

PUBLIC SERVICE ELECTRIC & GAS CO  
Form 10-Q  
November 02, 2006

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

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FORM 10-Q

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006**

**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 File Number</b>	<b>Registrants, State of Incorporation, Address, and Telephone Number</b>	<b>I.R.S. Employer Identification No.</b>
<b>001-09120</b>	<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>	<b>22-2625848</b>
<b>001-00973</b>	<b>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 <a href="http://www.pseg.com">http://www.pseg.com</a></b>	<b>22-1212800</b>
<b>000-49614</b>	<b>PSEG POWER LLC (A Delaware Limited Liability Company) 80 Park Plaza—T25</b>	<b>22-3663480</b>

Newark, New Jersey 07102-4194  
973 430-7000  
http://www.pseg.com

000-32503

**PSEG ENERGY HOLDINGS L.L.C.**  
**(A New Jersey Limited Liability Company)**  
**80 Park Plaza—T20**  
**Newark, New Jersey 07102-4194**  
**973 430-7000**  
**http://www.pseg.com**

42-1544079

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

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

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

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

As of October 31, 2006, Public Service Enterprise Group Incorporated had outstanding 252,203,353 shares of its sole class of Common Stock, without par value.

As of October 31, 2006, Public Service Electric and Gas Company had issued and outstanding 132,450,344 shares of Common Stock, without nominal or par value, all of which were privately held, beneficially and of record by Public Service Enterprise Group Incorporated.

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

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## FORWARD-LOOKING STATEMENTS

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

- regulatory issues that significantly impact operations;
- ability to attain satisfactory regulatory results;
- operating performance or cash flow from investments falling below projected levels;
- credit, commodity, interest rate, counterparty and other financial market risks;
- liquidity and the ability to access capital and maintain adequate credit ratings;
- adverse or unanticipated weather conditions that significantly impact costs and/or operations, including

generation;

- ability to implement successful succession planning, attract and retain management and other key employees;
- changes in the electric industry, including changes to power pools;
- changes in energy policies and regulation;
- changes in demand;
- changes in the number of market participants and the risk profiles of such participants;
- availability of power transmission facilities that impact the ability to deliver output to customers;
- growth in costs and expenses;
- environmental regulations that significantly impact operations;
- changes in rates of return on overall debt and equity markets that could adversely impact

the value of  
pension and other  
postretirement  
benefits assets and  
liabilities and the  
Nuclear  
Decommissioning  
Trust Funds;

- changes in  
political  
conditions,  
recession, acts of  
war or terrorism;
- changes in  
technology that  
make generation,  
transmission  
and/or distribution  
assets less  
competitive;
- continued  
availability of  
insurance  
coverage at  
commercially  
reasonable rates;
- involvement in  
lawsuits, including  
liability claims  
and commercial  
disputes;
- acquisitions,  
divestitures,  
mergers,  
restructurings or  
strategic initiatives  
that change  
PSEG's, PSE&G's,  
Power's and  
Energy Holdings'  
strategy or  
structure;
- business  
combinations  
among

competitors and  
major customers;

- general economic conditions, including inflation or deflation;
- changes in tax laws and regulations;
- changes to accounting standards or accounting principles generally accepted in the U.S., which may require adjustments to financial statements;



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

**PSEG, PSE&G and Energy Holdings**

- ability to obtain adequate and timely rate relief;

**PSEG, Power and Energy Holdings**

- inability to effectively manage portfolios of electric generation assets, gas supply contracts and electric and gas supply obligations;
- inability to meet generation operating performance expectations;
- energy transmission constraints or lack thereof;
- adverse changes in the market for energy,

capacity, natural gas, emissions credits, congestion credits and other commodity prices, especially during significant price movements for natural gas and power;

- adverse market developments or changes in market rules, including delays or impediments to implementation of reasonable capacity markets;
- surplus of energy capacity and excess supply;
- substantial competition in the domestic and worldwide energy markets;
- margin posting requirements, especially during significant price movements for natural gas and power;
- availability of fuel and timely transportation at reasonable

prices;

- effects on competitive position of actions involving competitors or major customers;
- changes in product or sourcing mix;
- delays, cost escalations or unsuccessful construction and development;
- delay in market rules;

**PSEG and Power**

- changes in regulation and safety and security measures at nuclear facilities;
- ability to maintain nuclear operating performance at projected levels;

**PSEG and Energy Holdings**

- changes in foreign currency exchange rates;

- deterioration in the credit of lessees and their ability to adequately service lease rentals;
- ability to realize tax benefits;
- changes in political regimes in foreign countries; and
- international developments negatively impacting business.

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

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Quarters Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Millions) (Unaudited)			
OPERATING REVENUES	\$ 3,392	\$ 3,324	\$ 9,516	\$ 8,940
OPERATING EXPENSES				
Energy Costs	1,809	1,979	5,400	5,144
Operation and Maintenance	541	537	1,705	1,661
Write-down of Project Investments	—	—	263	—
Depreciation and Amortization	234	204	645	562
Taxes Other Than Income Taxes	32	34	100	105
Total Operating Expenses	2,616	2,754	8,113	7,472
Income from Equity Method Investments	30	30	93	90
OPERATING INCOME	806	600	1,496	1,558
Other Income	51	92	153	169
Other Deductions	(44 )	(31 )	(91 )	(66 )
Interest Expense	(209 )	(208 )	(617 )	(606 )
Preferred Stock Dividends	(1 )	(1 )	(3 )	(3 )
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	603	452	938	1,052
Income Tax Expense	(229 )	(183 )	(379 )	(412 )
INCOME FROM CONTINUING OPERATIONS	374	269	559	640
(Loss) Income from Discontinued Operations, including Gain (Loss) on Disposal, net of tax expense	—	(16 )	227	(184 )

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(benefit) of \$0, \$0, \$142, and (\$138) for the quarter and nine months ended 2006 and 2005, respectively

NET INCOME	\$	374	\$	253	\$	786	\$	456
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WEIGHTED AVERAGE  
COMMON SHARES  
OUTSTANDING  
(THOUSANDS):

BASIC		251,747		239,034		251,471		238,696
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DILUTED		252,329		244,286		252,161		243,212
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EARNINGS PER SHARE:

BASIC

INCOME FROM CONTINUING OPERATIONS	\$	1.48	\$	1.12	\$	2.22	\$	2.68
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NET INCOME	\$	1.48	\$	1.06	\$	3.12	\$	1.91
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DILUTED

INCOME FROM CONTINUING OPERATIONS	\$	1.48	\$	1.10	\$	2.22	\$	2.63
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NET INCOME	\$	1.48	\$	1.03	\$	3.12	\$	1.87
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DIVIDENDS PAID PER

SHARE OF COMMON STOCK	\$	0.57	\$	0.56	\$	1.71	\$	1.68
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See Notes to Condensed Consolidated Financial Statements.

**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2006	December 31, 2005
	(Millions) (Unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 292	\$ 288
Accounts Receivable, net of allowances of \$45 and \$44 in 2006 and 2005, respectively	1,337	1,936
Unbilled Revenues	222	394
Fuel	853	812
Materials and Supplies	311	277
Energy Trading Contracts	62	327
Prepayments	224	129
Restricted Funds	98	76
Derivative Contracts	37	50
Assets of Discontinued Operations	—	498
Assets Held for Sale	21	—
Other	37	41
<b>Total Current Assets</b>	<b>3,494</b>	<b>4,828</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>19,634</b>	<b>18,896</b>
Less: Accumulated Depreciation and Amortization	(5,950)	(5,560)
<b>Net Property, Plant and Equipment</b>	<b>13,684</b>	<b>13,336</b>
<b>NONCURRENT ASSETS</b>		
Regulatory Assets	5,028	5,053
Long-Term Investments	3,890	4,077
Nuclear Decommissioning Trust (NDT) Funds	1,191	1,133
Other Special Funds	569	559
Goodwill and Other Intangibles	597	608
Energy Trading Contracts	19	42
Derivative Contracts	59	—
Other	183	177
<b>Total Noncurrent Assets</b>	<b>11,536</b>	<b>11,649</b>

TOTAL ASSETS	\$ 28,714	\$ 29,813
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See Notes to Condensed Consolidated Financial Statements.



**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2006	December 31, 2005
	(Millions) (Unaudited)	
<b>LIABILITIES AND CAPITALIZATION</b>		
<b>CURRENT LIABILITIES</b>		
Long-Term Debt Due Within One Year	\$ 672	\$ 1,536
Commercial Paper and Loans	555	100
Accounts Payable	806	1,154
Derivative Contracts	186	425
Energy Trading Contracts	237	200
Accrued Interest	191	152
Accrued Taxes	112	141
Clean Energy Program	114	96
Liabilities of Discontinued Operations	—	436
Other	430	515
<b>Total Current Liabilities</b>	<b>3,303</b>	<b>4,755</b>
<b>NONCURRENT LIABILITIES</b>		
Deferred Income Taxes and Investment Tax Credits (ITC)	4,646	4,248
Regulatory Liabilities	668	720
Asset Retirement Obligations	618	585
Other Postretirement Benefit (OPEB) Costs	632	597
Clean Energy Program	160	233
Environmental Costs	396	420
Derivative Contracts	214	637
Energy Trading Contracts	40	19
Other	263	218
<b>Total Noncurrent Liabilities</b>	<b>7,637</b>	<b>7,677</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)</b>		
<b>CAPITALIZATION</b>		
<b>LONG-TERM DEBT</b>		
Long-Term Debt	7,436	7,849
Securitization Debt	1,758	1,879
Project Level, Non-Recourse Debt	855	891

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Debt Supporting Trust Preferred Securities	660	660
Total Long-Term Debt	10,709	11,279
<b>SUBSIDIARIES' PREFERRED SECURITIES</b>		
Preferred Stock Without Mandatory Redemption, \$100 par value, 7,500,000 authorized; issued and outstanding, 2006 and 2005—795,234 shares	80	80
<b>COMMON STOCKHOLDERS' EQUITY</b>		
Common Stock, no par, authorized 500,000,000 shares; issued; 2006—266,123,571 shares; 2005—265,332,746 shares	4,644	4,618
Treasury Stock, at cost; 2006—14,024,505 shares; 2005—14,169,560 shares	(527 )	(532 )
Retained Earnings	2,901	2,545
Accumulated Other Comprehensive Loss	(33 )	(609 )
Total Common Stockholders' Equity	6,985	6,022
Total Capitalization	17,774	17,381
TOTAL LIABILITIES AND CAPITALIZATION	\$ 28,714	\$ 29,813

See Notes to Condensed Consolidated Financial Statements.

**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For The Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Millions)</b>	
	<b>(Unaudited)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 786	\$ 456
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
(Gain) Loss on Disposal of Discontinued Operations, net of tax	(228 )	178
Gain on Disposition of Property, Plant and Equipment	( 1 )	( 5 )
Write-Down of Project Investments	—	22
Depreciation and Amortization	645	572
Amortization of Nuclear Fuel	73	69
Provision for Deferred Income Taxes (Other than Leases) and ITC	( 5 )	155
Non-Cash Employee Benefit Plan Costs	178	175
Leveraged Lease Income, Adjusted for Rents Received and Deferred Taxes	32	9
Loss (Gain) on Sale of Investments	255	(50 )
Undistributed Earnings from Affiliates	(45 )	(40 )
Foreign Currency Transaction Loss (Gain)	4	( 1 )
Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	(47 )	4
Over Recovery of Electric Energy Costs (BGS and NTC) and Gas Costs	112	75
Under Recovery of Societal Benefits Charge (SBC)	(89 )	(94 )
Net Realized Gains and Income from NDT Funds	(54 )	(94 )
Other Non-Cash Charges	25	26
Net Change in Certain Current Assets and Liabilities	73	(439 )
Employee Benefit Plan Funding and Related Payments	(127 )	(159 )
Proceeds from the Withdrawal of Partnership Interests and Other Distributions	7	63
Other	(150 )	(19 )
<b>Net Cash Provided By Operating Activities</b>	<b>1,444</b>	<b>903</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Property, Plant and Equipment	(748 )	(751 )
Proceeds from Collection of Notes Receivable	—	132
Proceeds from Sale of Discontinued Operations	494	220
Proceeds from Sale of Property, Plant and Equipment	3	6
Proceeds from the Sale of Investments and Return of Capital from Partnerships	186	26

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Proceeds from NDT Funds Sales	1,056	2,751
Investment in NDT Funds	(1,069 )	(2,769 )
Restricted Funds	(22 )	(47 )
NDT Funds Interest and Dividends	29	25
Other	18	13
Net Cash Used In Investing Activities	(53 )	(394 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Change in Commercial Paper and Loans	452	(267 )
Issuance of Long-Term Debt	—	728
Issuance of Non-Recourse Debt	—	4
Issuance of Common Stock	56	55
Redemptions of Long-Term Debt	(1,246 )	(230 )
Repayment of Non-Recourse Debt	(37 )	(20 )
Redemption of Debt Underlying Trust Securities	(154 )	—
Cash Dividends Paid on Common Stock	(430 )	(401 )
Other	(26 )	(42 )
Net Cash Used In Financing Activities	(1,385 )	(173 )
Effect of Exchange Rate Change	(2 )	1
Net Increase in Cash and Cash Equivalents	4	337
Cash and Cash Equivalents at Beginning of Period	288	263
Cash and Cash Equivalents at End of Period	\$ 292	\$ 600
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Income Taxes Paid	\$ 312	\$ 102
Interest Paid, Net of Amounts Capitalized	\$ 510	\$