PUBLIC SERVICE ENTERPRISE GROUP INC
Form 10-Q
October 30, 2014
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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 September 30, 2014
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 October 15, 2014, Public Service Enterprise Group Incorporated had outstanding 505,959,967 shares of its sole class of Common Stock, without par value.

As of October 15, 2014, 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 about our and our subsidiaries' future performance, including, without limitation, future revenues, earnings, strategies, prospects, consequences and all other statements that are not purely historical constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. When used herein, the words “anticipate,” “intend,” “estimate,” “believe,” “expect,” “plan,” “should,” “hypothetical,” “potential,” “forecast,” “project,” variations of such words and similar expressions intended to identify forward-looking statements. Factors that may cause actual results to differ are often presented with the forward-looking statements themselves. Other factors that could cause actual results to differ materially from those contemplated in any forward-looking statements made by us herein are discussed in filings we make with the United States Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K and subsequent reports on Form 10-Q and Form 8-K and available on our website: http://www.pseg.com. 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, capacity market design, transmission planning and cost allocation rules, including how transmission projects are 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 and enforcement 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 manage our energy obligations, available supply and risks,
- adverse outcomes of any legal, regulatory or other proceeding, settlement, investigation or claim applicable to us and/or the energy industry,
- any deterioration in our credit quality or the credit quality of our counterparties,
- 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 obtain sufficient insurance coverage or recover proceeds of insurance with respect to such events,
- acts of terrorism, cybersecurity attacks or intrusions that could adversely impact our businesses,
- increases in competition in energy supply markets as well as competition for certain 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,

- changes in technology, such as distributed generation and micro grids, and greater reliance on these technologies, and
- changes in customer behaviors, including increases in energy efficiency, net-metering and demand response.

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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
OPERATING REVENUES	$2,641	$2,554	$8,113	$7,650
OPERATING EXPENSES				
Energy Costs	863	801	3,008	2,711
Operation and Maintenance	714	713	2,370	2,069
Depreciation and Amortization	318	313	919	886
Taxes Other Than Income Taxes	—	15	—	50
Total Operating Expenses	1,895	1,842	6,297	5,716
OPERATING INCOME	746	712	1,816	1,934
Income from Equity Method Investments	3	4	10	9
Other Income	75	59	185	172
Other Deductions	(9)	(12)	(31)	(54)
Other-Than-Temporary Impairments	(10)	(3)	(14)	(7)
Interest Expense	(100)	(100)	(291)	(303)
INCOME BEFORE INCOME TAXES	705	660	1,675	1,751
Income Tax Expense	(261)	(270)	(633)	(708)
NET INCOME	$444	$390	$1,042	$1,043
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (THOUSANDS):				
BASIC	505,862	505,858	505,937	505,900
DILUTED	507,422	507,694	507,402	507,433
NET INCOME PER SHARE:				
BASIC	$0.88	$0.77	$2.06	$2.06
DILUTED	$0.87	$0.77	$2.05	$2.06
DIVIDENDS PAID PER SHARE OF COMMON STOCK	$0.37	$0.36	$1.11	$1.08

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
NET INCOME	$444	$390	$1,042	$1,043
Other Comprehensive Income (Loss), net of tax				
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of $33, $(16), $21 and $(27) for the three and nine months ended 2014 and 2013, respectively	(30)	16	(17)	27
Unrealized Gains (Losses) on Cash Flow Hedges, net of tax (expense) benefit of $(1), $1, $(3) and $4 for the three and nine months ended 2014 and 2013, respectively	1	(1)	4	(5)
Pension/Other Postretirement Benefit Costs (OPEB) adjustment, net of tax (expense) benefit of $(2), $(6), $(5) and $(20) for the three and nine months ended 2014 and 2013, respectively	3	9	9	28
Other Comprehensive Income (Loss), net of tax	(26)	24	(4)	50
COMPREHENSIVE INCOME	$418	$414	$1,038	$1,093

See Notes to Condensed Consolidated Financial Statements.

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

	September 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$703	$493
Accounts Receivable, net of allowances of $55 and $56 in 2014 and 2013, respectively	1,267	1,203
Tax Receivable	14	109
Unbilled Revenues	228	300
Fuel	530	545
Materials and Supplies, net	495	479
Prepayments	175	89
Derivative Contracts	71	98
Deferred Income Taxes	128	24
Regulatory Assets	211	243
Other	24	31
Total Current Assets	3,846	3,614
PROPERTY, PLANT AND EQUIPMENT	31,328	29,713
Less: Accumulated Depreciation and Amortization	(8,492)	(8,068)
Net Property, Plant and Equipment	22,836	21,645
NONCURRENT ASSETS		
Regulatory Assets	2,569	2,612
Regulatory Assets of Variable Interest Entities (VIEs)	270	476
Long-Term Investments	1,309	1,313
Nuclear Decommissioning Trust (NDT) Fund	1,739	1,701
Long-Term Receivable of VIE	401	—
Other Special Funds	675	613
Goodwill	16	16
Other Intangibles	102	33
Derivative Contracts	29	163
Restricted Cash of VIEs	24	24
Other	331	312
Total Noncurrent Assets	7,465	7,263
TOTAL ASSETS	$34,147	$32,522

See Notes to Condensed Consolidated Financial Statements.

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

	September 30, 2014	December 31, 2013
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$316	$544
Securitization Debt of VIEs Due Within One Year	258	237
Commercial Paper and Loans	—	60
Accounts Payable	1,111	1,222
Derivative Contracts	109	76
Accrued Interest	117	95
Accrued Taxes	168	37
Clean Energy Program	185	142
Obligation to Return Cash Collateral	120	119
Regulatory Liabilities	271	43
Other	481	488
Total Current Liabilities	3,136	3,063
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	7,298	7,107
Regulatory Liabilities	141	233
Regulatory Liabilities of VIEs	12	11
Asset Retirement Obligations	704	677
Other Postretirement Benefit (OPEB) Costs	1,073	1,095
OPEB Costs of Servco	321	—
Accrued Pension Costs	121	121
Accrued Pension Costs of Servco	78	—
Environmental Costs	438	414
Derivative Contracts	37	31
Long-Term Accrued Taxes	183	180
Other	132	119
Total Noncurrent Liabilities	10,538	9,988
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)		
CAPITALIZATION		
LONG-TERM DEBT		
Long-Term Debt	8,321	7,587
Securitization Debt of VIEs	68	259
Project Level, Non-Recourse Debt	—	16
Total Long-Term Debt	8,389	7,862
STOCKHOLDERS’ EQUITY		
Common Stock, no par, authorized 1,000,000,000 shares; issued, 2014 and 2013—533,556,660 shares	4,873	4,861
Treasury Stock, at cost, 2014— 27,674,968 shares; 2013— 27,699,398 shares	(629)	(615)
Retained Earnings	7,938	7,457

Accumulated Other Comprehensive Loss	(99)	(95)
Total Common Stockholders’ Equity	12,083	11,608
Noncontrolling Interest	1	1
Total Stockholders’ Equity	12,084	11,609
Total Capitalization	20,473	19,471
TOTAL LIABILITIES AND CAPITALIZATION	$34,147	$32,522

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$1,042	$1,043
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	919	886
Amortization of Nuclear Fuel	151	145
Provision for Deferred Income Taxes (Other than Leases) and ITC	103	242
Non-Cash Employee Benefit Plan Costs	36	182
Leveraged Lease Income, Adjusted for Rents Received and Deferred Taxes	(30)	(7)
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	237	3
Change in Accrued Storm Costs	(3)	(87)
Net Change in Other Regulatory Assets and Liabilities	276	134
Cost of Removal	(68)	(66)
Net Realized (Gains) Losses and (Income) Expense from NDT Fund	(99)	(76)
Net Change in Margin Deposit	(173)	17
Net Change in Certain Current Assets and Liabilities	119	158
Employee Benefit Plan Funding and Related Payments	(76)	(210)
Other	102	71
Net Cash Provided By (Used In) Operating Activities	2,536	2,435
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(1,922)	(2,102)
Proceeds from Sales of Investments	11	42
Proceeds from Sales of Available-for-Sale Securities	1,224	914
Investments in Available-for-Sale Securities	(1,241)	(922)
Other	(60)	(20)
Net Cash Provided By (Used In) Investing Activities	(1,988)	(2,088)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Commercial Paper and Loans	(60)	(263)
Issuance of Long-Term Debt	1,000	1,500
Redemption of Long-Term Debt	(500)	(750)
Redemption of Securitization Debt	(170)	(162)
Cash Dividends Paid on Common Stock	(561)	(546)
Other	(47)	(57)
Net Cash Provided By (Used In) Financing Activities	(338)	(278)
Net Increase (Decrease) in Cash and Cash Equivalents	210	69
Cash and Cash Equivalents at Beginning of Period	493	379
Cash and Cash Equivalents at End of Period	$703	$448
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	$284	$222

Interest Paid, Net of Amounts Capitalized	$269	$274
Accrued Property, Plant and Equipment Expenditures	$286	$258

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
OPERATING REVENUES	$1,138	$1,174	$3,824	$3,818
OPERATING EXPENSES				
Energy Costs	472	430	2,036	1,785
Operation and Maintenance	242	305	871	868
Depreciation and Amortization	71	69	215	202
Total Operating Expenses	785	804	3,122	2,855
OPERATING INCOME	353	370	702	963
Income from Equity Method Investments	4	4	11	12
Other Income	56	45	135	127
Other Deductions	(6)	(11)	(25)	(49)
Other-Than-Temporary Impairments	(10)	(3)	(14)	(7)
Interest Expense	(31)	(26)	(92)	(85)
INCOME BEFORE INCOME TAXES	366	379	717	961
Income Tax Expense	(144)	(153)	(277)	(384)
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	$222	$226	$440	$577

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
NET INCOME	$222	$226	$440	$577
Other Comprehensive Income (Loss), net of tax				
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of $34, $(18), $23 and $(29) for the three and nine months ended 2014 and 2013, respectively	(30)	17	(19)	30
Unrealized Gains (Losses) on Cash Flow Hedges, net of tax (expense) benefit of $0, $1, $(2) and $4 for the three and nine months ended 2014 and 2013, respectively	1	(1)	4	(6)
Pension/OPEB adjustment, net of tax (expense) benefit of $(1), $(6), $(4) and $(17) for the three and nine months ended 2014 and 2013, respectively	2	8	7	25
Other Comprehensive Income (Loss), net of tax	(27)	24	(8)	49
COMPREHENSIVE INCOME	$195	$250	$432	$626

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

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PSEG POWER LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
Millions
(Unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$12	$6
Accounts Receivable	385	338
Accounts Receivable—Affiliated Companies, net	52	333
Short-Term Loan to Affiliate	623	790
Fuel	530	545
Materials and Supplies, net	360	362
Derivative Contracts	50	57
Prepayments	20	13
Deferred Income Taxes	97	30
Other	1	2
Total Current Assets	2,130	2,476
PROPERTY, PLANT AND EQUIPMENT	10,613	10,278
Less: Accumulated Depreciation and Amortization	(3,229)	(2,911)
Net Property, Plant and Equipment	7,384	7,367
NONCURRENT ASSETS		
Nuclear Decommissioning Trust (NDT) Fund	1,739	1,701
Long-Term Investments	122	123
Goodwill	16	16
Other Intangibles	102	33
Other Special Funds	159	139
Derivative Contracts	11	72
Other	87	75
Total Noncurrent Assets	2,236	2,159
TOTAL ASSETS	$11,750	$12,002

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

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PSEG POWER LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
Millions
(Unaudited)

	September 30, 2014	December 31, 2013
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$—	$44
Accounts Payable	435	516
Derivative Contracts	109	76
Accrued Interest	43	28
Other	160	136
Total Current Liabilities	747	800
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	2,092	2,031
Asset Retirement Obligations	415	400
Other Postretirement Benefit (OPEB) Costs	215	206
Derivative Contracts	37	31
Accrued Pension Costs	35	35
Long-Term Accrued Taxes	57	53
Other	94	91
Total Noncurrent Liabilities	2,945	2,847
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)		
LONG-TERM DEBT		
Total Long-Term Debt	2,543	2,497
MEMBER'S EQUITY		
Contributed Capital	2,214	2,214
Basis Adjustment	(986)	(986)
Retained Earnings	4,358	4,693
Accumulated Other Comprehensive Loss	(71)	(63)
Total Member's Equity	5,515	5,858
TOTAL LIABILITIES AND MEMBER'S EQUITY	$11,750	$12,002

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

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

	Nine Months Ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$440	$577
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	215	202
Amortization of Nuclear Fuel	151	145
Provision for Deferred Income Taxes and ITC	5	96
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	237	3
Non-Cash Employee Benefit Plan Costs	10	50
Net Realized (Gains) Losses and (Income) Expense from NDT Fund	(99)	(76)
Net Change in Certain Current Assets and Liabilities:		
Fuel, Materials and Supplies	17	(38)
Margin Deposit	(173)	17
Accounts Receivable	49	68
Accounts Payable	(135)	(70)
Accounts Receivable/Payable—Affiliated Companies, net	299	329
Other Current Assets and Liabilities	28	21
Employee Benefit Plan Funding and Related Payments	(5)	(45)
Other	71	35
Net Cash Provided By (Used In) Operating Activities	1,110	1,314
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(414)	(458)
Proceeds from Sales of Available-for-Sale Securities	882	849
Investments in Available-for-Sale Securities	(898)	(864)
Short-Term Loan—Affiliated Company, net	167	157
Other	(63)	(13)
Net Cash Provided By (Used In) Investing Activities	(326)	(329)
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of Long-Term Debt	—	(300)
Cash Dividend Paid	(775)	(705)
Contributed Capital	—	24
Other	(3)	(2)
Net Cash Provided By (Used In) Financing Activities	(778)	(983)
Net Increase (Decrease) in Cash and Cash Equivalents	6	2
Cash and Cash Equivalents at Beginning of Period	6	7
Cash and Cash Equivalents at End of Period	$12	$9
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	$87	$107

Interest Paid, Net of Amounts Capitalized	$78	$72
Accrued Property, Plant and Equipment Expenditures	$66	$64

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
OPERATING REVENUES	$1,655	$1,666	$5,235	$5,084
OPERATING EXPENSES				
Energy Costs	668	661	2,278	2,208
Operation and Maintenance	366	408	1,190	1,204
Depreciation and Amortization	238	236	682	658
Taxes Other Than Income Taxes	—	15	—	50
Total Operating Expenses	1,272	1,320	4,150	4,120
OPERATING INCOME	383	346	1,085	964
Other Income	16	13	44	41
Other Deductions	(2)	(1)	(3)	(3)
Interest Expense	(71)	(75)	(206)	(223)
INCOME BEFORE INCOME TAXES	326	283	920	779
Income Tax Expense	(126)	(115)	(355)	(311)
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	$200	$168	$565	$468

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
NET INCOME	$200	$168	$565	$468
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of $0, $0, $0 and $1 for the three and nine months ended 2014 and 2013, respectively	1	—	1	(1)
COMPREHENSIVE INCOME	$201	$168	$566	$467

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

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

	September 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$305	$18
Accounts Receivable, net of allowances of $55 and $56 in 2014 and 2013, respectively	836	832
Unbilled Revenues	228	300
Materials and Supplies	130	115
Prepayments	116	24
Regulatory Assets	211	243
Derivative Contracts	5	25
Deferred Income Taxes	20	16
Other	20	12
Total Current Assets	1,871	1,585
PROPERTY, PLANT AND EQUIPMENT	20,347	19,071
Less: Accumulated Depreciation and Amortization	(5,057)	(4,964)
Net Property, Plant and Equipment	15,290	14,107
NONCURRENT ASSETS		
Regulatory Assets	2,569	2,612
Regulatory Assets of VIEs	270	476
Long-Term Investments	349	361
Other Special Funds	385	354
Derivative Contracts	8	69
Restricted Cash of VIEs	24	24
Other	151	132
Total Noncurrent Assets	3,756	4,028
TOTAL ASSETS	$20,917	$19,720

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

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

	September 30, 2014	December 31, 2013
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$300	$500
Securitization Debt of VIEs Due Within One Year	258	237
Commercial Paper and Loans	—	60
Accounts Payable	520	535
Accounts Payable—Affiliated Companies, net	99	190
Accrued Interest	73	67
Clean Energy Program	185	142
Deferred Income Taxes	—	30
Obligation to Return Cash Collateral	120	119
Regulatory Liabilities	271	43
Other	296	314
Total Current Liabilities	2,122	2,237
NONCURRENT LIABILITIES		
Deferred Income Taxes and ITC	4,538	4,406
Other Postretirement Benefit (OPEB) Costs	807	839
Accrued Pension Costs	26	27
Regulatory Liabilities	141	233
Regulatory Liabilities of VIEs	12	11
Environmental Costs	386	363
Asset Retirement Obligations	286	274
Long-Term Accrued Taxes	78	72
Other	63	47
Total Noncurrent Liabilities	6,337	6,272
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)		
CAPITALIZATION		
LONG-TERM DEBT		
Long-Term Debt	5,763	5,066
Securitization Debt of VIEs	68	259
Total Long-Term Debt	5,831	5,325
STOCKHOLDER’S EQUITY		
Common Stock; 150,000,000 shares authorized; issued and outstanding, 2014 and 2013—132,450,344 shares	892	892
Contributed Capital	695	520
Basis Adjustment	986	986
Retained Earnings	4,052	3,487
Accumulated Other Comprehensive Income	2	1
Total Stockholder’s Equity	6,627	5,886
Total Capitalization	12,458	11,211

TOTAL LIABILITIES AND CAPITALIZATION	$20,917	$19,720

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

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

	Nine Months Ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$565	$468
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	682	658
Provision for Deferred Income Taxes and ITC	93	153
Non-Cash Employee Benefit Plan Costs	21	117
Cost of Removal	(68)	(66)
Change in Accrued Storm Costs	(3)	(87)
Net Change in Other Regulatory Assets and Liabilities	276	134
Net Change in Certain Current Assets and Liabilities:		
Accounts Receivable and Unbilled Revenues	71	48
Materials and Supplies	(15)	(4)
Prepayments	(92)	(109)
Accounts Payable	(3)	3
Accounts Receivable/Payable—Affiliated Companies, net	(113)	(171)
Other Current Assets and Liabilities	(6)	29
Employee Benefit Plan Funding and Related Payments	(67)	(147)
Other	2	23
Net Cash Provided By (Used In) Operating Activities	1,343	1,049
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(1,493)	(1,628)
Proceeds from Sales of Available-for-Sale Securities	98	35
Investments in Available-for-Sale Securities	(96)	(16)
Solar Loan Investments	2	(11)
Restricted Funds	(1)	—
Net Cash Provided By (Used In) Investing Activities	(1,490)	(1,620)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Short-Term Debt	(60)	(263)
Issuance of Long-Term Debt	1,000	1,500
Redemption of Long-Term Debt	(500)	(450)
Redemption of Securitization Debt	(170)	(162)
Contributed Capital	175	100
Other	(11)	(17)
Net Cash Provided By (Used In) Financing Activities	434	708
Net Increase (Decrease) In Cash and Cash Equivalents	287	137
Cash and Cash Equivalents at Beginning of Period	18	116
Cash and Cash Equivalents at End of Period	$305	$253

Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	$174	$174
Interest Paid, Net of Amounts Capitalized	$188	$199
Accrued Property, Plant and Equipment Expenditures	$238	$200

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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 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 its 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 in New Jersey, which are regulated by the BPU.

PSEG's other direct wholly owned subsidiaries include PSEG Energy Holdings L.L.C. (Energy Holdings), which primarily has investments in leveraged leases; PSEG Long Island LLC (PSEG LI), which, effective January 1, 2014, operates the Long Island Power Authority's (LIPA) transmission and distribution (T&D) system under a twelve-year Amended and Restated Operations Services Agreement (OSA); and PSEG Services Corporation (Services), which provides certain 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, 2013 and Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014.

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

The year-end Condensed Consolidated Balance Sheets were derived from the audited Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2013.

On December 31, 2013, Energy Holdings distributed the outstanding equity of its 50% interest in a partnership that owns and operates a generation facility in Hawaii and its wholly owned interest in PSEG Solar Source LLC to PSEG. PSEG in turn contributed this distribution to Power as an additional equity investment. This transaction was accounted for as a non-cash transfer of equity interest between entities under common control with prior period financial statements for Power retrospectively adjusted to include the earnings related to the transfer. As a result, Power’s Operating Revenues increased $5 million and $12 million for the three months and nine months ended September 30, 2013, respectively, and Power's Net Income increased $5 million and $15 million for the three months and nine months ended September 30, 2013, respectively.

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Note 2. Recent Accounting Standards

New Standards Adopted during 2014

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

This accounting standard was issued to address diversity in practice related to the presentation of an unrecognized tax benefit in certain cases. This standard requires entities to present an unrecognized tax benefit or a portion thereof on the Balance Sheet as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward.

However, the unrecognized tax benefit will be presented on the Balance Sheet as a liability and will not be combined with deferred tax assets in cases where that tax benefit cannot or will not, if permissible, be used to settle any additional income taxes that would result from the disallowance of a tax position.

The standard was effective for fiscal years and interim periods beginning after December 15, 2013. The impact of adopting this standard was immaterial.

New Standards Issued But Not Yet Adopted

Revenue from Contracts with Customers

This accounting standard was issued to clarify the principles for recognizing revenue and to develop a common standard that would remove inconsistencies in revenue requirements; improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; and provide improved disclosures.

The guidance provides a five-step model to be used for recognizing revenue for the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The update is effective for annual and interim reporting periods beginning after December 15, 2016. Early application is not permitted. We are currently analyzing the impact of this standard on our financial statements.

Presentation of Financial Statements and Property, Plant and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

This accounting standard was issued to change the criteria for reporting discontinued operations. The standard requires that a component of an entity be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on the entity’s operations and financial results, including a disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity.

The amendment should be applied prospectively for all disposals of an entity that occur within interim and annual periods beginning on or after December 15, 2014; and all businesses that, on acquisition, are classified as held for sale that occur within interim and annual periods beginning on or after December 15, 2014. We will evaluate all future disposals under the new guidance beginning on January 1, 2015.

Transfers and Servicing - Repurchase-to-Maturity Transactions, Repurchase-Financings and Disclosures

This standard changes the accounting for repurchase-to-maturity transactions and linked repurchase-financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. It also requires disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings.

This standard is effective for the first interim or annual period beginning after December 15, 2014.

We are currently analyzing this standard but do not expect its impact to be material to our financial statements.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

The amendments in this standard provide guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures.

Substantial doubt about an entity’s ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that its financial statements are issued.

The update is effective for annual and interim reporting periods beginning after December 15, 2016.
The update requires that we identify, assess and evaluate uncertainties and their impact, if any, on our ability to meet financial obligations. However, we do not expect this standard to impact our financial statements.

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 Transition Funding and Transition Funding II are presented separately on the face of the Condensed Consolidated Balance Sheets of PSEG and PSE&G because the assets of these VIEs 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.

PSE&G’s maximum exposure to loss is equal to its equity investment in these VIEs which was $16 million as of September 30, 2014 and December 31, 2013. 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 nine months of 2014 or in 2013. PSE&G does not have any contractual commitments or obligations to provide financial support to Transition Funding or Transition Funding II.

Variable Interest Entity for which PSEG LI is the Primary Beneficiary

PSEG LI consolidates Long Island Electric Utility Servco, LLC (Servco), a marginally capitalized VIE, which was created for the purpose of operating LIPA's T&D system in Long Island, New York as well as providing administrative support functions to LIPA. PSEG LI is the primary beneficiary of Servco because it directs the operations of Servco, the activity that most significantly impacts Servco's economic performance and it has the obligation to absorb losses of Servco that could potentially be significant to Servco. Such losses would be immaterial to PSEG.

Pursuant to the OSA, Servco's operating costs are reimbursable entirely by LIPA, and therefore, PSEG LI's risk is limited related to the activities of Servco. PSEG LI has no current obligation to provide direct financial support to Servco. In addition to reimbursement of Servco’s operating costs as provided for in the OSA, PSEG LI receives an annual contract management fee. PSEG LI’s annual contractual management fee, in certain situations, could be partially offset by Servco's annual storm costs not approved by the Federal Emergency Management Agency, limited contingent liabilities and penalties for failing to meet certain performance metrics.

PSEG recognized a long-term receivable primarily related to future funding by LIPA of Servco’s recognized pension and other postretirement benefit (OPEB) liabilities. This receivable is presented separately on the Condensed Consolidated Balance Sheet of PSEG as a noncurrent asset because it is restricted. See Note 7. Pension and Other Postretirement Benefits for additional information.

For transactions in which Servco acts as principal, such as transactions with its employees for labor and labor-related activities, including pension and OPEB related transactions, Servco records revenues and the related pass-through expenditures separately in Operating Revenues and Operations and Maintenance (O&M) Expense, respectively. For transactions in which Servco acts as an agent for LIPA, it records revenues and the related expenses on a net basis, resulting in no impact on PSEG's Condensed Consolidated Statement of Operations.

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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, 2013.

Significant regulatory orders received by PSE&G in 2014 are as follows:

- Storm Damage Deferral—In September 2014, the BPU approved a Stipulation of Settlement finding that PSE&G's 2010 through 2012 major storm incremental O&M costs of $240 million (deferred as Regulatory Assets) and capital expenditures of $126 million were prudent and recoverable in a future base rate proceeding, subject to offset for the amount of insurance proceeds received.
- Weather Normalization Clause (WNC)—In April 2014, the BPU approved PSE&G's filing with respect to deficiency revenues from the 2012-2013 Winter Period. The BPU’s approval of a final WNC resulted in no change to the provisional rate previously approved by the BPU and implemented effective October 1, 2013, which was set to recover $26 million from customers during the 2013-2014 Winter Period (October 1, 2013 through May 31, 2014).

In September 2014, the BPU provisionally approved PSE&G’s filing with respect to excess revenues collected during the colder than normal 2013-2014 Winter Period. Effective October 1, 2014, PSE&G will return $45 million in revenues to its customers during the 2014-2015 Winter Period as a result of excess revenues collected during the colder than normal 2013-2014 Winter Period (October 1, 2014 through May 31, 2015).

- Basic Gas Supply Service (BGSS)—In January and February 2014, PSE&G filed self-implementing one-month BGSS residential customer bill credits with the BPU for 25 cents per therm for the months of February and March 2014. These credits provided approximately $93 million in total credits to residential customers, reducing the BGSS deferred balance. On April 1, 2014, the BGSS rate reverted back to the current rate.

In May 2014, PSE&G made its annual BGSS filing with the BPU requesting a reduction of $112 million in annual BGSS revenues. In September 2014, the BPU approved a Stipulation in this matter on a provisional basis and the BGSS rate was reduced from approximately 54 cents to 45 cents per therm effective October 1, 2014.

In October 2014, PSE&G filed a self-implementing three-month bill credit for residential customers to be effective during November and December 2014 and January 2015. This credit will be 28 cents per therm for the three-month period and is estimated to provide approximately $160 million to customers. The specific amount returned will depend on actual usage over that period.

- Universal Service Fund (USF)/Lifeline—In September 2014, the BPU approved rates set to recover costs incurred under the USF/Lifeline energy assistance programs effective October 1, 2014. PSE&G earns no margin on the collection of the USF and Lifeline programs resulting in no impact on Net Income.
- Capital Stimulus Infrastructure Programs (CIP II)—In June 2014, the BPU approved PSE&G’s petition to recover annual revenue requirements of approximately $28 million for program costs incurred for its CIP II investments through September 30, 2013, which represents the final phase of the program. Base rates were adjusted effective July 1, 2014 to reflect the recovery.
- SBC and Non-Utility Generation Charge (NGC)—In May 2014, the BPU approved PSE&G’s petition to recover actual SBC and NGC costs incurred through December 31, 2013 under its Energy Efficiency & Renewable Energy Programs, Social Programs and NGC. New rates were implemented on June 1, 2014 to recover approximately $400 million over the succeeding 12 months.

Significant pending rate filings are as follows:

- Transmission Formula Rate Filings—In May 2014, PSE&G filed its 2014 True-Up Adjustment pertaining to its formula rates in effect for 2013, which resulted in an adjustment of $5 million above the 2013 filed revenues. In accordance with PSE&G’s formula rate protocols, this Rate Year 2013 True-Up Adjustment has been incorporated into its Annual Formula Rate Update for the 2015 Rate Year. The 2015 Annual Formula Rate Update was filed with the FERC in October 2014 and provides for approximately $182 million in increased annual transmission revenues effective

January 1, 2015.

- Energy Strong Recovery Filing—On September 30, 2014, PSE&G filed its initial Energy Strong cost recovery petition, seeking BPU approval to recover in base rates an estimated annual revenue increase of $1.6 million effective

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March 1, 2015. This increase represents capitalized Energy Strong electric investment costs expected to be in service through November 30, 2014. This request will be updated in December 2014 for actual costs.

- Solar and Energy Efficiency-Green Program Recovery Charges (GPRC)—In June 2014, PSE&G filed a petition with the BPU requesting recovery of costs and investments in the combined eight components of the electric and gas GPRC for the period October 1, 2014 through September 30, 2015. The rates proposed in our filing are designed to recover $111 million and $18 million in electric and gas revenues, respectively, on an annual basis.
- Remediation Adjustment Charge (RAC)—On April 18, 2014, PSE&G filed a petition with the BPU requesting recovery of $66 million related to RAC 21 net manufactured gas plant expenditures through July 31, 2013.

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 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 September 30, 2014	As of December 31, 2013
	Millions	
Commercial/Industrial	$187	$192
Residential	14	15
Total	$201	$207

Energy Holdings

Energy Holdings, through several of its indirect subsidiary companies, has investments in domestic energy and real estate assets subject primarily to leveraged lease accounting. A leveraged lease is typically comprised of an investment by an equity investor and debt provided by a third party debt investor. The debt is recourse only to the assets subject to lease and is not included on PSEG’s Condensed Consolidated Balance Sheets. As an equity investor, Energy Holdings’ 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 following table shows Energy Holdings’ gross and net lease investment as of September 30, 2014 and December 31, 2013, respectively.

	As of September 30, 2014	As of December 31, 2013
	Millions	
Lease Receivables (net of Non-Recourse Debt)	$698	$701
Estimated Residual Value of Leased Assets	529	529
Unearned and Deferred Income	(393)	(405)
Gross Investment in Leases	834	825
Deferred Tax Liabilities	(705)	(727)
Net Investment in Leases	$129	$98

The corresponding receivables associated with the lease portfolio are reflected in the following table, 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 represent investments in lease receivables related to commercial real estate properties.

Counterparties’ Credit Rating (Standard & Poor's (S&P)) As of September 30, 2014	Lease Receivables, Net of Non-Recourse Debt As of September 30, 2014
	Millions
AA	$18
AA-	56
BBB+ - BBB-	316
BB-	134
B	165
Not Rated	9
Total	$698

The “BB-” and the "B" ratings in the preceding table represent lease receivables related to coal-fired assets in Illinois and Pennsylvania, respectively. As of September 30, 2014, the gross investment in the leases of such assets, net of non-recourse debt, was $563 million ($13 million, net of deferred taxes). A more detailed description of such assets under lease is presented in the following table.

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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	BB-	NRG Energy, Inc.
Joliet Station Units 7 and 8	IL	$84	64	%	1,044	Coal	BB-	NRG Energy, Inc.
Keystone Station Units 1 and 2	PA	$117	17	%	1,711	Coal	B	GenOn REMA, LLC
Conemaugh Station Units 1 and 2	PA	$118	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

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, the 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 assets under 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 to the Internal Revenue Service (IRS).

Although all lease payments 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 from the process of generating electricity, market prices for fuel, electricity and capacity, overall financial condition of lease counterparties and the quality and condition of assets under lease.

GenOn REMA, LLC, an indirect subsidiary of NRG Energy, Inc. (NRG) notified PJM that it no longer intends to place the coal-fired units at the Shawville generating facility in long-term protective layup. Instead, those units will be shut down temporarily beginning in April 2015, with an expected return to service no later than June 2016 using an alternative fuel.

Nesbitt Asset Recovery, LLC (Nesbitt), (an indirect, wholly owned subsidiary of Energy Holdings), owns approximately 64% of the lease interest in the Powerton and Joliet coal units in Illinois. These facilities are leased to Midwest Generation (MWG), which was an indirect subsidiary of Edison Mission Energy (EME). In December 2012, EME and MWG filed for relief under Chapter 11 of the U.S. Bankruptcy Code. In October 2013, NRG, EME, MWG, Nesbitt and other creditor parties involved in the bankruptcy executed a new agreement under which NRG would acquire substantially all of EME's assets, including the Powerton and Joliet leased assets. In March 2014, the Bankruptcy Court approved the transaction. As part of the transaction, (i) the leases for the Powerton and Joliet coal units were assumed on their existing terms, (ii) all past due rent under the leases was paid in full, (iii) NRG assumed EME's tax indemnity and guarantee obligations, and (iv) NRG agreed to invest up to $350 million in the Powerton and Joliet coal units so they can be operated in compliance with environmental regulations. On April 1, 2014, NRG and

EME closed on the transaction in accordance with these terms, bringing the lease payments current.

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 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.

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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 September 30, 2014			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	$652	$240	$(9)	$883
Debt Securities				
Government Obligations	471	5	(4)	472
Other Debt Securities	344	12	(2)	354
Total Debt Securities	815	17	(6)	826
Other Securities	30	—	—	30
Total NDT Available-for-Sale Securities	$1,497	$257	$(15)	$1,739

	As of December 31, 2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	$609	$290	$(2)	$897
Debt Securities				
Government Obligations	438	3	(12)	429
Other Debt Securities	285	10	(4)	291
Total Debt Securities	723	13	(16)	720
Other Securities	84	—	—	84
Total NDT Available-for-Sale Securities	$1,416	$303	$(18)	$1,701

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

	As of September 30, 2014	As of December 31, 2013
	Millions	
Accounts Receivable	$41	$39
Accounts Payable	$35	$36

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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 September 30, 2014				As of December 31, 2013			
	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)	$116	$(9)	$1	$—	$30	$(2)	$2	$—
Debt Securities								
Government Obligations (B)	148	(2)	68	(2)	300	(11)	1	(1)
Other Debt Securities (C)	101	(1)	32	(1)	107	(4)	3	—
Total Debt Securities	249	(3)	100	(3)	407	(15)	4	(1)
NDT Available-for-Sale Securities	$365	$(12)	$101	$(3)	$437	$(17)	$6	$(1)

(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 September 30, 2014.

(B) Debt Securities (Government)—Unrealized losses on Power’s NDT investments in United States Treasury obligations and Federal Agency mortgage-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 September 30, 2014.

(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 September 30, 2014.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	Millions			
Proceeds from NDT Fund Sales (A)	$221	$220	$779	$837
Net Realized Gains (Losses) on NDT Fund:				
Gross Realized Gains	45	35	101	95
Gross Realized Losses	(3)	(9)	(12)	(34)
Net Realized Gains (Losses) on NDT Fund	$42	$26	$89	$61

(A) Includes activity in accounts related to the liquidation of funds being transitioned to new managers

Gross realized gains and gross realized losses disclosed in the preceding table were recognized in Other Income and Other Deductions, respectively, in PSEG’s and Power’s Condensed Consolidated Statements of Operations. Net unrealized gains of $121 million (after-tax) were a component of Accumulated Other Comprehensive Loss on PSEG's and Power’s Condensed Consolidated Balance Sheets as of September 30, 2014.

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The NDT available-for-sale debt securities held as of September 30, 2014 had the following maturities:

Time Frame	Fair Value
	Millions
Less than one year	$20
1 - 5 years	239
6 - 10 years	217
11 - 15 years	62
16 - 20 years	42
Over 20 years	246
Total NDT Available-for-Sale Debt Securities	$826

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). For the nine months ended September 30, 2014, other-than-temporary impairments of $14 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 a “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 September 30, 2014			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	$12	$10	$—	$22
Debt Securities				
Government Obligations	88	1	—	89
Other Debt Securities	75	1	—	76
Total Debt Securities	163	2	—	165
Other Securities	1	—	—	1
Total Rabbi Trust Available-for-Sale Securities	$176	$12	$—	$188

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	As of December 31, 2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	$14	$9	$—	$23
Debt Securities				
Government Obligations	109	—	(2)	107
Other Debt Securities	46	1	(1)	46
Total Debt Securities	155	1	(3)	153
Other Securities	3	—	—	3
Total Rabbi Trust Available-for-Sale Securities	$172	$10	$(3)	$179

The amounts in the preceding tables do not include receivables and payables for Rabbi Trust 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 September 30, 2014	As of December 31, 2013
	Millions	
Accounts Receivable	$2	$1
Accounts Payable	$1	$2

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

	As of September 30, 2014				As of December 31, 2013			
	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)	$—	$—	$—	$—	$—	$—	$—	$—
Debt Securities								
Government Obligations (B)	26	—	—	—	47	(2)	2	—
Other Debt Securities (C)	25	—	—	—	18	(1)	1	—
Total Debt Securities	51	—	—	—	65	(3)	3	—
Rabbi Trust Available-for-Sale Securities	$51	$—	$—	$—	$65	$(3)	$3	$—

(A) Equity Securities—Investments in marketable equity securities within the Rabbi Trust Fund are through a mutual fund which invests primarily in common stocks within a broad range of industries and sectors.

(B) Debt Securities (Government)—Unrealized losses on PSEG's Rabbi Trust investments in United States Treasury obligations and Federal Agency mortgage-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 PSEG does not intend to sell

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nor will it be more-likely-than-not required to sell. PSEG does not consider these securities to be other-than-temporarily impaired as of September 30, 2014.

(C) Debt Securities (Corporate)—PSEG's investments in corporate bonds are primarily in investment grade securities. It is not expected that these securities would settle for less than their amortized cost. Since PSEG does not intend to sell these securities nor will it be more-likely-than-not required to sell, PSEG does not consider these debt securities to be other-than-temporarily impaired as of September 30, 2014.

The proceeds from the sales of and the net realized gains (losses) on securities in the Rabbi Trust Fund were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	Millions			
Proceeds from Rabbi Trust Sales (A)	$419	$13	$445	$77
Net Realized Gains (Losses) on Rabbi Trust:				
Gross Realized Gains	$2	$—	$4	$4
Gross Realized Losses	(2)	—	(3)	(3)
Net Realized Gains (Losses) on Rabbi Trust	$—	$—	$1	$1

(A) Includes activity in accounts related to the liquidation of funds being transitioned to new managers

Gross realized gains and gross realized losses disclosed in the preceding table were recognized in Other Income and Other Deductions, respectively, in the Condensed Consolidated Statements of Operations. Net unrealized gains of $7 million (after-tax) were a component of Accumulated Other Comprehensive Loss on the Condensed Consolidated Balance Sheets as of September 30, 2014. The Rabbi Trust available-for-sale debt securities held as of September 30, 2014 had the following maturities:

Time Frame	Fair Value
	Millions
Less than one year	$—
1 - 5 years	51
6 - 10 years	28
11 - 15 years	7
16 - 20 years	7
Over 20 years	72
Total Rabbi Trust Available-for-Sale Debt Securities	$165

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

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.

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The fair value of assets in the Rabbi Trust related to PSEG, Power and PSE&G are detailed as follows:

	As of September 30, 2014	As of December 31, 2013
	Millions	
Power	$44	$39
PSE&G	40	42
Other	104	98
Total Rabbi Trust Available-for-Sale Securities	$188	$179

Note 7. Pension and Other Postretirement Benefits (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, except for Servco, are detailed as follows:

	Pension Benefits Three Months Ended September 30,		OPEB Three Months Ended September 30,		Pension Benefits Nine Months Ended September 30,		OPEB Nine Months Ended September 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
	Millions							
Components of Net Periodic Benefit Cost								
Service Cost	$26	$29	$5	$6	$78	$87	$14	$16
Interest Cost	58	54	18	15	176	161	52	47
Expected Return on Plan Assets	(99)	(87)	(7)	(6)	(299)	(261)	(20)	(16)
Amortization of Net Prior Service Cost (Credit)	(5)	(5)	(4)	(4)	(14)	(14)	(11)	(11)
Actuarial Loss	14	47	6	11	42	141	18	32
Total Benefit Costs	$(6)	$38	$18	$22	$(17)	$114	$53	$68

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

	Pension Benefits Three Months Ended September 30,		OPEB Three Months Ended September 30,		Pension Benefits Nine Months Ended September 30,		OPEB Nine Months Ended September 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
	Millions							
Power	$(2)	$11	$5	$6	$(5)	$33	$15	$17
PSE&G	(4)	23	12	16	(14)	68	35	49
Other	—	4	1	—	2	13	3	2
Total Benefit Costs	$(6)	$38	$18	$22	$(17)	$114	$53	$68

PSEG does not anticipate making any significant contributions into its pension plan during 2014. However, during the three months ended March 31, 2014, PSEG contributed its entire planned contribution for the year 2014 of $14 million into its postretirement healthcare plan.

Servco Pension and OPEB
At the direction of LIPA, effective January 1, 2014, Servco established benefit plans that provide substantially the same benefits to its employees as those previously provided by National Grid Electric Services LLC (NGES), the predecessor T&D system manager for LIPA. Since the vast majority of Servco's employees had worked under NGES' T&D operations services arrangement with LIPA, Servco's plans provide certain of those employees with pension and OPEB vested credit for prior years' services earned while working for NGES. The benefit plans cover all employees of Servco for current service. Under the OSA, all of these and any future employee benefit costs are to be funded by LIPA. See Note 3. Variable Interest Entities (VIEs). These obligations, as well as the offsetting long-term receivable, are separately presented on the Condensed Consolidated Balance Sheet of PSEG.
Servco amounts are not included in any of the preceding pension and OPEB benefit cost disclosures. Pension and OPEB costs of Servco are accounted for according to the OSA. Servco recognizes expenses for contributions to its pension plan trusts and for OPEB payments made to retirees. Operating Revenues are recognized for the reimbursement of these costs. The pension-related revenues and costs for the three months and nine months ended September 30, 2014 were $21 million and $67 million, respectively. Servco has contributed its entire planned contribution amount to its pension plan trusts during 2014. There were no OPEB-related revenues earned or costs incurred for the three months and nine months ended September 30, 2014.

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

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- 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.

The face value of Power's outstanding guarantees, current exposure and margin positions as of September 30, 2014 and December 31, 2013 are shown as follows:

	As of September 30, 2014	As of December 31, 2013
	Millions	
Face Value of Outstanding Guarantees	$1,719	$1,639
Exposure under Current Guarantees	$222	$246
Letters of Credit Margin Posted	$138	$132
Letters of Credit Margin Received	$17	$25
Cash Deposited and Received:		
Counterparty Cash Margin Deposited	$—	$—
Counterparty Cash Margin Received	$(25)	$—
Net Broker Balance Deposited (Received)	$278	$80
In the Event Power were to Lose its Investment Grade Rating:		
Additional Collateral that could be Required	$851	$691
Liquidity Available under PSEG’s and Power’s Credit Facilities to Post Collateral	$3,516	$3,522
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, Moody’s and Fitch ratings, many of these agreements allow the counterparty to demand further performance assurance. See preceding table.

The SEC and the Commodity Futures Trading Commission (CFTC) continue efforts to implement new rules to effect stricter regulation over swaps and derivatives, including imposing reporting and record-keeping requirements. In August 2013, PSEG began reporting its swap transactions to a CFTC-approved swap data repository. PSEG continues to monitor developments in this area, as the CFTC considers additional requirements such as a new position limits rule for physical commodity futures contracts and swaps that are economically equivalent to those contracts.

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

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 in violation of various statutes as discussed as follows.

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

In 2002, the U.S. Environmental Protection Agency (EPA) determined that a 17-mile stretch of the lower Passaic River from Newark to Clifton, New Jersey is a “Super Fund” site under CERCLA. This designation allows the EPA to clean up such sites and to compel responsible parties to perform cleanups or reimburse the government for cleanups led by the EPA.

The EPA further determined that there was a need to perform a comprehensive study of the entire 17-miles of the lower Passaic River. PSE&G and certain of its predecessors conducted operations at properties in this area of 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.

In early 2007, 73 Potentially Responsible Parties (PRPs), including Power and PSE&G, formed a Cooperating Parties Group (CPG) and agreed to assume responsibility for conducting a Remedial Investigation and Feasibility Study (RI/FS) of the 17 miles of the lower Passaic River At such time, the CPG also agreed to allocate the associated costs of the RI/FS among the members of the CPG on the basis of a mutually agreed upon formula. For the purpose of this allocation, approximately seven percent of the RI/FS costs were deemed attributable to PSE&G’s former MGP sites and approximately one percent was attributed to Power’s generating stations. These allocations are not binding on PSE&G or Power in terms of their respective shares of the costs that will be ultimately required to remediate the 17 miles of the lower Passaic River. Power has provided notice to insurers concerning this potential claim.

The CPG, which consisted of 61 members as of September 30, 2014, continues to conduct the RI/FS and is expected to be completed by the first quarter of 2015 at an estimated cost of approximately $136 million. Of the estimated $136 million, as of August 31, 2014, the CPG Group had spent approximately $124 million, of which PSEG's total share had been approximately $9 million.

In June 2008, the EPA and Tierra Solutions, Inc. (Tierra) and Maxus Energy Corporation (Maxus) entered into an early action agreement whereby Tierra and Maxus agreed to remove a portion of the heavily dioxin-contaminated sediment located in the lower Passaic River. The portion of the Passaic River identified in this agreement was located immediately adjacent to Tierra/Maxus’ predecessor company’s (Diamond Shamrock) facility. Pursuant to the agreement between the EPA, Tierra and Maxus, the estimated cost for the work to remove the sediment in this location was $80 million. Phase I of the removal work has been completed. Pursuant to this agreement, Tierra/Maxus have reserved their rights to seek contribution for these removal costs from the other PRPs, including Power and PSE&G. This agreement and the work undertaken pursuant to the action agreement has no impact on the ultimate remedy that the EPA will select for the remediation of the 17 mile stretch of the lower Passaic River.

In 2012, Tierra and Maxus withdrew from the CPG and refused to participate as members going forward, other than in respect of their obligation to fund the EPA’s portion of its RI/FS oversight costs. At such time, the remaining members of the CPG, in agreement with the EPA, commenced the removal of certain contaminated sediments at Passaic River Mile 10.9 at an estimated cost of $25 million to $30 million. PSEG’s share of the cost of that effort is approximately three percent. The remaining CPG members have reserved their rights to seek reimbursement from Tierra/Maxus for the costs of the River Mile 10.9 removal.

On April 11, 2014, the EPA released its revised “Focused Feasibility Study” (FFS) which contemplates the removal of 4.3 million cubic yards of sediment from the bottom of the lower eight miles of the 17 mile stretch of the Passaic

River that had originally been designated as a Super Fund site. The FFS sets forth various alternatives for remediating this portion of the Passaic River. The EPA's estimated costs to remediate the lower eight miles of the Passaic River range from $365 million for a targeted remedy to $3.25 billion for a deep dredge of this portion of the Passaic River. The EPA also identified in the FFS its preferred alternative, which would involve dredging the river bank to bank and installing an engineered cap. The estimated cost in the FFS for its preferred alternative is $1.7 billion. No provisional cost allocation has been made by the CPG for the work contemplated by the draft FFS, and the work contemplated by the FFS is not subject to the CPG's cost sharing allocation agreed to in connection with the removal work for River Mile 10.9 or in connection with the conduct of the RI/FS.

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The draft FFS was subject to a public comment period, and remains subject to the EPA's response to comments submitted, a design phase and at least an estimated five years for completion of the work. The public comment period on the draft FFS closed on August 21, 2014. Over 300 comments were submitted by a variety of entities potentially impacted by the FFS, including the CPG, individual companies, municipalities, public officials, citizens groups, Amtrak, NJ Transit and others. The EPA will consider the comments received prior to issuing a Record of Decision (ROD) of a selected remedy for the lower eight miles. The EPA has broad authority to implement its selected remedy through the ROD and PSEG cannot at this time predict how the implementation of the ROD might impact Power's and PSE&G's ultimate liability.

Based on the facts and circumstance known at this time, and calculated in reference to the EPA estimate set forth in the FFS for its preferred remedy, Power and PSE&G believe that their respective shares of the costs to clean up the Passaic River will be immaterial. However, until (i) the RI/FS is completed, (ii) a final remedy is determined by the EPA or through litigation, (iii) Power and PSE&G's respective share of the costs, both in the aggregate as well as individually, are determined, and (iv) PSE&G's continued ability to recover the costs in its rates is determined, it is not possible to predict this matter's ultimate impact on our financial statements.

New Jersey Spill Compensation and Control Act (Spill Act)

In 2005, the New Jersey Department of Environmental Protection (NJDEP) filed suit in the New Jersey Superior Court seeking damages and reimbursement for costs expended by the State of New Jersey to address the effects of a certain PRP's discharge of hazardous substances into both the Passaic River and the balance of the Newark Bay Complex. In 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. Power and PSE&G are alleged to have owned, operated or contributed to a total of 11 sites or facilities that impacted these water bodies. The third party complaints sought statutory contribution and contribution under the Spill Act to recover past and future removal costs and damages. In December 2013, the Court approved a settlement of the entire third party action. Power and PSE&G's contributions to the settlement, either individually or in the aggregate, were immaterial.

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 (the Passaic River federal trustees) 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. 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 PSEG has not consented 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 $452 million and $524 million through 2021. Since no amount within the range is considered to be most likely, PSE&G has recorded a liability of $452 million as of September 30, 2014. Of this amount, $75 million was recorded in Other Current Liabilities and $377 million was reflected as Environmental Costs in Noncurrent Liabilities. PSE&G has recorded a $452 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.

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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 the 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 (D.C. Court), the EPA published a Maximum Achievable Control Technology (MACT) regulation in February 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 D.C. Court in support of the EPA's implementation of MATS. In April 2014, the D.C. Court denied all petitions for review of the existing source NESHAP. Several parties, including 21 states, have filed petitions for review with the U.S. Supreme Court.
Power believes that it will not be necessary to install any material controls at its New Jersey facilities. Additional controls are being installed at Power’s Bridgeport Harbor coal-fired unit at an immaterial cost. In December 2011, to comply with the MACT regulations, the co-owners group, including Power, agreed to upgrade the previously planned two flue gas desulfurization scrubbers and install Selective Catalytic Reduction systems at Power’s jointly owned coal-fired generating facility at Conemaugh in Pennsylvania. This installation is expected to be operational in the first quarter of 2015. Power's share of this investment is approximately $110 million.
Nitrogen Oxide ($NO_{X)}$ Regulation
In 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) by May 30, 2015. Retirement notifications for the combustion turbines have been submitted to PJM Interconnection L.L.C. (PJM). PJM was notified that the Salem Unit 3 combustion turbine will no longer be available as a capacity resource and will be transitioned to an emergency generator for site use only. Based upon Power’s recently-completed evaluations of its steam electric generation units, an immaterial investment will be required to consistently reduce NO_x emissions below required limits beginning on May 1, 2015.
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 New Jersey

Department of Environmental Protection 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.

In October 2013, the Delaware Riverkeeper Network and several other environmental groups filed a lawsuit in the Superior Court in New Jersey seeking to compel the NJDEP to take action on Power's pending application for permit renewal at Salem

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either by denying the application or issuing a draft for public comments. At the NJDEP's request, the case was transferred to the Appellate Division in December 2013. Power is unable to predict the outcome of this proceeding.
On May 19, 2014, the EPA issued a final rule that establishes new requirements for the regulation of cooling water intake structures at existing power plants and industrial facilities with a design flow of more than two million gallons of water per day. On August 15, 2014, the EPA established October 14, 2014 as the effective date for each state to implement the provisions of the rule going forward when considering the renewal of permits for existing facilities on a case by case basis. On September 5, 2014, several environmental non-governmental groups and certain energy industry groups filed motions to litigate the provisions of the rule. This case is pending at the U.S. Fourth Circuit Court of Appeals. Power is unable to determine the ultimate impact of these actions on the implementation of the rule.
State permitting decisions 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. The filing has not been updated. Currently, potential costs associated with any closed cycle cooling requirements are not included in Power’s forecasted capital expenditures.
Power is unable to predict the outcome of these permitting decisions and the effect, if any, that they may have on Power's future capital requirements, financial condition or results of operations.
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.
PSE&G has contracted for its anticipated BGS-Fixed Price eligible load, as follows:

	Auction Year				
	2011	2012	2013	2014	
36-Month Terms Ending	May 2014	May 2015	May 2016	May 2017	(A)
Load (MW)	2,800	2,900	2,800	2,800	
$ per kWh	0.09430	0.08388	0.09218	0.09739	

(A) Prices set for the 2014 BGS auction year became effective on June 1, 2014 when the 2011 BGS auction agreements expired.

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’s nuclear fuel 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 2017 and a significant portion through 2018 at Salem, Hope Creek and Peach Bottom.

Power has various long-term fuel purchase commitments for coal through 2018 to support its fossil generation stations and for firm transportation and storage capacity for natural gas.

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 September 30, 2014, the total minimum purchase requirements included in these commitments were as follows:

Fuel Type	Power's Share of Commitments through 2018
	Millions
Nuclear Fuel	
Uranium	$450
Enrichment	$369
Fabrication	$174
Natural Gas	$877
Coal	$367

Regulatory Proceedings

FERC Compliance

In the first quarter of 2014, Power discovered that it incorrectly calculated certain components of its cost-based bids for its New Jersey fossil generating units in the PJM energy market. PSEG notified the FERC, PJM and the PJM Independent Market Monitor (IMM) of this issue. During the three months ended March 31, 2014, Power recorded a charge to income in the amount of $25 million related to these findings for these past errors based upon its best estimate available at the time. PSEG cannot provide any assurances that the total liability associated with this matter will not increase or decrease over the amount recorded.

Upon discovery of the errors, PSEG retained outside counsel to assist in the conduct of an investigation into the matter. As the investigation proceeded, additional pricing errors in the bids were identified and it was further determined that the quantity of energy that Power offered into the energy market for its fossil peaking units differed from the amount for which Power was compensated in the capacity market for those units. PSEG informed the FERC, PJM and the IMM of these additional issues, and has corrected these errors. Power is also in the process of implementing procedures to help mitigate the risk of similar issues occurring in the future.

On September 2, 2014, the FERC Staff verbally informed PSEG that they have initiated a preliminary, non-public staff investigation into the matter. This investigation could result in the FERC seeking disgorgement of any over-collected amounts, civil penalties and non-financial remedies. It is not possible at this time to reasonably estimate the ultimate impact or predict any resulting penalties, other costs associated with this matter, or the applicability of mitigating factors. It is possible that Power will incur additional losses, and that such losses may be material, but PSEG cannot at the current time estimate the amount or range of any additional losses.

New Jersey Clean Energy Program

In June 2014, the BPU established the funding level for fiscal year 2015 applicable to its Renewable Energy and Energy Efficiency programs. The fiscal year 2015 aggregate funding for all EDCs is $345 million with PSE&G's share of the funding at $200 million. PSE&G has a current liability of $185 million as of September 30, 2014 for its outstanding share of the fiscal year 2015 and remaining fiscal year 2014 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).

Superstorm Sandy

In late October 2012, Superstorm Sandy caused severe damage to PSE&G's T&D system throughout its service territory as well as to some of Power's generation infrastructure in the northern part of New Jersey. Strong winds and the resulting storm surge caused damage to switching stations, substations and generating infrastructure.

Power had incurred $79 million and $85 million of storm-related expense in 2013 and 2012, respectively, primarily for repairs at certain generating stations in Power's fossil fleet. These costs were recognized in O&M Expense, offset by $25 million and $19 million of insurance recoveries in 2013 and 2012, respectively.

Power incurred an additional $4 million and $23 million for the three months and nine months ended September 30, 2014, primarily for repairs at certain generating stations in Power's fossil fleet.

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. As previously reported, PSEG is seeking recovery from its insurers for the property damage resulting from Superstorm Sandy, above its self-insured retentions; however, no assurances can be given relative to the timing or amount of such recovery. In June 2013, PSEG, Power and PSE&G filed suit in New Jersey state court against its insurance carriers seeking an interpretation that the insurance policies cover their losses resulting from damage caused by Superstorm Sandy's storm surge. In that lawsuit, PSEG stated that its estimate of the total costs related to damaged facilities was approximately $426 million. Of these costs, $364 million and $62 million related to Power and PSE&G, respectively. In August 2013, the insurance carriers filed an answer in which they denied most of the allegations made in the Complaint. In April 2014, PSEG notified the insurance carriers of a revised estimate of $579 million for total costs related to damaged facilities, of which $484 million and $95 million related to Power and PSE&G, respectively. Discovery in the case has been completed. On October 7, 2014, both parties filed cross-motions for summary judgment. We cannot predict the outcome of this proceeding.

Note 9. Changes in Capitalization

The following capital transactions occurred in the nine months ended September 30, 2014:

Power

- paid cash dividends of $775 million to PSEG.

PSE&G

- issued $250 million of 1.80% Secured Medium-Term Notes, Series I due June 2019,
- issued $250 million of 4.00% Secured Medium-Term Notes, Series I due June 2044,
- issued $250 million of 2.00% Secured Medium-Term Notes, Series J due August 2019,
- issued $250 million of 3.15% Secured Medium-Term Notes, Series J due August 2024,
- paid $250 million of 0.85% Secured Medium-Term Notes at maturity,
- paid $250 million of 5.00% Secured Medium-Term Notes at maturity,
- paid $164 million of Transition Funding's securitization debt,
- paid $6 million of Transition Funding II's securitization debt, and
- received a $175 million capital contribution from PSEG.

In October 2014, Power executed an extension of the letter of credit backing $44 million of Pennsylvania Economic Development Financing Authority Variable Rate Demand Bonds. The existing letter of credit, which was scheduled to expire on November 30, 2014, has now been extended through November 30, 2019.

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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. 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 various factors, including but not limited to, weather, environmental policies, changes in supply and demand, state and federal regulatory policies, market conditions and transmission availability. 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 with changes in fair value recorded in the Consolidated Statements of Operations. 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,
- the price of fuel to meet its fuel purchase requirements, and
- certain forecasted natural gas sales and purchases made to support the BGSS contract with PSE&G.

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, since 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 September 30, 2014 and December 31, 2013, the fair value and the impact on Accumulated Other Comprehensive Income (Loss) associated with accounting hedge activity were as follows:

	As of September 30, 2014	As of December 31, 2013
	Millions	
Fair Value of Cash Flow Hedges	$3	$(4)
Impact on Accumulated Other Comprehensive Income (Loss) (after tax)	$2	$(1)

The expiration date of the longest-dated cash flow hedge at Power is in June 2015. Power’s remaining $2 million of after-tax unrealized gains on these derivatives is expected to be reclassified to earnings during the next 12 months. There was no ineffectiveness associated with qualifying hedges as of September 30, 2014.
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 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. These natural gas contracts qualify as derivatives and are marked to fair market value with the offset recorded to Regulatory Assets and Liabilities.

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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 September 30, 2014, PSEG had 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 September 30, 2014 and December 31, 2013, the fair value of all the underlying hedges was $26 million and $38 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 less than $(1) million and $(1) million as of September 30, 2014 and December 31, 2013, respectively.

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. In general, the terms of the 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 Condensed Consolidated Balance Sheets of Power, PSE&G and PSEG. The following tabular disclosure does not include the offsetting of trade receivables and payables.

	As of September 30, 2014						
	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	$4	$517	$(471)	$50	$5	$16	$71
Noncurrent Assets	—	166	(155)	11	8	10	29
Total Mark-to-Market Derivative Assets	$4	$683	$(626)	$61	$13	$26	$100
Derivative Contracts							
Current Liabilities	$(1)	$(702)	$594	$(109)	$—	$—	$(109)
Noncurrent Liabilities	—	(175)	138	(37)	—	—	(37)
Total Mark-to-Market Derivative (Liabilities)	$(1)	$(877)	$732	$(146)	$—	$—	$(146)

Total Net Mark-to-Market Derivative Assets (Liabilities)	$3	$(194)	$106	$(85)	$13	$26	$(46)

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	As of December 31, 2013						
	Power (A)				PSE&G (A)	PSEG (A)	Consolidated
	Cash Flow Hedges	Non Hedges			Non Hedges	Fair Value Hedges	
Balance Sheet Location	Energy-Related Contracts	Energy-Related Contracts	Netting (B)	Total Power	Energy-Related Contracts	Interest Rate Swaps	Total Derivatives
	Millions						
Derivative Contracts							
Current Assets	$—	$323	$(266)	$57	$25	$16	$98
Noncurrent Assets	—	155	(83)	72	69	22	163
Total Mark-to-Market Derivative Assets	$—	$478	$(349)	$129	$94	$38	$261
Derivative Contracts							
Current Liabilities	$(4)	$(343)	$271	$(76)	$—	$—	$(76)
Noncurrent Liabilities	—	(111)	80	(31)	—	—	(31)
Total Mark-to-Market Derivative (Liabilities)	$(4)	$(454)	$351	$(107)	$—	$—	$(107)
Total Net Mark-to-Market Derivative Assets (Liabilities)	$(4)	$24	$2	$22	$94	$38	$154

(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 September 30, 2014 and December 31, 2013. 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 the right of offset exists, has been offset in the Condensed Consolidated Balance Sheets. As of September 30, 2014 and December 31, 2013, net cash collateral (received) paid of $106 million and $2 million, respectively, were netted against the corresponding net derivative contract positions. Of the $106 million as of September 30, 2014, $(12) million and $(21) million of cash collateral was netted against current assets and noncurrent assets, respectively, and $135 million and $4 million were netted against current liabilities and noncurrent liabilities, respectively. Of the $2 million as of December 31, 2013, cash collateral of $(3) million and $5 million were netted against noncurrent 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 the 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 $140 million and $91 million as of September 30, 2014 and December 31, 2013, respectively. As of September 30, 2014 and December 31, 2013, Power had the contractual right of offset of $31 million and $39 million, respectively, 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 $109 million and $52 million as of September 30, 2014 and December 31, 2013, 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 $851 million and $691 million as of September 30, 2014 and December 31, 2013, respectively, discussed in Note 8. Commitments and Contingent Liabilities.

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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 September 30, 2014 and 2013.

Derivatives in Cash Flow Hedging Relationships	Amount of Pre-Tax Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) Three Months Ended September 30, 2014	2013	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 September 30, 2014	2013	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 September 30, 2014	2013
	Millions							
PSEG								
Energy-Related Contracts	$3	$1	Operating Revenues	$1	$3	Operating Revenues	$—	$(1)
Total PSEG	$3	$1		$1	$3		$—	$(1)
Power								
Energy-Related Contracts	$3	$1	Operating Revenues	$1	$3	Operating Revenues	$—	$(1)
Total Power	$3	$1		$1	$3		$—	$(1)

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 nine months ended September 30, 2014 and 2013.

Derivatives in Cash Flow Hedging Relationships	Amount of Pre-Tax Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) Nine Months Ended September 30, 2014	2013	Location of Pre-Tax Gain (Loss) Reclassified from AOCI into Income	Amount of Pre-Tax Gain (Loss) Reclassified from AOCI into Income (Effective Portion) Nine Months Ended September 30, 2014	2013	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) Nine Months Ended September 30, 2014	2013
	Millions							
PSEG								
	$(4)	$1	Operating Revenues	$(11)	$11	Operating Revenues	$—	$(1)

Energy-Related Contracts								
Interest Rate Swaps	—	—	Interest Expense	—	(1)		—	—
Total PSEG	$(4)	$1		$(11)	$10		$—	$(1)
Power								
Energy-Related Contracts	$(4)	$1	Operating Revenues	$(11)	$11	Operating Revenues	$—	$(1)
Total Power	$(4)	$1		$(11)	$11		$—	$(1)

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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, 2013	$(4)	$(2)
Net Loss Recognized in AOCI	(7)	(4)
Loss Reclassified into Income	12	7
Balance as of June 30, 2014	$1	$1
Gain Recognized in AOCI	3	2
Gain Reclassified into Income	(1)	(1)
Balance as of September 30, 2014	$3	$2

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 and nine months ended September 30, 2014 and 2013.

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 September 30,		Nine Months Ended September 30,	
		2014	2013	2014	2013
		Millions			
PSEG and Power					
Energy-Related Contracts	Operating Revenues	$93	$14	$(759)	$(32)
Energy-Related Contracts	Energy Costs	(12)	10	65	63
Total PSEG and Power		$81	$24	$(694)	$31

Power's derivative contracts reflected in the preceding tables include contracts to hedge the purchase and sale of electricity and natural gas and the purchase of fuel. Not all of these contracts qualify for hedge accounting. Most of these contracts are marked to market. The tables above do not include contracts for which Power has elected the normal purchase/normal sales exemption, such as its BGS contracts and certain other energy supply contracts that it has with other utilities and companies with retail load. In addition, PSEG has interest rate swaps designated as fair value hedges. The effect of these hedges was to reduce interest expense by $5 million and $4 million for the three months and $15 million and $14 million for the nine months ended September 30, 2014 and 2013, respectively.

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The following reflects the gross volume, on an absolute value basis, of derivatives as of September 30, 2014 and December 31, 2013.

Type	Notional	Total Millions	PSEG	Power	PSE&G
As of September 30, 2014					
Natural Gas	Dth	341	—	277	64
Electricity	MWh	329	—	329	—
Financial Transmission Rights (FTRs)	MWh	21	—	21	—
Interest Rate Swaps	U.S. Dollars	850	850	—	—
As of December 31, 2013					
Natural Gas	Dth	614	—	466	148
Electricity	MWh	243	—	243	—
FTRs	MWh	16	—	16	—
Interest Rate Swaps	U.S. Dollars	850	850	—	—

Credit Risk
Credit risk relates to the risk of loss that we would incur as a result of non-performance by counterparties pursuant to the terms of their contractual obligations. We have established credit policies that we believe significantly minimize credit risk. These policies include an evaluation of potential counterparties' financial condition (including credit rating), collateral requirements under certain circumstances and the use of standardized agreements, which allow for the netting of positive and negative exposures associated with a single counterparty. In the event of non-performance or non-payment by a major counterparty, there may be a material adverse impact on Power's and PSEG's financial condition, results of operations or net cash flows.
As of September 30, 2014, 99% of the credit exposure for Power's operations was with investment grade counterparties. Credit exposure is defined as any positive results of netting accounts receivable/accounts payable and the forward value of open positions (which includes all financial instruments including derivatives and non-derivatives and normal purchases/normal sales).
The following table provides information on Power's credit risk from others, net of cash collateral, as of September 30, 2014. It further delineates that exposure by the credit rating of the counterparties and provides guidance on the concentration of credit risk to individual counterparties and an indication of the quality of Power's credit risk by credit rating of the counterparties.

Rating	Current Exposure	Securities Held as Collateral	Net Exposure	Number of Counterparties >10%	Net Exposure of Counterparties >10%	
	Millions				Millions	
Investment Grade—External Rating	$89	$27	$77	2	$52	(A)
Non-Investment Grade—External Rating	1	—	1	—	—	
Investment Grade—No External Rating	1	—	1	—	—	
Non-Investment Grade—No External Rating	—	—	—	—	—	
Total	$91	$27	$79	2	$52	

(A) Includes net exposure of $21 million with PSE&G. The remaining net exposure of $31 million is with a nonaffiliated power purchaser which is a regulated investment grade counterparty.

The net exposure listed in the preceding table, in some cases, will not be the difference between the current exposure and the collateral held. A counterparty may have posted more cash collateral than the outstanding exposure, in which case there would be no exposure. When letters of credit have been posted as collateral, the exposure amount is not reduced, but the exposure amount is transferred to the rating of the issuing bank. As of September 30, 2014, Power had 136 active counterparties.

Note 11. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting guidance for fair value measurement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and establishes a fair value hierarchy that distinguishes between assumptions based on market data obtained from independent sources and those based on an entity’s own assumptions. The hierarchy prioritizes the inputs to fair value measurement into three levels:

Level 1—measurements utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that PSEG, Power and PSE&G have the ability to access. These consist primarily of listed equity securities.

Level 2—measurements include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable inputs such as interest rates and yield curves that are observable at commonly quoted intervals. These consist primarily of non-exchange traded derivatives such as forward contracts or options and most fixed income securities.

Level 3—measurements use unobservable inputs for assets or liabilities, based on the best information available and might include an entity’s own data and assumptions. In some valuations, the inputs used may fall into different levels of the hierarchy. In these cases, the financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. As of September 30, 2014, these consisted primarily of certain electric load contracts and long-term gas supply contracts.

The following tables present information about PSEG’s, Power’s and PSE&G’s respective assets and (liabilities) measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013, including the fair value measurements and the levels of inputs used in determining those fair values. Amounts shown for PSEG include the amounts shown for Power and PSE&G.

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	Recurring Fair Value Measurements as of September 30, 2014				
Description	Total	Netting (E)	Quoted Market Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Millions				
PSEG					
Assets:					
Cash Equivalents (A)	$667	$—	$667	$—	$—
Derivative Contracts:					
Energy-Related Contracts (B)	$74	$(626)	$—	$687	$13
Interest Rate Swaps (C)	$26	$—	$—	$26	$—
NDT Fund (D)					
Equity Securities	$883	$—	$876	$7	$—
Debt Securities—Govt Obligations	$472	$—	$—	$472	$—
Debt Securities—Other	$354	$—	$—	$354	$—
Other Securities	$30	$—	$30	$—	$—
Rabbi Trust (D)					
Equity Securities—Mutual Funds	$22	$—	$22	$—	$—
Debt Securities—Govt Obligations	$89	$—	$—	$89	$—
Debt Securities—Other	$76	$—	$—	$76	$—
Other Securities	$1	$—	$—	$1	$—
Liabilities:					
Derivative Contracts:					
Energy-Related Contracts (B)	$(146)	$732	$—	$(857)	$(21)
Power					
Assets:					
Derivative Contracts:					
Energy-Related Contracts (B)	$61	$(626)	$—	$687	$—
NDT Fund (D)					
Equity Securities	$883	$—	$876	$7	$—
Debt Securities—Govt Obligations	$472	$—	$—	$472	$—
Debt Securities—Other	$354	$—	$—	$354	$—
Other Securities	$30	$—	$30	$—	$—
Rabbi Trust (D)					
Equity Securities—Mutual Funds	$5	$—	$5	$—	$—
Debt Securities—Govt Obligations	$21	$—	$—	$21	$—
Debt Securities—Other	$18	$—	$—	$18	$—
Other Securities	$—	$—	$—	$—	$—
Liabilities:					
Derivative Contracts:					
Energy-Related Contracts (B)	$(146)	$732	$—	$(857)	$(21)
PSE&G					
Assets:					
Cash Equivalents (A)	$293	$—	$293	$—	$—

Derivative Contracts:					
Energy-Related Contracts (B)	$13	$—	$—	$—	$13
Rabbi Trust (D)					
Equity Securities—Mutual Funds	$5	$—	$5	$—	$—
Debt Securities—Govt Obligations	$19	$—	$—	$19	$—
Debt Securities—Other	$16	$—	$—	$16	$—
Other Securities	$—	$—	$—	$—	$—

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	Recurring Fair Value Measurements as of December 31, 2013				
Description	Total	Netting (E)	Quoted Market Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Millions				
PSEG					
Assets:					
Cash Equivalents (A)	$439	$—	$439	$—	$—
Derivative Contracts:					
Energy-Related Contracts (B)	$223	$(349)	$—	$474	$98
Interest Rate Swaps (C)	$38	$—	$—	$38	$—
NDT Fund (D)					
Equity Securities	$897	$—	$892	$5	$—
Debt Securities—Govt Obligations	$429	$—	$—	$429	$—
Debt Securities—Other	$291	$—	$—	$291	$—
Other Securities	$84	$—	$57	$27	$—
Rabbi Trust (D)					
Equity Securities—Mutual Funds	$23	$—	$23	$—	$—
Debt Securities—Govt Obligations	$107	$—	$—	$107	$—
Debt Securities—Other	$46	$—	$—	$46	$—
Other Securities	$3	$—	$—	$3	$—
Liabilities:					
Derivative Contracts:					
Energy-Related Contracts (B)	$(107)	$351	$—	$(448)	$(10)
Power					
Assets:					
Derivative Contracts:					
Energy-Related Contracts (B)	$129	$(349)	$—	$474	$4
NDT Fund (D)					
Equity Securities	$897	$—	$892	$5	$—
Debt Securities—Govt Obligations	$429	$—	$—	$429	$—
Debt Securities—Other	$291	$—	$—	$291	$—
Other Securities	$84	$—	$57	$27	$—
Rabbi Trust (D)					
Equity Securities—Mutual Funds	$5	$—	$5	$—	$—
Debt Securities—Govt Obligations	$23	$—	$—	$23	$—
Debt Securities—Other	$10	$—	$—	$10	$—
Other Securities	$1	$—	$—	$1	$—
Liabilities:					
Derivative Contracts:					
Energy-Related Contracts (B)	$(107)	$351	$—	$(448)	$(10)
PSE&G					
Assets:					
Derivative Contracts:					

Energy Related Contracts (B)	$94	$—	$—	$—	$94
Rabbi Trust (D)					
Equity Securities—Mutual Funds	$5	$—	$5	$—	$—
Debt Securities—Govt Obligations	$25	$—	$—	$25	$—
Debt Securities—Other	$11	$—	$—	$11	$—
Other Securities	$1	$—	$—	$1	$—

(A) Represents money market mutual funds.

(B) Level 2—Fair values for energy-related contracts are obtained primarily using a market-based approach. Most derivative contracts (forward purchase or sale contracts and swaps) are valued using the average of the bid/ask midpoints from multiple broker or dealer quotes or auction prices. Prices used in the valuation process are also corroborated independently by management to determine that values are based on actual transaction data or, in the absence of transactions, bid and offers for the day. Examples may include certain exchange and non-exchange traded capacity and electricity contracts and natural gas physical or swap contracts based on market prices, basis

adjustments and other premiums where adjustments and premiums are not considered significant to the overall inputs.
Level 3—For energy-related contracts, which include more complex agreements where limited observable inputs or pricing information are available, modeling techniques are employed using assumptions reflective of contractual terms, current market rates, forward price curves, discount rates and risk factors, as applicable. Fair values of other energy contracts may be based on broker quotes that we cannot corroborate with actual market transaction data.

(C) Interest rate swaps are valued using quoted prices on commonly quoted intervals, which are interpolated for periods different than the quoted intervals, as inputs to a market valuation model. Market inputs can generally be verified and model selection does not involve significant management judgment.

(D) The fair value measurement table excludes cash of less than $1 million which is part of the NDT Fund. The NDT Fund maintains investments in various equity and fixed income securities classified as “available for sale.” The Rabbi Trust maintains investments in an S&P 500 index fund and various fixed income securities classified as “available for sale.” These securities are generally valued with prices that are either exchange provided (equity securities) or market transactions for comparable securities and/or broker quotes (fixed income securities).

Level 1—Investments in marketable equity securities within the NDT Fund are primarily investments in common stocks across a broad range of industries and sectors. Most equity securities are priced utilizing the principal market close price or, in some cases, midpoint, bid or ask price. Certain open-ended mutual funds with mainly short-term investments are valued based on unadjusted quoted prices in active markets. The Rabbi Trust equity index fund is valued based on quoted prices in an active market.
Level 2—NDT and Rabbi Trust fixed income securities are limited to investment grade corporate bonds and United States Treasury obligations or Federal Agency asset-backed securities with a wide range of maturities. Since many fixed income securities do not trade on a daily basis, they are priced using an evaluated pricing methodology that varies by asset class and reflects observable market information such as the most recent exchange price or quoted bid for similar securities. Market-based standard inputs typically include benchmark yields, reported trades, broker/dealer quotes and issuer spreads. Certain short-term investments are valued using observable market prices or market parameters such as time-to-maturity, coupon rate, quality rating and current yield.

(E) 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 the right of offset exists, has been offset in the Condensed Consolidated Balance Sheets. As of September 30, 2014, net cash collateral (received) paid of $106 million, was netted against the corresponding net derivative contract positions. Of the $106 million as of September 30, 2014, $(33) million of cash collateral was netted against assets, and $139 million was netted against liabilities. As of December 31, 2013, net cash collateral (received) paid of $2 million, was netted against the corresponding net derivative contract positions. Of the $2 million as of December 31, 2013, $(3) million of cash collateral was netted against assets, and $5 million was netted against liabilities.

Additional Information Regarding Level 3 Measurements
For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivatives valued using indicative price quotations for contracts with tenors that extend into periods with no observable pricing. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 because the model inputs generally are not observable. PSEG’s Risk Management Committee approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval and the monitoring and reporting of risk exposures. The Risk Management Committee reports to the Audit Committee of the PSEG Board of Directors on the scope of the risk management activities and is responsible for approving all valuation procedures at PSEG. Forward price curves for the power

market utilized by Power to manage the portfolio are maintained and reviewed by PSEG's Enterprise Risk Management market pricing group, and used for financial reporting purposes. PSEG considers credit and nonperformance risk in the valuation of derivative contracts categorized in Levels 2 and 3, including both historical and current market data, in its assessment of credit and nonperformance risk by counterparty. The impacts of credit and non-performance risk were not material to the financial statements.

For Power, in general, electric swaps are measured at fair value based on at least two pricing inputs, the underlying price of electricity at a liquid reference point and the basis difference between electricity prices at the liquid reference point and electricity prices at the respective delivery locations. To the extent the basis component is based on a single broker quote and is

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significant to the fair value of the electric swap, it is categorized as Level 3. The fair value of certain of Power's electric load contracts in which load consumption may change hourly based on demand are measured using certain unobservable inputs, such as historic load variability and, accordingly, are categorized as Level 3. For Power, long-term electric capacity contracts are measured using capacity auction prices. If the fair value for the unobservable tenor is significant, then the entire capacity contract is categorized as Level 3. For Power and PSE&G, natural gas supply contracts are measured at fair value using modeling techniques taking into account the current price of natural gas adjusted for appropriate risk factors as applicable, and internal assumptions about transportation costs, and accordingly, the fair value measurements are classified in Level 3. The following tables provide details surrounding significant Level 3 valuations as of September 30, 2014 and December 31, 2013.

Quantitative Information About Level 3 Fair Value Measurements

Commodity	Level 3 Position	Fair Value as of September 30, 2014		Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)			
		Millions				
Power						
Electricity	Electric Load Contracts	$—	$(21)	Discounted Cash Flow	Historic Load Variability	0% to +10%
Other	Various (A)	—	—			
Total Power		$—	$(21)			
PSE&G						
Gas	Forward Contracts	$13	$—	Discounted Cash Flow	Transportation Costs	$0.70 to $1/dekatherm
Total PSE&G		$13	$—			
Total PSEG		$13	$(21)			

Quantitative Information About Level 3 Fair Value Measurements

Commodity	Level 3 Position	Fair Value as of December 31, 2013		Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)			
		Millions				
Power						
Electricity	Electric Swaps	$3	$(1)	Discounted Cash Flow	Power Basis	$0 to $10/MWh
Electricity	Electric Load Contracts	—	(8)	Discounted Cash Flow	Historic Load Variability	-5% to +10%
Other	Various (B)	1	(1)			
Total Power		$4	$(10)			
PSE&G						

Gas	Forward Contracts	$94	$—	Discounted Cash Flow	Transportation Costs	$0.70 to $1/dekatherm
Total PSE&G		$94	$—			
Total PSEG		$98	$(10)			

(A) Includes gas supply positions and long-term electric capacity positions which were immaterial as of September 30, 2014.

(B) Includes gas supply positions which were immaterial as of December 31, 2013.

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Significant unobservable inputs listed above would have a direct impact on the fair values of the above Level 3 instruments if they were adjusted. For energy-related contracts in cases where Power is a seller, an increase in either the power basis or the load variability or the longer-term gas basis amounts would decrease the fair value. For gas supply contracts where PSE&G is a seller, an increase in gas transportation cost would increase the fair value.
A reconciliation of the beginning and ending balances of Level 3 derivative contracts and securities for the three months and nine months ended September 30, 2014 and September 30, 2013, respectively, follows:
Changes in Level 3 Assets and (Liabilities) Measured at Fair Value on a Recurring Basis
for the Three Months and Nine Months Ended September 30, 2014

	Three Months Ended September 30, 2014						
		Total Gains or (Losses) Realized/Unrealized					
Description	Balance as of July 1, 2014	Included in Income (A)	Included in Regulatory Assets/ Liabilities (B)	Purchases (Sales)	Issuances/ Settlements (C)	Transfers In/Out (D)	Balance as of September 30, 2014
	Millions						
PSEG							
Net Derivative Assets (Liabilities)	$13	$(8)	$ (9)	$—	$(4)	$—	$(8)
Power							
Net Derivative Assets (Liabilities)	$(9)	$(8)	$ —	$—	$(4)	$—	$(21)
PSE&G							
Net Derivative Assets (Liabilities)	$22	$—	$ (9)	$—	$—	$—	$13

	Nine Months Ended September 30, 2014						
		Total Gains or (Losses) Realized/Unrealized					
Description	Balance as of January 1, 2014	Included in Income (A)	Included in Regulatory Assets/ Liabilities (B)	Purchases (Sales)	Issuances/ Settlements (C)	Transfers In/Out (D)	Balance as of September 30, 2014
	Millions						
PSEG							
Net Derivative Assets (Liabilities)	$88	$(66)	$ (81)	$—	$54	$(3)	$(8)
Power							
Net Derivative Assets (Liabilities)	$(6)	$(66)	$ —	$—	$54	$(3)	$(21)
PSE&G							
	$94	$—	$ (81)	$—	$—	$—	$13

Net Derivative
Assets
(Liabilities)

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Changes in Level 3 Assets and (Liabilities) Measured at Fair Value on a Recurring Basis
for the Three Months and Nine Months Ended September 30, 2013

	Three Months Ended September 30, 2013						
		Total Gains or (Losses) Realized/Unrealized					
Description	Balance as of July 1, 2013	Included in Income (E)	Included in Regulatory Assets/ Liabilities (B)	Purchases (Sales)	Issuances/ Settlements (C)	Transfers In/Out (D)	Balance as of September 30, 2013
	Millions						
PSEG							
Net Derivative Assets (Liabilities)	$(35)	$1	$ (11)	$—	$(1)	$—	$(46)
Power							
Net Derivative Assets (Liabilities)	$6	$1	$ —	$—	$(1)	$—	$6
PSE&G							
Net Derivative Assets (Liabilities)	$(41)	$—	$ (11)	$—	$—	$—	$(52)

	Nine Months Ended September 30, 2013						
		Total Gains or (Losses) Realized/Unrealized					
Description	Balance as of January 1, 2013	Included in Income (E)	Included in Regulatory Assets/ Liabilities (B)	Purchases (Sales)	Issuances/ Settlements (C)	Transfers In/Out (D)	Balance as of September 30, 2013
	Millions						
PSEG							
Net Derivative Assets (Liabilities)	$(31)	$(16)	$ (12)	$—	$9	$4	$(46)
Power							
Net Derivative Assets (Liabilities)	$9	$(16)	$ —	$—	$9	$4	$6
PSE&G							
Net Derivative Assets (Liabilities)	$(40)	$—	$ (12)	$—	$—	$—	$(52)

(A) PSEG's and Power's gains and losses attributable to changes in net derivative assets and liabilities include $(8) million and $(66) million in Operating Income for the three months and nine months ended September 30, 2014, respectively. Of the $(8) million in Operating Income $(12) million is unrealized. Of the $(66) million in Operating Income, $(11) million is unrealized.

(B) Mainly includes gains/losses on PSE&G's derivative contracts that are not included in either earnings or Other Comprehensive Income, as they are deferred as a Regulatory Asset/Liability and are expected to be recovered from/returned to PSE&G's customers.

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(C) Represents $(4) million and $54 million in settlements for the three months and nine months ended September 30, 2014. Represents $(1) million and $9 million in settlements for the three months and nine months ended September 30, 2013.

(D) There were no transfers among levels during the three months ended September 30, 2014 and 2013. During the nine months ended September 30, 2014, $(3) million, of net derivatives assets/liabilities were transferred from Level 3 to Level 2 due to more observable pricing for the underlying securities. During the nine months ended September 30, 2013, $4 million, of net derivatives assets/liabilities were transferred from Level 3 to Level 2 due to more observable pricing for the underlying securities. The transfers were recognized as of the beginning of the quarters in which the transfers first occurred, as per PSEG's policy.

(E) PSEG’s and Power’s gains and losses attributable to changes in net derivative assets and liabilities include $1 million and $(16) million in Operating Income for the three months and nine months ended September 30, 2013, respectively. The $1 million in Operating Income is unrealized. Of the $(16) million in Operating Income, $(7) million is unrealized.

As of September 30, 2014, PSEG carried $2.5 billion of net assets that are measured at fair value on a recurring basis, of which $8 million of net liabilities were measured using unobservable inputs and classified as Level 3 within the fair value hierarchy.

As of September 30, 2013, PSEG carried $1.9 billion of net assets that are measured at fair value on a recurring basis, of which $46 million of net liabilities were measured using unobservable inputs and classified as Level 3 within the fair value hierarchy.

Fair Value of Debt

The estimated fair values were determined using the market quotations or values of instruments with similar terms, credit ratings, remaining maturities and redemptions as of September 30, 2014 and December 31, 2013.

	As of September 30, 2014		As of December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Millions			
Long-Term Debt:				
PSEG (Parent) (A)	$15	$26	$24	$38
Power -Recourse Debt (B)	2,543	2,916	2,541	2,846
PSE&G (B)	6,063	6,497	5,566	5,629
Transition Funding (PSE&G) (B)	312	327	476	511
Transition Funding II (PSE&G) (B)	14	15	20	21
Energy Holdings:				
Project Level, Non-Recourse Debt (C)	16	16	16	16
Total Long-Term Debt	$8,963	$9,797	$8,643	$9,061

(A) Fair value represents net offsets to debt resulting from adjustments from interest rate swaps entered into to hedge certain debt at Power. Carrying amount represents such fair value reduced by the unamortized premium resulting from a debt exchange entered into between Power and Energy Holdings.

(B) The debt fair valuation is based on the present value of each bond’s future cash flows. The discount rates used in the present value analysis are based on an estimate of new issue bond yields across the treasury curve. When a bond has embedded options, an interest rate model is used to reflect the impact of interest rate volatility into the analysis (primarily Level 2 measurements).

(C) Non-recourse project debt is valued as equivalent to the amortized cost and is classified as a Level 3 measurement.

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Note 12. Other Income and Deductions

Other Income	Power Millions	PSE&G	Other (A)	Consolidated
Three Months Ended September 30, 2014				
NDT Fund Gains, Interest, Dividend and Other Income	$55	$—	$—	$55
Allowance for Funds Used During Construction	—	8	—	8
Solar Loan Interest	—	6	—	6
Other	1	2	3	6
Total Other Income	$56	$16	$3	$75
Three Months Ended September 30, 2013				
NDT Fund Gains, Interest, Dividend and Other Income	$45	$—	$—	$45
Allowance for Funds Used During Construction	—	5	—	5
Solar Loan Interest	—	7	—	7
Other	—	1	1	2
Total Other Income	$45	$13	$1	$59
Nine Months Ended September 30, 2014				
NDT Fund Gains, Interest, Dividend and Other Income	$133	$—	$—	$133
Allowance for Funds Used During Construction	—	21	—	21
Solar Loan Interest	—	18	—	18
Other	2	5	6	13
Total Other Income	$135	$44	$6	$185
Nine Months Ended September 30, 2013				
NDT Fund Gains, Interest, Dividend and Other Income	$125	$—	$—	$125
Allowance for Funds Used During Construction	—	17	—	17
Solar Loan Interest	—	18	—	18
Other	2	6	4	12
Total Other Income	$127	$41	$4	$172

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Other Deductions	Power	PSE&G	Other (A)	Consolidated
	Millions			
Three Months Ended September 30, 2014				
NDT Fund Realized Losses and Expenses	$4	$—	$—	$4
Other	2	2	1	5
Total Other Deductions	$6	$2	$1	$9
Three Months Ended September 30, 2013				
NDT Fund Realized Losses and Expenses	$11	$—	$—	$11
Other	—	1	—	1
Total Other Deductions	$11	$1	$—	$12
Nine Months Ended September 30, 2014				
NDT Fund Realized Losses and Expenses	$18	$—	$—	$18
Other	7	3	3	13
Total Other Deductions	$25	$3	$3	$31
Nine Months Ended September 30, 2013				
NDT Fund Realized Losses and Expenses	$40	$—	$—	$40
Other	9	3	2	14
Total Other Deductions	$49	$3	$2	$54

(A) Other primarily consists of activity at PSEG (as parent company), Energy Holdings, Services and intercompany eliminations.

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Note 13. Income Taxes

PSEG’s, Power’s and PSE&G’s effective tax rates for the three months and nine months ended September 30, 2014 and 2013 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
PSEG	37.0%	41.0%	37.8%	40.5%
Power	39.4%	40.5%	38.6%	40.0%
PSE&G	38.5%	40.6%	38.6%	40.0%

For the three months ended September 30, 2014, as compared to the same period in the prior year, the decrease in PSEG's and PSE&G's effective tax rates was due primarily to the audit settlement and depreciation flow-through, respectively.

For the nine months ended September 30, 2014, as compared to the same period in the prior year, the decrease in PSEG's effective tax rates was due primarily to the audit settlement.

On August 11, 2014, PSEG received notice from the Internal Revenue Service (IRS) that the audit settlement covering tax years 2007 through 2010 had been approved by the Joint Committee on Taxation. This effectively settles all issues with the IRS through 2010. On September 9, 2014, PSEG received refunds from the IRS totaling $121 million, representing the net settlement of all disputed amounts, including interest, through the tax year 2010. As a result of the settlement of this audit, PSEG recorded a $12 million reduction of tax expense in the quarter ended September 30, 2014.

PSEG’s unrecognized tax benefits decreased by $156 million in the third quarter 2014 inclusive of interest, of which $62 million was attributable to the settlement of the IRS audit tax liability and the remaining $94 million was due to the reversal of positions taken in prior periods. As a result, the December 31, 2013 balance of unrecognized tax benefits that was reasonably possible to increase or decrease within the next twelve months decreased to an immaterial amount as of September 30, 2014.

There is no material increase or decrease in the interest and penalties associated with the unrecognized tax benefits. The impact on the accumulated deferred income taxes and regulatory tax benefits is not material. The change in the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is not material.

In September 2013, the U.S. Department of the Treasury and the IRS released final regulations effective in 2014 that provide guidance on applying Section 263(a) of the Internal Revenue Code to amounts paid to acquire, produce, or improve tangible property, as well as rules for materials and supplies. Implementation of these regulations did not have any material impact on PSEG’s and its subsidiaries’ results of operations, financial condition or cash flows.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 included a provision making qualified property placed into service after September 8, 2010 and before January 1, 2012, eligible for 100% bonus depreciation for tax purposes. In addition, qualified property placed into service in 2012 was eligible for 50% bonus depreciation for tax purposes. The American Taxpayer Relief Act of 2012 further extended the 50% bonus depreciation for qualified property placed into service before January 1, 2014. In addition, long production property placed into service in 2014 is eligible for 50% bonus depreciation for tax purposes. These provisions have generated cash for PSEG through tax benefits related to the accelerated depreciation. These tax benefits otherwise would have been received over an estimated average 20 year period.

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Note 14. Accumulated Other Comprehensive Income (Loss), Net of Tax

PSEG	Other Comprehensive Income (Loss) Three Months Ended September 30, 2014			
Accumulated Other Comprehensive Income (Loss)	Cash Flow Hedges	Pension and OPEB Plans	Available-for-Sale Securities	Total
	Millions			
Balance as of June 30, 2014	$1	$(232)	$ 158	$(73)
Other Comprehensive Income before Reclassifications	2	—	(15)	(13)
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(1)	3	(15)	(13)
Net Current Period Other Comprehensive Income (Loss)	1	3	(30)	(26)
Balance as of September 30, 2014	$2	$(229)	$ 128	$(99)

	Other Comprehensive Income (Loss) Three Months Ended September 30, 2013			
Accumulated Other Comprehensive Income (Loss)	Cash Flow Hedges	Pension and OPEB Plans	Available-for-Sale Securities	Total
	Millions			
Balance as of June 30, 2013	$3	$(466)	$ 101	$(362)
Other Comprehensive Income before Reclassifications	1	—	27	28
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(2)	9	(11)	(4)
Net Current Period Other Comprehensive Income (Loss)	(1)	9	16	24
Balance as of September 30, 2013	$2	$(457)	$ 117	$(338)

	Other Comprehensive Income (Loss) Nine Months Ended September 30, 2014			
Accumulated Other Comprehensive Income (Loss)	Cash Flow Hedges	Pension and OPEB Plans	Available-for-Sale Securities	Total
	Millions			
Balance as of December 31, 2013	$(2)	$(238)	$ 145	$(95)
Other Comprehensive Income before Reclassifications	(2)	—	19	17
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	6	9	(36)	(21)
Net Current Period Other Comprehensive Income (Loss)	4	9	(17)	(4)
Balance as of September 30, 2014	$2	$(229)	$ 128	$(99)

	Other Comprehensive Income (Loss) Nine Months Ended September 30, 2013			
Accumulated Other Comprehensive Income (Loss)	Cash Flow Hedges	Pension and OPEB Plans	Available-for-Sale Securities	Total
	Millions			

Balance as of December 31, 2012	$7	$(485)	$ 90	$(388)
Other Comprehensive Income before Reclassifications	1	—	53	54
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(6)	28	(26)	(4)
Net Current Period Other Comprehensive Income (Loss)	(5)	28	27	50
Balance as of September 30, 2013	$2	$(457)	$ 117	$(338)

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Accumulated Other Comprehensive Income (Loss)	Other Comprehensive Income (Loss) Three Months Ended September 30, 2014 Cash Flow Hedges	Pension and OPEB Plans	Available-for-Sale Securities	Total
	Millions			
Balance as of June 30, 2014	$2	$(199)	$ 153	$(44)
Other Comprehensive Income before Reclassifications	2	—	(14)	(12)
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(1)	2	(16)	(15)
Net Current Period Other Comprehensive Income (Loss)	1	2	(30)	(27)
Balance as of September 30, 2014	$3	$(197)	$ 123	$(71)

Accumulated Other Comprehensive Income (Loss)	Other Comprehensive Income (Loss) Three Months Ended September 30, 2013 Cash Flow Hedges	Pension and OPEB Plans	Available-for-Sale Securities	Total
	Millions			
Balance as of June 30, 2013	$4	$(405)	$ 98	$(303)
Other Comprehensive Income before Reclassifications	1	—	28	29
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(2)	8	(11)	(5)
Net Current Period Other Comprehensive Income (Loss)	(1)	8	17	24
Balance as of September 30, 2013	$3	$(397)	$ 115	$(279)

Accumulated Other Comprehensive Income (Loss)	Other Comprehensive Income (Loss) Nine Months Ended September 30, 2014 Cash Flow Hedges	Pension and OPEB Plans	Available-for-Sale Securities	Total
	Millions			
Balance as of December 31, 2013	$(1)	$(204)	$ 142	$(63)
Other Comprehensive Income before Reclassifications	(2)	—	17	15
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	6	7	(36)	(23)
Net Current Period Other Comprehensive Income (Loss)	4	7	(19)	(8)
Balance as of September 30, 2014	$3	$(197)	$ 123	$(71)

Accumulated Other Comprehensive Income (Loss)	Other Comprehensive Income (Loss) Nine Months Ended September 30, 2013 Cash Flow Hedges	Pension and OPEB Plans	Available-for-Sale Securities	Total
	Millions			
Balance as of December 31, 2012	$9	$(422)	$ 85	$(328)

Other Comprehensive Income before Reclassifications	1	—	56	57
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(7)	25	(26)	(8)
Net Current Period Other Comprehensive Income (Loss)	(6)	25	30	49
Balance as of September 30, 2013	$3	$(397)	$ 115	$(279)

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PSEG		Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) to Income Statement					
		Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
Description of Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Pre-Tax Amount In Statement of Operations	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
		Millions					
Cash Flow Hedges							
Energy-Related Contracts	Operating Revenues	$1	$—	$1	$(11)	$5	$(6)
Interest Rate Swaps	Interest Expense	—	—	—	—	—	—
Total Cash Flow Hedges		1	—	1	(11)	5	(6)
Pension and OPEB Plans							
Amortization of Prior Service (Cost) Credit	O&M Expense	3	(1)	2	8	(3)	5
Amortization of Actuarial Loss	O&M Expense	(8)	3	(5)	(22)	8	(14)
Total Pension and OPEB Plans		(5)	2	(3)	(14)	5	(9)
Available-for-Sale Securities							
Realized Gains	Other Income	47	(24)	23	105	(54)	51
Realized Losses	Other Deductions	(5)	2	(3)	(15)	7	(8)
Other-Than-Temporary Impairments (OTTI)	OTTI	(10)	5	(5)	(14)	7	(7)
Total Available-for-Sale Securities		32	(17)	15	76	(40)	36
Total		$28	$(15)	$13	$51	$(30)	$21

PSEG		Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) to Income Statement					
		Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
Description of Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Pre-Tax Amount In Statement of Operations	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
		Millions					
Cash Flow Hedges							
Energy-Related Contracts	Operating Revenues	$3	$(1)	$2	$11	$(4)	$7
Interest Rate Swaps	Interest Expense	—	—	—	(1)	—	(1)
Total Cash Flow Hedges		3	(1)	2	10	(4)	6
Pension and OPEB Plans							
	O&M Expense	3	(1)	2	8	(3)	5

Amortization of Prior Service (Cost) Credit							
Amortization of Actuarial Loss	O&M Expense	(18)	7	(11)	(56)	23	(33)
Total Pension and OPEB Plans		(15)	6	(9)	(48)	20	(28)
Available-for-Sale Securities							
Realized Gains	Other Income	35	(18)	17	99	(51)	48
Realized Losses	Other Deductions	(9)	4	(5)	(37)	18	(19)
OTTI	OTTI	(3)	2	(1)	(7)	4	(3)
Total Available-for-Sale Securities		23	(12)	11	55	(29)	26
Total		$11	$(7)	$4	$17	$(13)	$4

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Power		Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) to Income Statement					
		Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
Description of Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Pre-Tax Amount In Statement of Operations	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
		Millions					
Cash Flow Hedges							
Energy-Related Contracts	Operating Revenues	$1	$—	$1	$(11)	$5	$(6)
Total Cash Flow Hedges							