	7
Deferred Income Taxes	0	32
Obligation to Return Cash Collateral	119	107
Regulatory Liabilities	81	100
Other	278	186
<b>Total Current Liabilities</b>	<b>2,142</b>	<b>2,005</b>
<b>NONCURRENT LIABILITIES</b>		
Deferred Income Taxes and ITC	3,803	3,675
Other Postretirement Benefit (OPEB) Costs	885	900
Accrued Pension Costs	282	355
Regulatory Liabilities	216	228
Regulatory Liabilities of VIEs	10	9
Clean Energy Program	0	39
Environmental Costs	555	592
Asset Retirement Obligations	228	226
Long-Term Accrued Taxes	23	83
Other	35	35
<b>Total Noncurrent Liabilities</b>	<b>6,037</b>	<b>6,142</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)</b>		
<b>CAPITALIZATION</b>		
<b>LONG-TERM DEBT</b>		
Long-Term Debt	3,821	3,970
Securitization Debt of VIEs	671	723
<b>Total Long-Term Debt</b>	<b>4,492</b>	<b>4,693</b>
<b>STOCKHOLDER'S EQUITY</b>		
Common Stock; 150,000,000 shares authorized; issued and outstanding, 2012 and 2011 - 132,450,344 shares	892	892
Contributed Capital	420	420
Basis Adjustment	986	986
Retained Earnings	2,544	2,347
Accumulated Other Comprehensive Income	1	2

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Total Stockholder s Equity	4,843	4,647
Total Capitalization	9,335	9,340
TOTAL LIABILITIES AND CAPITALIZATION	\$ 17,514	\$ 17,487

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



## PUBLIC SERVICE ELECTRIC AND GAS COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions

	For The Three Months Ended March 31,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 197	\$ 163
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	190	179
Provision for Deferred Income Taxes and ITC	8	(8)
Non-Cash Employee Benefit Plan Costs	44	35
Cost of Removal	(20)	(13)
Market Transition Charge (MTC) Refund	(14)	(15)
Over (Under) Recovery of Electric Energy Costs (BGS and NTC) and Gas Costs	21	31
Over (Under) Recovery of SBC	0	23
Net Changes in Certain Current Assets and Liabilities:		
Accounts Receivable and Unbilled Revenues	(14)	(47)
Materials and Supplies	(3)	(3)
Prepayments	52	79
Accounts Receivable/Payable-Affiliated Companies, net	(8)	(33)
Other Current Assets and Liabilities	51	40
Employee Benefit Plan Funding and Related Payments	(103)	(276)
Other	(35)	2
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>366</b>	<b>157</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Property, Plant and Equipment	(435)	(339)
Proceeds from Sale of Available-for-Sale Securities	51	0
Investments in Available-for-Sale Securities	(51)	0
Solar Loan Investments	(19)	(10)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>(454)</b>	<b>(349)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Change in Short-Term Debt	29	21
Redemption of Securitization Debt	(49)	(46)
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b>(20)</b>	<b>(25)</b>
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	<b>(108)</b>	<b>(217)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>143</b>	<b>245</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 35</b>	<b>\$ 28</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Income Taxes Paid (Received)	\$ (22)	\$ 0
Interest Paid, Net of Amounts Capitalized	\$ 69	\$ 74

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



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

### Note 1. Organization and Basis of Presentation

#### Organization

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

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

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

**PSEG Energy Holdings L.L.C. (Energy Holdings)** which has invested in leveraged leases and owns and operates primarily domestic projects engaged in the generation of energy through its direct wholly owned subsidiaries. Certain Energy Holdings' subsidiaries are subject to regulation by FERC and the states in which they operate. Energy Holdings has also invested in solar generation projects and is exploring opportunities for other investments in renewable generation and has been awarded a contract to manage the transmission and distribution assets of the Long Island Power Authority (LIPA).

**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, 2011.

The unaudited condensed consolidated financial information furnished herein reflects all adjustments which are, in the opinion of management, necessary to fairly state the results for the interim periods presented. All such adjustments are of a normal recurring nature. 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, 2011.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

### Note 2. Recent Accounting Standards

#### New Standard Adopted during 2012

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

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

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

changes some requirements for fair value measurements, and

requires expanded disclosures.

We adopted this standard prospectively effective January 1, 2012. Upon adoption there was no material impact on our consolidated financial position, results of operations or cash flows; however, it has resulted in expanded disclosures. For additional information, see Note 11. Fair Value Measurements.

##### **Presentation of Comprehensive Income**

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

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

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

In December 2011, the FASB issued an amendment to this standard to indefinitely defer the effective date for some of the specific disclosure requirements that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. During the deferral period, the existing requirements in GAAP for the presentation of reclassification adjustments must continue to be followed.

We adopted this standard retrospectively effective January 1, 2012. Upon adoption of the new amended guidance, there was no impact on our consolidated financial position, results of operations or cash flows, but there was a change in the presentation of the components of other comprehensive income.

##### **New Accounting Standards Issued But Not Yet Adopted**

##### **Disclosures about Offsetting Assets and Liabilities**

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This accounting standard was issued on balance sheet offsetting disclosures to facilitate comparability between financial statements prepared on the basis of GAAP and financial statements prepared on the basis of IFRS. 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

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

The guidance is effective for fiscal years and interim periods beginning on or after January 1, 2013. As this standard requires disclosures only, it will not have any impact on our consolidated financial position, results of operations or cash flows upon adoption.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**(UNAUDITED)**

### 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, 2012 and December 31, 2011. 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 2012 or in 2011. Further, PSE&G does not have any contractual commitments or obligations to provide financial support to Transition Funding or Transition Funding II.

### Note 4. Discontinued Operations and Dispositions

#### Discontinued Operations

##### Power

In March 2011, Power completed the sale of its 1,000 MW gas-fired Guadalupe generating facility for a total price of \$351 million, resulting in an after-tax gain of \$53 million.

PSEG Texas' operating results for the three months ended March 31, 2011, which were reclassified to Discontinued Operations, are summarized below:

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	
	Millions	
Operating Revenues	\$	63
Income Before Income Taxes	\$	18
Net Income	\$	11

## 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 short and long-term 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, 2012	As of December 31, 2011
	Millions	
Performing		
Commercial/Industrial	\$ 125	\$ 106
Residential	11	10
	\$ 136	\$ 116

#### Energy Holdings

Energy Holdings 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, 2012 and December 31, 2011, respectively.

	As of March 31, 2012	As of December 31, 2011
	Millions	
Lease Receivables (net of Non-Recourse Debt)	\$ 726	\$ 763
Estimated Residual Value of Leased Assets	535	553
	1,261	1,316
Unearned and Deferred Income	(431)	(435)
	830	881
Deferred Tax Liabilities	(694)	(716)
	\$ 136	\$ 165
Net Investments in Leases	\$ 136	\$ 165





## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (UNAUDITED)

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.

Counterparties	Credit Rating (S&P)	Lease Receivables, Net of Non-Recourse Debt	
		As of March 31, 2012	As of December 31, 2011
		Millions	
AA		\$ 21	\$ 21
A+		73	110
BBB - BB		316	316
B		166	299
CCC+		134	0
Not Rated		16	17
		<b>\$ 726</b>	<b>\$ 763</b>