

PUBLIC SERVICE ENTERPRISE GROUP INC
 Form 10-Q
 October 30, 2015

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UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549
 FORM 10-Q
 (Mark One)
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
 SECURITIES EXCHANGE ACT OF 1934
 FOR THE QUARTERLY PERIOD ENDED September 30, 2015
 OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
 SECURITIES EXCHANGE ACT OF 1934
 FOR THE TRANSITION PERIOD FROM TO

Commission File Number	Registrants, State of Incorporation, Address, and Telephone Number	I.R.S. Employer Identification No.
001-09120	PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED (A New Jersey Corporation) 80 Park Plaza, P.O. Box 1171 Newark, New Jersey 07101-1171 973 430-7000 http://www.pseg.com	22-2625848
001-00973	PUBLIC SERVICE ELECTRIC AND GAS COMPANY (A New Jersey Corporation) 80 Park Plaza, P.O. Box 570 Newark, New Jersey 07101-0570 973 430-7000 http://www.pseg.com	22-1212800
001-34232	PSEG POWER LLC (A Delaware Limited Liability Company) 80 Park Plaza Newark, New Jersey 07102-4194 973 430-7000 http://www.pseg.com	22-3663480

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 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 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.

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Public Service Enterprise Group Incorporated Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Public Service Electric and Gas Company Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

PSEG Power LLC Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether any of the registrants is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 20, 2015, Public Service Enterprise Group Incorporated had outstanding 505,961,856 shares of its sole class of Common Stock, without par value.

As of October 20, 2015, 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.

Public Service Electric and Gas Company and PSEG Power LLC 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 regulations, including market structures and transmission planning,
- 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 for 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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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONSMillions, except per share data
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
OPERATING REVENUES	\$2,688	\$2,641	\$8,137	\$8,113
OPERATING EXPENSES				
Energy Costs	815	863	2,577	3,008
Operation and Maintenance	746	714	2,170	2,370
Depreciation and Amortization	313	318	960	919
Total Operating Expenses	1,874	1,895	5,707	6,297
OPERATING INCOME	814	746	2,430	1,816
Income from Equity Method Investments	3	3	10	10
Other Income	47	75	171	185
Other Deductions	(14	) (9	) (36	) (31
Other-Than-Temporary Impairments	(30	) (10	) (45	) (14
Interest Expense	(96	) (100	) (291	) (291
INCOME BEFORE INCOME TAXES	724	705	2,239	1,675
Income Tax Expense	(285	) (261	) (869	) (633
NET INCOME	\$439	\$444	\$1,370	\$1,042
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
BASIC	505	506	505	506
DILUTED	508	507	508	507
NET INCOME PER SHARE:				
BASIC	\$0.87	\$0.88	\$2.71	\$2.06
DILUTED	\$0.87	\$0.87	\$2.70	\$2.05
DIVIDENDS PAID PER SHARE OF COMMON STOCK	\$0.39	\$0.37	\$1.17	\$1.11

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Millions

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
NET INCOME	\$439	\$444	\$1,370	\$1,042
Other Comprehensive Income (Loss), net of tax				
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of \$33, \$33, \$35 and \$21 for the three and nine months ended 2015 and 2014, respectively	(31	) (30	) (32	) (17
Unrealized Gains (Losses) on Cash Flow Hedges, net of tax (expense) benefit of \$(1), \$(1), \$6 and \$(3) for the three and nine months ended 2015 and 2014, respectively	—	1	(9	) 4
Pension/Other Postretirement Benefit Costs (OPEB) adjustment, net of tax (expense) benefit of \$(5), \$(2), \$(17) and \$(5) for three and nine months ended 2015 and 2014, respectively	9	3	25	9
Other Comprehensive Income (Loss), net of tax	(22	) (26	) (16	) (4
COMPREHENSIVE INCOME	\$417	\$418	\$1,354	\$1,038

See Notes to Condensed Consolidated Financial Statements.

table of contentsPUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$271	\$402
Accounts Receivable, net of allowances of \$59 and \$52 in 2015 and 2014, respectively	1,199	1,254
Tax Receivable	5	211
Unbilled Revenues	203	284
Fuel	451	538
Materials and Supplies, net	472	484
Prepayments	180	108
Derivative Contracts	162	240
Deferred Income Taxes	23	11
Regulatory Assets	189	323
Regulatory Assets of Variable Interest Entities (VIEs)	—	249
Restricted Cash of VIEs	26	—
Other	23	15
Total Current Assets	3,204	4,119
PROPERTY, PLANT AND EQUIPMENT	34,625	32,196
Less: Accumulated Depreciation and Amortization	(9,020)	(8,607)
Net Property, Plant and Equipment	25,605	23,589
NONCURRENT ASSETS		
Regulatory Assets	3,161	3,192
Long-Term Investments	1,235	1,307
Nuclear Decommissioning Trust (NDT) Fund	1,715	1,780
Long-Term Tax Receivable	165	64
Long-Term Receivable of VIE	601	580
Other Special Funds	230	212
Goodwill	16	16
Other Intangibles	122	84
Derivative Contracts	91	77
Restricted Cash of VIEs	—	24
Other	279	289
Total Noncurrent Assets	7,615	7,625
TOTAL ASSETS	\$36,424	\$35,333

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	September 30, 2015	December 31, 2014
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	\$ 1,038	\$ 624
Securitization Debt of VIEs Due Within One Year	68	259
Commercial Paper and Loans	20	—
Accounts Payable	1,046	1,178
Derivative Contracts	70	132
Accrued Interest	123	95
Accrued Taxes	204	21
Deferred Income Taxes	—	173
Clean Energy Program	185	142
Obligation to Return Cash Collateral	126	121
Regulatory Liabilities	208	186
Regulatory Liabilities of VIEs	3	—
Other	513	547
Total Current Liabilities	3,604	3,478
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	7,672	7,303
Regulatory Liabilities	181	258
Regulatory Liabilities of VIEs	—	39
Asset Retirement Obligations	776	743
Other Postretirement Benefit (OPEB) Costs	1,250	1,277
OPEB Costs of Servco	480	452
Accrued Pension Costs	373	440
Accrued Pension Costs of Servco	118	126
Environmental Costs	438	417
Derivative Contracts	23	33
Long-Term Accrued Taxes	287	208
Other	156	112
Total Noncurrent Liabilities	11,754	11,408
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)		
CAPITALIZATION		
LONG-TERM DEBT		
Total Long-Term Debt	8,132	8,261
STOCKHOLDERS' EQUITY		
Common Stock, no par, authorized 1,000,000,000 shares; issued, 2015 and 2014—533,556,660 shares	4,894	4,876
Treasury Stock, at cost, 2015— 28,238,912 shares; 2014— 27,720,068 shares	(667	) (635
Retained Earnings	9,005	8,227
Accumulated Other Comprehensive Loss	(299) (283

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Total Common Stockholders' Equity	12,933	12,185
Noncontrolling Interest	1	1
Total Stockholders' Equity	12,934	12,186
Total Capitalization	21,066	20,447
TOTAL LIABILITIES AND CAPITALIZATION	\$36,424	\$35,333

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions

(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$1,370	\$1,042
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	960	919
Amortization of Nuclear Fuel	162	151
Provision for Deferred Income Taxes (Other than Leases) and ITC	230	103
Non-Cash Employee Benefit Plan Costs	121	36
Leveraged Lease (Income) Loss, Adjusted for Rents Received and Deferred Taxes ⁶		(30)
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	(87)	) 237
Change in Accrued Storm Costs	15	(3)
Net Change in Other Regulatory Assets and Liabilities	26	276
Cost of Removal	(82)	) (68)
Net Realized (Gains) Losses and (Income) Expense from NDT Fund	(2)	) (99)
Net Change in Certain Current Assets and Liabilities:		
Tax Receivable	206	95
Accrued Taxes	127	127
Margin Deposit	142	(173)
Other Current Assets and Liabilities	15	(103)
Employee Benefit Plan Funding and Related Payments	(87)	) (76)
Other	106	102
Net Cash Provided By (Used In) Operating Activities	3,228	2,536
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(2,782)	) (1,922)
Proceeds from Sales of Capital Leases and Investments	12	11
Proceeds from Sales of Available-for-Sale Securities	1,120	1,224
Investments in Available-for-Sale Securities	(1,163)	) (1,241)
Other	(28)	) (60)
Net Cash Provided By (Used In) Investing Activities	(2,841)	) (1,988)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Commercial Paper and Loans	20	(60)
Issuance of Long-Term Debt	600	1,000
Redemption of Long-Term Debt	(300)	) (500)
Redemption of Securitization Debt	(191)	) (170)
Cash Dividends Paid on Common Stock	(592)	) (561)
Other	(55)	) (47)
Net Cash Provided By (Used In) Financing Activities	(518)	) (338)
Net Increase (Decrease) in Cash and Cash Equivalents	(131)) 210
Cash and Cash Equivalents at Beginning of Period	402	493

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Cash and Cash Equivalents at End of Period	\$271	\$703
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	\$292	\$284
Interest Paid, Net of Amounts Capitalized	\$265	\$269
Accrued Property, Plant and Equipment Expenditures	\$321	\$286

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Millions

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
OPERATING REVENUES	\$1,766	\$1,655	\$5,234	\$5,235
OPERATING EXPENSES				
Energy Costs	740	668	2,176	2,278
Operation and Maintenance	391	366	1,171	1,190
Depreciation and Amortization	231	238	712	682
Total Operating Expenses	1,362	1,272	4,059	4,150
OPERATING INCOME	404	383	1,175	1,085
Other Income	22	16	59	44
Other Deductions	—	(2	) (2	) (3
Interest Expense	(67	) (71	) (203	) (206
INCOME BEFORE INCOME TAXES	359	326	1,029	920
Income Tax Expense	(137	) (126	) (398	) (355
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	\$222	\$200	\$631	\$565

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

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOMEMillions
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
NET INCOME	\$222	\$200	\$631	\$565
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of \$0 for the three and nine months ended 2015 and 2014, respectively	—	1	(1	) 1
COMPREHENSIVE INCOME	\$222	\$201	\$630	\$566

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

table of contentsPUBLIC SERVICE ELECTRIC AND GAS COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 14	\$ 310
Accounts Receivable, net of allowances of \$59 and \$52 in 2015 and 2014, respectively	938	864
Accounts Receivable-Affiliated Companies	7	274
Unbilled Revenues	203	284
Materials and Supplies	146	133
Prepayments	109	42
Regulatory Assets	189	323
Regulatory Assets of VIEs	—	249
Derivative Contracts	4	18
Deferred Income Taxes	47	24
Restricted Cash of VIEs	26	—
Other	17	7
Total Current Assets	1,700	2,528
PROPERTY, PLANT AND EQUIPMENT	22,940	21,103
Less: Accumulated Depreciation and Amortization	(5,419	) (5,183
Net Property, Plant and Equipment	17,521	15,920
NONCURRENT ASSETS		
Regulatory Assets	3,161	3,192
Long-Term Investments	335	348
Other Special Funds	52	53
Derivative Contracts	—	8
Restricted Cash of VIEs	—	24
Other	140	150
Total Noncurrent Assets	3,688	3,775
TOTAL ASSETS	\$22,909	\$22,223

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

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CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	September 30, 2015	December 31, 2014
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	\$171	\$300
Securitization Debt of VIEs Due Within One Year	68	259
Commercial Paper and Loans	20	—
Accounts Payable	567	574
Accounts Payable—Affiliated Companies	208	379
Accrued Interest	80	68
Clean Energy Program	185	142
Deferred Income Taxes	—	165
Obligation to Return Cash Collateral	126	121
Regulatory Liabilities	208	186
Regulatory Liabilities of VIEs	3	—
Other	357	381
Total Current Liabilities	1,993	2,575
NONCURRENT LIABILITIES		
Deferred Income Taxes and ITC	4,896	4,575
Other Postretirement Benefit (OPEB) Costs	929	967
Accrued Pension Costs	131	173
Regulatory Liabilities	181	258
Regulatory Liabilities of VIEs	—	39
Environmental Costs	387	364
Asset Retirement Obligations	304	290
Long-Term Accrued Taxes	165	116
Derivative Contracts	7	—
Other	58	67
Total Noncurrent Liabilities	7,058	6,849
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)		
CAPITALIZATION		
LONG-TERM DEBT		
Total Long-Term Debt	6,441	6,012
STOCKHOLDER'S EQUITY		
Common Stock; 150,000,000 shares authorized; issued and outstanding, 2015 and 2014—132,450,344 shares	892	892
Contributed Capital	695	695
Basis Adjustment	986	986
Retained Earnings	4,843	4,212
Accumulated Other Comprehensive Income	1	2
Total Stockholder's Equity	7,417	6,787
Total Capitalization	13,858	12,799

TOTAL LIABILITIES AND CAPITALIZATION	\$22,909	\$22,223
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See disclosures regarding Public Service Electric and Gas Company included in the Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions

(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$631	\$565
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	712	682
Provision for Deferred Income Taxes and ITC	96	93
Non-Cash Employee Benefit Plan Costs	71	21
Cost of Removal	(82)	(68)
Change in Accrued Storm Costs	15	(3)
Net Change in Other Regulatory Assets and Liabilities	26	276
Net Change in Certain Current Assets and Liabilities:		
Accounts Receivable and Unbilled Revenues	30	71
Materials and Supplies	(13)	(15)
Prepayments	(67)	(92)
Accounts Payable	34	(3)
Accounts Receivable/Payable—Affiliated Companies, net	190	(113)
Other Current Assets and Liabilities	(18)	(6)
Employee Benefit Plan Funding and Related Payments	(72)	(67)
Other	(35)	2
Net Cash Provided By (Used In) Operating Activities	1,518	1,343
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(1,946)	(1,493)
Proceeds from Sales of Available-for-Sale Securities	16	98
Investments in Available-for-Sale Securities	(18)	(96)
Other	13	1
Net Cash Provided By (Used In) Investing Activities	(1,935)	(1,490)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Short-Term Debt	20	(60)
Issuance of Long-Term Debt	600	1,000
Redemption of Long-Term Debt	(300)	(500)
Redemption of Securitization Debt	(191)	(170)
Contributed Capital	—	175
Other	(8)	(11)
Net Cash Provided By (Used In) Financing Activities	121	434
Net Increase (Decrease) In Cash and Cash Equivalents	(296)	287
Cash and Cash Equivalents at Beginning of Period	310	18
Cash and Cash Equivalents at End of Period	\$14	\$305
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	\$(29)	\$174

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Interest Paid, Net of Amounts Capitalized	\$186	\$188
Accrued Property, Plant and Equipment Expenditures	\$251	\$238

See disclosures regarding Public Service Electric and Gas Company included in the 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,	
	2015	2014	2015	2014
OPERATING REVENUES	\$1,096	\$1,138	\$3,846	\$3,824
OPERATING EXPENSES				
Energy Costs	367	472	1,669	2,036
Operation and Maintenance	263	242	748	871
Depreciation and Amortization	75	71	226	215
Total Operating Expenses	705	785	2,643	3,122
OPERATING INCOME	391	353	1,203	702
Income from Equity Method Investments	3	4	11	11
Other Income	25	56	109	135
Other Deductions	(14	) (6	) (32	) (25
Other-Than-Temporary Impairments	(30	) (10	) (45	) (14
Interest Expense	(30	) (31	) (94	) (92
INCOME BEFORE INCOME TAXES	345	366	1,152	717
Income Tax Expense	(139	) (144	) (445	) (277
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	\$206	\$222	\$707	\$440

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		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
NET INCOME	\$206	\$222	\$707	\$440
Other Comprehensive Income (Loss), net of tax				
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of \$32, \$34, \$33 and \$23 for the three and nine months ended 2015 and 2014, respectively	(29	) (30	) (29	) (19
Unrealized Gains (Losses) on Cash Flow Hedges, net of tax (expense) benefit of \$(1), \$0, \$6 and \$(2) for the three and nine months ended 2015 and 2014, respectively	—	1	(9	) 4
Pension/OPEB adjustment, net of tax (expense) benefit of \$(5), \$(1), \$(15) and \$(4) for the three and nine months ended 2015 and 2014, respectively	7	2	21	7
Other Comprehensive Income (Loss), net of tax	(22	) (27	) (17	) (8
COMPREHENSIVE INCOME	\$184	\$195	\$690	\$432

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

table of contentsPSEG POWER LLC
CONDENSED CONSOLIDATED BALANCE SHEETS

Millions

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 15	\$ 9
Accounts Receivable	218	334
Accounts Receivable—Affiliated Companies	158	313
Tax Receivable	3	3
Short-Term Loan to Affiliate	865	584
Fuel	451	538
Materials and Supplies, net	324	350
Derivative Contracts	147	207
Prepayments	36	17
Other	7	4
Total Current Assets	2,224	2,359
PROPERTY, PLANT AND EQUIPMENT	11,273	10,732
Less: Accumulated Depreciation and Amortization	(3,366	) (3,217
Net Property, Plant and Equipment	7,907	7,515
NONCURRENT ASSETS		
Nuclear Decommissioning Trust (NDT) Fund	1,715	1,780
Long-Term Investments	116	121
Goodwill	16	16
Other Intangibles	122	84
Other Special Funds	56	49
Derivative Contracts	91	62
Other	67	60
Total Noncurrent Assets	2,183	2,172
TOTAL ASSETS	\$ 12,314	\$ 12,046

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, 2015	December 31, 2014
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	\$853	\$300
Accounts Payable	315	424
Accounts Payable-Affiliated Companies	117	118
Derivative Contracts	70	132
Deferred Income Taxes	44	43
Accrued Interest	43	27
Other	132	140
Total Current Liabilities	1,574	1,184
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	2,148	2,065
Asset Retirement Obligations	469	450
Other Postretirement Benefit (OPEB) Costs	258	248
Derivative Contracts	16	33
Accrued Pension Costs	134	153
Long-Term Accrued Taxes	54	41
Other	121	71
Total Noncurrent Liabilities	3,200	3,061
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)		
LONG-TERM DEBT		
Total Long-Term Debt	1,691	2,243
MEMBER'S EQUITY		
Contributed Capital	2,215	2,214
Basis Adjustment	(986)	(986)
Retained Earnings	4,865	4,558
Accumulated Other Comprehensive Loss	(245)	(228)
Total Member's Equity	5,849	5,558
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$12,314	\$12,046

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,
2015 2014

CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$707	\$440
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	226	215
Amortization of Nuclear Fuel	162	151
Provision for Deferred Income Taxes and ITC	109	5
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	(87)	) 237
Non-Cash Employee Benefit Plan Costs	36	10
Net Realized (Gains) Losses and (Income) Expense from NDT Fund	(2)	) (99)
Net Change in Certain Current Assets and Liabilities:		
Fuel, Materials and Supplies	113	17
Margin Deposit	142	(173)
Accounts Receivable	54	49
Accounts Payable	(99)	) (135)
Accounts Receivable/Payable—Affiliated Companies, net	115	299
Other Current Assets and Liabilities	(26)	) 28
Employee Benefit Plan Funding and Related Payments	(9)	) (5)
Other	117	71
Net Cash Provided By (Used In) Operating Activities	1,558	1,110
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(797)	) (414)
Proceeds from Sales of Available-for-Sale Securities	1,057	882
Investments in Available-for-Sale Securities	(1,083)	) (898)
Short-Term Loan—Affiliated Company, net	(281)	) 167
Other	(46)	) (63)
Net Cash Provided By (Used In) Investing Activities	(1,150)	) (326)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Dividend Paid	(400)	) (775)
Other	(2)	) (3)
Net Cash Provided By (Used In) Financing Activities	(402)	) (778)
Net Increase (Decrease) in Cash and Cash Equivalents	6	6
Cash and Cash Equivalents at Beginning of Period	9	6
Cash and Cash Equivalents at End of Period	\$15	\$12
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	\$284	\$87
Interest Paid, Net of Amounts Capitalized	\$76	\$78
Accrued Property, Plant and Equipment Expenditures	\$70	\$66

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

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

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 Federal Energy Regulatory Commission (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.

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 FERC, the Nuclear Regulatory Commission (NRC) and the states in which they operate.

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 operates the Long Island Power Authority's (LIPA) transmission and distribution (T&D) system under an 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, 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 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, 2014.

Note 2. Recent Accounting Standards

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 was originally to be effective for annual and interim reporting periods beginning after December 15, 2016; however, the Financial Accounting Standards Board issued new guidance deferring the effective date by one year to periods beginning after December 31, 2017. Early application will be permitted as of the original effective date. We are currently analyzing the impact of this standard on our financial statements.

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Amendments to the Consolidation Analysis

This standard was issued to respond to concerns regarding the current accounting for consolidation of certain legal entities. Under the new standard, all legal entities are subject to reevaluation under a revised consolidation model which will determine whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; eliminate the presumption that a general partner should consolidate a limited partnership; affect the consolidation analysis of reporting entities that are involved with VIEs and provide a scope exception from consolidation guidance for reporting entities with interests in certain legal entities who must comply with other requirements.

The update is effective for annual and interim reporting periods beginning after December 15, 2015. We are currently analyzing the impact of this standard on our financial statements.

Simplifying the Presentation of Debt Issuance Costs

This standard was issued to simplify presentation of debt issuance costs. The standard will require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this standard.

The update is effective for annual and interim reporting periods beginning after December 15, 2015. We do not expect the impact of adoption of this standard to be material to our Condensed Consolidated Balance Sheets.

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, 2015 and December 31, 2014. 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 2015 or in 2014. PSE&G does not have any contractual commitments or obligations to provide financial support to Transition Funding or Transition Funding II. In June 2015, Transition Funding II paid its final securitization bond payment and Transition Funding I is scheduled to make its final securitization bond payment in December 2015.

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.

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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 Operation and Maintenance (O&M) Expense, respectively. Servco recorded \$96 million and \$107 million for the three months and \$262 million and \$307 million for the nine months ended September 30, 2015 and 2014, respectively, of O&M costs, the full reimbursement of which was reflected in Operating Revenues. 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.

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 5. Regulatory Assets and Liabilities to the Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014.

In addition to items previously reported in the Annual Report on Form 10-K, significant 2015 regulatory orders received and currently pending rate filings with FERC and the BPU by PSE&G are as follows:

Energy Strong Recovery Filing—In June 2015, PSE&G updated its Energy Strong electric and gas cost recovery petition filed in March 2015 seeking BPU approval to recover in base rates estimated annual increases in electric revenues of \$6 million and gas revenues of \$17 million. These increases represent a return on investment and recovery of Energy Strong capitalized investment costs placed in service from December 1, 2014 through May 31, 2015 for electric and from June 1, 2014 through May 31, 2015 for gas. In August 2015, the BPU provisionally approved PSE&G's request effective September 1, 2015.

In September 2015, PSE&G filed its Energy Strong electric cost recovery petition seeking BPU approval to recover the revenue requirements associated with Energy Strong capitalized investment costs placed in service from June 1, 2015 through November 30, 2015. The annualized requested increase in electric revenue requirements is \$14 million. The petition requests rates to be effective March 1, 2016, consistent with the BPU Order of approval of the Energy Strong Program. This matter is pending.

Basic Gas Supply Service (BGSS)—In March 2015, PSE&G filed a letter with the BPU to extend the 28 cents per therm residential rate reduction via a bill credit for one additional month through April 30, 2015, which provided an additional approximate \$31 million credit to customers.

In April 2015, the BPU issued an Order approving PSE&G's provisional BGSS rate of 45 cents per therm which had been implemented on October 1, 2014.

In June 2015, PSE&G made its Annual BGSS Filing with the BPU requesting a reduction of \$70 million in annual BGSS revenues. In September 2015, the BPU approved a Stipulation in this matter on a provisional basis and the BGSS rate was reduced from approximately 45 cents to 40 cents per therm effective October 1, 2015.

Weather Normalization Clause—On April 15, 2015, the BPU approved PSE&G's final filing with respect to excess revenues collected during the colder than normal 2013-2014 Winter Period (October 1, 2013 through May 31, 2014). Effective October 1, 2014, PSEG commenced returning \$45 million in revenues to its customers during the 2014-2015 Winter Period (October 1, 2014 through May 31, 2015).

In September 2015, the BPU approved PSE&G's filing on a provisional basis with respect to excess revenues collected during the colder than normal 2014-2015 Winter Period. Effective October 1, 2015, PSE&G commenced returning \$40 million in revenues to its customers during the 2015-2016 Winter Period (October 1, 2015 through May 31, 2016).

Solar and Energy Efficiency - Green Program Recovery Charges (GPRC) and Solar Pilot Recovery Charge

(SPRC)—In April 2015, the BPU approved PSE&G's petition for an Energy Efficiency Economic Stimulus Extension II Program (EEE Ext II) to extend three EEE subprograms (multi-family, direct install and hospital efficiency). The Order allows PSE&G to extend the subprogram offerings under the same clause recovery process as its existing EEE Program and allows for \$95 million of additional capital expenditures over the next three years and an allowance for

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\$12 million of additional administrative expenses over the next 15 years. The EEE Ext II program was added as a ninth component of the GPRC rate effective May 1, 2015.

In July of each year, PSE&G files for annual recovery for its Green Program investments which include a return on its investment and recovery of expenses. In May 2015, the BPU approved PSE&G's July 2014 filing requesting recovery of costs and investments in the first eight combined components of the electric and gas GPRC for the period October 1, 2014 through September 30, 2015. In July 2015, PSE&G filed its annual GPRC and SPRC cost recovery petitions with the BPU, requesting recovery of costs and investments for the first eight combined components of the electric and gas GPRC, as well as the electric SPRC. The filings proposed rates for the period October 1, 2015 through September 30, 2016 designed to recover approximately \$66 million and \$10 million in electric and gas revenues, respectively, on an annual basis associated with PSE&G's implementation of these BPU approved programs. In September 2015, the BPU approved the July 2015 filings on a provisional basis, with new rates effective October 1, 2015.

Transmission Formula Rate Filings—In June 2015, PSE&G filed its 2014 true-up adjustment pertaining to its formula rates in effect for 2014, which resulted in an adjustment of \$19 million less than the 2014 filed revenues. The adjustment was primarily due to the impact of bonus depreciation and lower interest rates which PSE&G had recognized in its Consolidated Statement of Operations for the year ended December 31, 2014.

The 2016 Annual Formula Rate Update was filed with FERC in October 2015 and provides for approximately \$146 million in increased annual transmission revenues effective January 1, 2016.

Remediation Adjustment Charge (RAC)—In August 2015, the BPU approved PSE&G's filing with respect to its RAC 22 petition allowing recovery of \$85 million effective September 1, 2015 related to net Manufactured Gas Plant expenditures from August 1, 2013 through July 31, 2014.

Universal Service Fund (USF)/Lifeline—In September 2015, the BPU approved rates set to recover costs incurred under the USF/Lifeline energy assistance programs effective October 1, 2015. PSE&G earns no margin on the collection of the USF and Lifeline programs resulting in no impact on Net Income.

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. A substantial portion of these amounts are noncurrent and reported in Long-Term Investments on PSEG's and PSE&G's Condensed Consolidated Balance Sheets. 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

	As of September 30, 2015	As of December 31, 2014
Consumer Loans	Millions	
Commercial/Industrial	\$180	\$188
Residential	13	13
Total	\$193	\$201

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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, 2015 and December 31, 2014, respectively.

	As of September 30, 2015	As of December 31, 2014
	Millions	
Lease Receivables (net of Non-Recourse Debt)	\$631	\$691
Estimated Residual Value of Leased Assets	519	525
Unearned and Deferred Income	(368	) (380
Gross Investment in Leases	782	836
Deferred Tax Liabilities	(706	) (738
Net Investment in Leases	\$76	\$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.

Counterparties' Credit Rating (Standard & Poor's (S&P)) As of September 30, 2015	Lease Receivables, Net of Non-Recourse Debt As of September 30, 2015
	Millions
AA	\$17
BBB+ — BBB-	316
BB-	134
B-	164
Total	\$631

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, 2015, the gross investment in the leases of such assets, net of non-recourse debt, was \$573 million (\$(13) million, net of deferred taxes). A more detailed description of such assets under lease, as of September 30, 2015, is presented in the following table.

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Asset	Location	Gross Investment	% Owned	Total	Fuel Type	Counter-parties' S&P Credit Ratings As of September 30, 2015 (A)	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	\$ 121	17	% 1,711	Coal	B-	NRG REMA, LLC
Conemaugh Station Units 1 and 2	PA	\$ 121	17	% 1,711	Coal	B-	NRG REMA, LLC
Shawville Station Units 1, 2, 3 and 4	PA	\$ 113	100	% 603	Coal	B-	NRG REMA, LLC

On October 2, 2015, S&P lowered the B- rating for NRG REMA, LLC, an indirect subsidiary of NRG Energy, (A) Inc., to CCC+. Potential adverse consequences relevant to the downgrade are discussed in the following paragraph.

The credit exposure for lessors is partially mitigated through various credit enhancement mechanisms within the lease transactions. These credit enhancement features vary from lease to lease and may include letters of credit or affiliate guarantees. Upon the occurrence of certain defaults, indirect subsidiary companies of Energy Holdings would exercise their rights and attempt to seek recovery of their investment, potentially including stepping into the lease directly to protect their investments. While these actions could ultimately protect or mitigate the loss of value, they could require the use of significant capital investments and trigger certain material tax obligations. A bankruptcy of a lessee would likely delay any efforts on the part of the lessors to assert their rights upon default and could delay the monetization of claims. Failure to recover adequate value could ultimately lead to a foreclosure on the 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 in 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.

In early 2014, NRG REMA, LLC had disclosed its plan to place the Shawville generating facility in a "long-term protective layup" by April 2015 as it evaluated its alternatives under the lease. However, NRG has since notified PJM that it deactivated the coal-fired units at the Shawville generating facility in June 2015 and has disclosed that it expects to return the Shawville units to service in the summer of 2016 with the ability to use natural gas.

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, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	\$667	\$ 176	\$(18	) \$825
Debt Securities				
Government Obligations	445	10	(1	) 454
Other Debt Securities	402	6	(7	) 401
Total Debt Securities	847	16	(8	) 855
Other Securities	35	—	—	35
Total NDT Available-for-Sale Securities	\$ 1,549	\$ 192	\$(26	) \$ 1,715
	As of December 31, 2014			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	\$685	\$220	\$(8	) \$897
Debt Securities				
Government Obligations	430	9	(1	) 438
Other Debt Securities	333	9	(3	) 339
Total Debt Securities	763	18	(4	) 777
Other Securities	106	—	—	106
Total NDT Available-for-Sale Securities	\$ 1,554	\$ 238	\$(12	) \$ 1,780

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, 2015	As of December 31, 2014
	Millions	
Accounts Receivable	\$10	\$10
Accounts Payable	\$4	\$2

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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, 2015				As of December 31, 2014			
	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)	\$143	\$(18)	\$1	\$—	\$162	\$(8)	\$1	\$—
Debt Securities								
Government Obligations (B)	90	(1)	15	—	95	—	28	(1)
Other Debt Securities (C)	164	(5)	29	(2)	99	(1)	30	(2)
Total Debt Securities	254	(6)	44	(2)	194	(1)	58	(3)
NDT Available-for-Sale Securities	\$397	\$(24)	\$45	\$(2)	\$356	\$(9)	\$59	\$(3)

(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, 2015.

(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, 2015.

(C) Debt Securities (Other)—Power's investments in corporate bonds, collateralized mortgage obligations, asset-backed securities and municipal government obligations 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, 2015.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
	Millions			
Proceeds from NDT Fund Sales (A)	\$215	\$221	\$1,037	\$779
Net Realized Gains (Losses) on NDT Fund:				
Gross Realized Gains	14	45	47	101
Gross Realized Losses	(11)	(3)	(24)	(12)
Net Realized Gains (Losses) on NDT Fund	\$3	\$42	\$23	\$89

(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 \$82 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, 2015.

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The NDT available-for-sale debt securities held as of September 30, 2015 had the following maturities:

Time Frame	Fair Value Millions
Less than one year	\$8
1 - 5 years	236
6 - 10 years	201
11 - 15 years	51
16 - 20 years	51
Over 20 years	308
Total NDT Available-for-Sale Debt Securities	\$855

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, 2015, other-than-temporary impairments of \$45 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, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	\$11	\$9	\$—	\$20
Debt Securities				
Government Obligations	106	1	(1	) 106
Other Debt Securities	86	—	(2	) 84
Total Debt Securities	192	1	(3	) 190
Other Securities	1	—	—	1
Total Rabbi Trust Available-for-Sale Securities	\$204	\$10	\$(3) \$211

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	As of December 31, 2014			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	\$12	\$11	\$—	\$23
Debt Securities				
Government Obligations	89	2	—	91
Other Debt Securities	74	1	—	75
Total Debt Securities	163	3	—	166
Other Securities	2	—	—	2
Total Rabbi Trust Available-for-Sale Securities	\$177	\$14	\$—	\$191

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, 2015	As of December 31, 2014
	Millions	
Accounts Receivable	\$1	\$1
Accounts Payable	\$1	\$—

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

	As of September 30, 2015				As of December 31, 2014			
	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)	47	(2)	2	—	2	—	—	—
Other Debt Securities (C)	41	(1)	9	—	24	—	—	—
Total Debt Securities	88	(3)	11	—	26	—	—	—
Rabbi Trust Available-for-Sale Securities	\$88	\$(3)	\$11	\$—	\$26	\$—	\$—	\$—

(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 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, 2015.

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Debt Securities (Other)—PSEG’s investments in corporate bonds, collateralized mortgage obligations, asset-backed securities and municipal government obligations are limited to investment grade securities. It is not expected that (C) 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, 2015.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	Millions			
Proceeds from Rabbi Trust Sales (A)	\$20	\$419	\$83	\$445
Net Realized Gains (Losses) on Rabbi Trust:				
Gross Realized Gains	\$—	\$2	\$2	\$4
Gross Realized Losses	(1	) (2	) (1	) (3
Net Realized Gains (Losses) on Rabbi Trust	\$(1	) \$—	\$1	\$1

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

Gross realized gains disclosed in the preceding table were recognized in Other Income in the Condensed Consolidated Statements of Operations. Net unrealized gains of \$4 million (after-tax) were a component of Accumulated Other Comprehensive Loss on the Condensed Consolidated Balance Sheets as of September 30, 2015.

The Rabbi Trust available-for-sale debt securities held as of September 30, 2015 had the following maturities:

Time Frame	Fair Value
	Millions
Less than one year	\$5
1 - 5 years	49
6 - 10 years	39
11 - 15 years	8
16 - 20 years	9
Over 20 years	80
Total Rabbi Trust Available-for-Sale Debt Securities	\$190

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, PSE&G and Power are detailed as follows:

	As of September 30, 2015	As of December 31, 2014
	Millions	
PSE&G	\$42	\$41
Power	52	45
Other	117	105
Total Rabbi Trust Available-for-Sale Securities	\$211	\$191

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:

Components of Net Periodic Benefit Costs (Credit)	Pension Benefits Three Months Ended September 30, 2015		OPEB Three Months Ended September 30, 2014		Pension Benefits Nine Months Ended September 30, 2015		OPEB Nine Months Ended September 30, 2014	
	2015	2014	2015	2014	2015	2014	2015	2014
	Millions							
Service Cost	\$30	\$26	\$5	\$5	\$92	\$78	\$16	\$14
Interest Cost	59	58	16	18	176	176	50	52
Expected Return on Plan Assets	(103)	(99)	(7)	(7)	(310)	(299)	(22)	(20)
Amortization of Net Prior Service Cost (Credit)	(5)	(5)	(4)	(4)	(14)	(14)	(11)	(11)
Actuarial Loss	38	14	11	6	112	42	32	18
Total Benefit Costs (Credit)	\$19	\$(6)	\$21	\$18	\$56	\$(17)	\$65	\$53

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

	Pension Benefits Three Months Ended September 30, 2015		OPEB Three Months Ended September 30, 2014		Pension Benefits Nine Months Ended September 30, 2015		OPEB Nine Months Ended September 30, 2014	
	2015	2014	2015	2014	2015	2014	2015	2014
	Millions							
PSE&G	\$10	\$(4)	\$13	\$12	\$30	\$(14)	\$41	\$35
Power	5	(2)	7	5	16	(5)	20	15
Other	4	—	1	1	10	2	4	3

Total Benefit Costs (Credit)	\$19	\$(6) \$21	\$18	\$56	\$(17) \$65	\$53
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During the three months ended March 31, 2015, PSEG contributed its entire planned contributions for the year 2015 of \$15 million into its pension plans and \$14 million into its OPEB plan for 2015.

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. 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. Servco's pension-related revenues and costs were \$17 million and \$30 million for the three months and nine months ended September 30, 2015, respectively, completing its entire planned contribution for the year 2015. Servco's pension-related revenues and costs were \$21 million and \$67 million for the three months and nine months ended September 30, 2014, respectively. The OPEB-related revenues earned and costs incurred for each of the three months and nine months ended September 30, 2015 and 2014 were immaterial.

Note 8. Commitments and Contingent Liabilities

Guaranteed Obligations

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

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

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

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

In order for Power to incur a liability for the face value of the outstanding guarantees, its subsidiaries would have to fully utilize the credit granted to them by every counterparty to whom Power has provided a guarantee, and all of the related contracts would have to be "out-of-the-money" (if the contracts are terminated, Power would owe money to the counterparties).

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

Power is subject to

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

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

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

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The face value of Power's outstanding guarantees, current exposure and margin positions as of September 30, 2015 and December 31, 2014 are shown as follows:

	As of September 30, 2015 Millions	As of December 31, 2014
Face Value of Outstanding Guarantees	\$1,733	\$1,814
Exposure under Current Guarantees	\$184	\$273
Letters of Credit Margin Posted	\$178	\$159
Letters of Credit Margin Received	\$80	\$40
Cash Deposited and Received:		
Counterparty Cash Margin Deposited	\$—	\$—
Counterparty Cash Margin Received	\$(44	) \$(13
Net Broker Balance Deposited (Received)	\$4	\$115
In the Event Power were to Lose its Investment Grade Rating:		
Additional Collateral that could be Required	\$796	\$945
Liquidity Available under PSEG's and Power's Credit Facilities to Post Collateral	\$3,375	\$3,495
Additional Amounts Posted:		
Other Letters of Credit	\$47	\$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 and Moody's ratings, many of these agreements allow the counterparty to demand further performance assurance. See table above.

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. PSEG had also issued a \$106 million guarantee to support Power's payment obligations related to its equity interest in the PennEast natural gas pipeline and a \$21 million guarantee to support Power's payment obligations related to construction of a 755 MW gas-fired combined cycle generating station in Maryland. In the event that PSEG were to be downgraded to below investment grade and failed to meet minimum net worth requirements, these guarantees would each have to be replaced by a letter of credit.

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.

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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 “Superfund” 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 PSE&G and Power, 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, on an interim basis, the associated costs of the RI/FS among its members on the basis of a mutually agreed upon formula. For the purpose of this interim allocation, which has been revised as parties have exited the CPG, approximately seven percent of the RI/FS costs are currently deemed attributable to PSE&G’s former MGP sites and approximately one percent is attributable to Power’s generating stations. These interim 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. PSEG has provided notice to insurers concerning this potential claim.

In June 2008, the EPA and Tierra Solutions, Inc. (Tierra) and Maxus Energy Corporation (Maxus) entered into an early action agreement whereby Tierra/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 and Tierra/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 will not affect the ultimate remedy that the EPA will select for the remediation of the 17-mile stretch of the lower Passaic River.

In 2012, Tierra/Maxus withdrew from the CPG and refused to participate as members going forward, other than with respect to 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 draft “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. The revised draft 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 \$3.3 billion for a deep dredge of this portion of the Passaic River. The EPA also identified in the revised draft FFS its preferred alternative, which would involve dredging the lower eight miles of the river bank-to-bank and installing an engineered cap. The estimated cost in the revised draft FFS for the EPA’s preferred alternative is \$1.7 billion. No provisional cost allocation has been made by the CPG for the work contemplated by the revised draft FFS, and the work contemplated by the revised draft 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.

The revised 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 for the revised draft FFS closed on August 21, 2014. Over 300 comments were submitted by a variety of entities

potentially impacted by the revised draft FFS, including the CPG, individual companies, municipalities, public officials, citizens groups, Amtrak, NJ Transit and others.

The CPG, which consisted of 60 members as of September 30, 2015, provided a draft RI and draft FS, both relating to the entire 17 miles of the lower Passaic River, to the EPA on February 18, 2015 and April 30, 2015, respectively. The estimated total cost of the RI/FS is approximately \$151 million, which the CPG continues to incur. Of the estimated \$151 million, as of August 31, 2015, the CPG had spent approximately \$141 million, of which PSEG's total share was approximately \$9 million.

The draft FS sets forth various alternatives for remediating the lower Passaic River. The draft FS sets forth the CPG's estimated costs to remediate the lower 17 miles of the Passaic River which range from approximately \$518 million to \$3.2 billion. The CPG identified a targeted remedy in the draft FS which would involve removal, treatment and disposal of contaminated sediments taken from targeted locations within the entire 17 miles of the lower Passaic River. The estimated cost in the draft FS for the targeted remedy ranges from approximately \$518 million to \$772 million. No provisional cost allocation has been made

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by the CPG for the work contemplated by the draft FS. However, based on (i) the low end of the range of the current estimates of costs to remediate, (ii) PSE&G's and Power's estimates of their share of those costs, and (iii) the continued ability of PSE&G to recover such costs in its rates, PSE&G accrued a \$10 million Environmental Costs Liability and a corresponding Regulatory Asset and Power accrued a \$3 million Other Noncurrent Liability and a corresponding O&M Expense in the first quarter of 2015.

The EPA will consider the comments received on its revised draft FFS and is expected to consider the CPG's RI/FS prior to issuing a Record of Decision (ROD) of a selected remedy for the lower Passaic River. 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 PSE&G's and Power's ultimate liability. Until (i) the RI/FS is finalized, (ii) a final remedy is determined by the EPA or through litigation, (iii) PSE&G's and Power's respective shares 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. It is possible that PSE&G and Power will record additional costs beyond what they have accrued, and that such costs could be material, but PSEG cannot at the current time estimate the amount or range of any additional costs.

Natural Resource Damage Claims

In 2003, the New Jersey Department of Environmental Protection (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 New Jersey Spill Compensation and Control 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. PSE&G and Power are unable to estimate their respective portions 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. PSE&G and Power are unable to estimate their respective portions 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 \$450 million and \$518 million through 2021, including its \$10 million share for the Passaic River as discussed above. Since no amount within the range is considered to be most likely, PSE&G has recorded a liability of \$450 million as of September 30, 2015. Of this amount, \$73 million was recorded in Other Current Liabilities and \$377 million was reflected as Environmental Costs in Noncurrent Liabilities. PSE&G has recorded a \$450 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.

Clean Water Act Permit Renewals

Pursuant to the Federal Water Pollution Control Act (FWPCA), National Pollutant Discharge Elimination System 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 (NJDEP) manages the permits under the New Jersey Pollutant Discharge Elimination System (NJPDES) program. Connecticut and New York also have permits to manage their respective pollutant discharge elimination system programs.

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. On June 30, 2015, the NJDEP issued a draft Salem permit. The draft permit does not require installation of cooling towers and allows Salem to continue to operate utilizing the existing once-through cooling water system with certain required system modifications. The draft permit was subject to a public notice and comment period. The NJDEP may make revisions before issuing the final permit expected during the first half of 2016. Power participated in the NJDEP’s August 5, 2015 public hearing and submitted comments on the draft permit on September 18, 2015. 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. Second Circuit Court of Appeals. In two related actions on October 17, 2014 and November 20, 2014, several environmental non-governmental groups initiated challenges to the endangered species act provisions of the 316 (b) rule. 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 \$1.0 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.

Bridgeport Harbor National Pollutant Discharge Elimination System (NPDES) Permit Compliance

In April 2015, Power determined that monitoring and reporting practices related to certain permitted wastewater discharges at its Bridgeport Harbor station may have violated conditions of the station's NPDES permit and applicable regulations and could subject it to fines and penalties. Power has notified the Connecticut Department of Energy and Environmental Protection of the

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issues and has taken actions to investigate and resolve the potential non-compliance. At this early stage Power cannot predict the impact of this matter.

Steam Electric Effluent Guidelines

On September 30, 2015, the EPA issued a new Effluent Guidelines Limitation Rule for steam electric generating units. The rule establishes new best available technology economically achievable (BAT) standards for fly ash transport water, bottom ash transport water, flue gas desulfurization and flue gas mercury control wastewater. The EPA provides an implementation period for currently existing discharges of three years or up to eight years if a facility needs more time to implement equipment upgrades and provide supporting information to its permitting authority. In the intervening time period, existing discharge standards continue to apply. Power's Mercer and Bridgeport Harbor stations have bottom ash transport water discharges that are regulated under this rule. Power is unable to predict if these new standards will have a material impact on Power's future capital requirements, financial condition or results of operations.

Coal Combustion Residuals (CCRs)

On December 19, 2014, the EPA issued a final rule which regulates CCRs as non-hazardous and requires that facility owners implement a series of actions to close or upgrade existing CCR surface impoundments and/or landfills. It also establishes new provisions for the construction of new surface impoundments and landfills. Power's Hudson and Mercer generating stations, along with its co-owned Keystone and Conemaugh stations, are subject to the provisions of this rule. On April 17, 2015, the final rule was published with an effective date of October 19, 2015. Accordingly in June 2015, Power recorded an additional asset retirement obligation to comply with the final CCR rule which was not material to Power's results of operations, financial condition or cash flows.

Basic Generation Service (BGS) and Basic Gas Supply Service (BGSS)

PSE&G obtains its electric supply requirements through the annual New Jersey BGS auctions for two categories of customers who choose not to purchase electric supply from third party suppliers. The first category, which represents about 80% of PSE&G's load requirement, are residential and smaller commercial and industrial customers (BGS-Residential Small Commercial Pricing (RSCP)). The second category are larger customers that exceed a BPU-established load (kW) threshold (BGS-Commercial and Industrial Pricing (CIEP)). 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 winning BGS suppliers, including Power, 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.

The BGS-CIEP auction is for a one-year supply period from June 1 to May 31 with the BGS-CIEP auction price measured in dollars per MW-day for capacity. The final price for the BGS-CIEP auction year commencing June 1, 2015 is \$272.78 per MW-day, replacing the BGS-CIEP auction year price ending May 31, 2015 of \$282.04 per MW-day. Energy for BGS-CIEP is priced at hourly PJM locational marginal prices for the contract period.

PSE&G contracts for its anticipated BGS-RSCP load on a three-year rolling basis, whereby each year one-third of the load is procured for a three-year period. The contract prices in dollars per MWh for the BGS-RSCP supply, as well as the approximate load, are as follows:

	Auction Year				(A)
	2012 May 2015	2013 May 2016	2014 May 2017	2015 May 2018	
36-Month Terms Ending Load (MW)	2,900	2,800	2,800	2,900	
\$ per MWh	\$83.88	\$92.18	\$97.39	\$99.54	

(A)

Prices set for the 2015 BGS auction year became effective on June 1, 2015 when the 2012 BGS auction agreements expired.

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.

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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 2020 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.

Power also has various multi-year contracts for natural gas and firm transportation and storage capacity for natural gas that are primarily used to meet its obligations to PSE&G. When there is excess delivery capacity available, Power can use the gas to supply its fossil generating stations.

As of September 30, 2015, the total minimum purchase requirements included in these commitments were as follows:

Fuel Type	Power's Share of Commitments through 2019 Millions
Nuclear Fuel	
Uranium	\$440
Enrichment	\$345
Fabrication	\$179
Natural Gas	\$1,001
Coal	\$331

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. 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. 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 FERC, PJM and the PJM Independent Market Monitor (IMM) of these additional issues, corrected the identified errors and modified the bid quantities for its peaking units. Power continues to implement procedures to help mitigate the risk of similar issues occurring in the future. On September 2, 2014, FERC Staff initiated a preliminary, non-public staff investigation into the matter. This investigation, which is ongoing, could result in FERC seeking disgorgement of any over-collected amounts, civil penalties and non-financial remedies.

During the three months ended March 31, 2014, based upon its best estimate available at the time, Power recorded a charge to income in the amount of \$25 million related to this matter. It is not possible at this time to reasonably estimate the potential range of loss or full impact or predict any resulting penalties or other costs associated with this matter, or the applicability of mitigating factors. As new information becomes available or future developments occur

in this investigation, it is possible that Power will record additional estimated losses and such additional losses may be material.

New Jersey Clean Energy Program

In June 2015, the BPU established the funding level for fiscal year 2016 applicable to its Renewable Energy and Energy Efficiency programs. The fiscal year 2016 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, 2015 for its outstanding share of the fiscal

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year 2016 and remaining fiscal year 2015 funding, respectively. 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.

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. In June 2013, PSEG, PSE&G and Power filed suit in New Jersey state court (NJ 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.

As of December 31, 2012, PSE&G had incurred approximately \$295 million of costs to restore service to PSE&G's distribution and transmission systems and \$5 million to repair its infrastructure and return it to pre-storm conditions. Of the costs incurred, approximately \$40 million was recognized in O&M Expense, \$75 million was recorded as Property, Plant and Equipment and \$180 million was recorded as a Regulatory Asset because such costs were deferred as approved by the BPU under an Order received in December 2012. Of the \$295 million, \$36 million related to insured property. In 2012, PSE&G recognized \$6 million of insurance recoveries, which were deferred. There were no significant additional costs incurred since 2012.

PSE&G made a filing with the BPU to review the prudence of unreimbursed incremental storm restoration costs, including O&M and capital expenditures associated with Superstorm Sandy and certain other extreme weather events, for recovery in its next base rate case or sooner through a BPU-approved cost recovery mechanism. In September 2014, the BPU approved its filing.

Power had incurred a total of \$193 million of storm-related costs from 2012 through 2014, primarily for repairs at certain generating stations in Power's fossil fleet. These costs were recognized primarily in O&M Expense, offset by \$44 million of insurance recoveries in 2013 and 2012. Power incurred an additional \$2 million of storm-related costs in 2015 which were recognized primarily in O&M Expense.

In the first half of 2015, PSEG reached settlements with its insurers with respect to claims for coverage of its Superstorm Sandy-related losses. PSEG received an additional \$214 million under these settlements (consisting of \$159 million and \$55 million recognized in the three months ended March 31, 2015 and June 30, 2015, respectively), bringing cumulative insurance proceeds to \$264 million. Of the \$214 million recognized in 2015, PSE&G and Power recorded \$35 million and \$179 million, respectively. In addition to the \$35 million recognized in 2015, PSE&G recognized the aforementioned \$6 million of previously deferred insurance recoveries, resulting in reductions in Regulatory Assets of \$20 million, O&M Expense of \$10 million and Property, Plant and Equipment of \$11 million. Power recorded reductions in both O&M Expense of \$145 million and Property, Plant and Equipment of \$6 million and an increase in Other Income of \$28 million.

The claim filed by PSEG, PSE&G and Power related to Superstorm Sandy insurance coverage is now fully resolved.

Note 9. Changes in Capitalization

The following capital transactions occurred in the nine months ended September 30, 2015:

PSE&G

issued \$350 million of 3.00% Secured Medium-Term Notes, Series K due May 2025,

issued \$250 million of 4.05% Secured Medium-Term Notes, Series K due May 2045,

paid \$300 million of 2.70% Secured Medium-Term Notes at maturity,

paid \$183 million of Transition Funding's securitization debt, and

paid the final \$8 million of Transition Funding II's securitization debt.

Power

paid cash dividends of \$400 million to PSEG.

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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.

Derivative accounting guidance requires that a derivative instrument be recognized as either an asset or a liability at fair value, with changes in fair value of the derivative recognized in earnings each period. Other accounting treatments are available through special election and designation provided that the derivative instrument meets specific, restrictive criteria, both at the time of designation and on an ongoing basis. These alternative permissible treatments include normal purchase normal sale (NPNS), cash flow hedge and fair value hedge accounting. PSEG, Power and PSE&G have applied the NPNS scope exception to certain derivative contracts for the forward sale of generation, power procurement agreements and fuel agreements. Transactions receiving NPNS treatment are accounted for upon settlement. For a derivative instrument that qualifies and is designated as a cash flow hedge, the changes in the fair value of such a derivative that are highly effective are recorded in Accumulated Other Comprehensive Income (Loss) until earnings are affected by the variability of cash flows of the hedged transaction. For a derivative instrument that qualifies and is designated as a fair value hedge, the gains or losses on the derivative as well as the offsetting losses or gains on the hedged item attributable to the hedged risk are recognized in earnings each period. Power and PSE&G enter into additional contracts that are derivatives, but do not qualify for or are not designated as either cash flow hedges or fair value hedges. These transactions are economic hedges and changes in the fair value of these contracts are recorded in earnings each period.

Commodity Prices

Within PSEG and its affiliate companies, Power has the most exposure to commodity price risk. Power is exposed to commodity price risk primarily relating to changes in the market price of electricity, fossil fuels and other commodities. Fluctuations in market prices result from changes in supply and demand, fuel costs, market conditions, weather, state and federal regulatory policies, environmental policies, transmission availability and other factors. Power uses a variety of derivative and non-derivative instruments to manage the commodity price risk of its electric generation facilities, including physical and financial transactions in the wholesale energy markets to mitigate the effects of adverse movements in fuel and electricity prices. 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

PSEG and Power use forward sale contracts, swaps and futures contracts to hedge certain forecasted natural gas sales made to support the BGSS contract with PSE&G. These derivative transactions qualify and are designated as cash flow hedges.

As of September 30, 2015 and December 31, 2014, the fair value and the impact on Accumulated Other Comprehensive Income (Loss) associated with accounting hedge activity were as follows:

	As of September 30, 2015 Millions	As of December 31, 2014
Fair Value of Cash Flow Hedges	\$2	\$18
Impact on Accumulated Other Comprehensive Income (Loss) (after tax)	\$1	\$10

The expiration date of the longest-dated cash flow hedge at Power is in December 2015. Power's remaining \$1 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, 2015.

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Economic Hedges

Power enters into derivative contracts that do not qualify or are not designated as either cash flow or fair value hedges. Power enters into financial options, futures, swaps, fuel purchases and forward purchases and sales of electricity. These transactions are economic hedges, intended to mitigate exposure to fluctuations in commodity prices and optimize the value of Power's expected generation. Changes in the fair market value of these contracts are recorded in earnings. PSE&G is a party to certain long-term natural gas sales derivative contracts to optimize its pipeline capacity utilization. Changes in the fair market value of these contracts are recorded in Regulatory Assets and Regulatory Liabilities.

Interest Rates

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

Fair Value Hedges

PSEG enters into fair value hedges to convert fixed-rate debt into variable-rate debt. As of September 30, 2015, 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, 2015 and December 31, 2014, the fair value of all the underlying hedges was \$11 million and \$22 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 immaterial as of September 30, 2015 and December 31, 2014, 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 on the Condensed Consolidated Balance Sheets of Power, PSE&G and PSEG.

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The following tabular disclosure does not include the offsetting of trade receivables and payables.

Balance Sheet Location	As of September 30, 2015				PSE&G (A) Not Designated Energy-Related Contracts	PSEG (A) Fair Value Hedges Interest Rate Swaps	Consolidated Total Derivatives
	Power (A) Cash Flow Hedges Energy- Related Contracts	Not Designated Energy- Related Contracts	Netting (B)	Total Power				Millions
Derivative Contracts							
Current Assets	\$2	\$413	\$(268)	\$147	\$4	\$11	\$162
Noncurrent Assets	—	284	(193)	91	—	—	91
Total Mark-to-Market Derivative Assets	\$2	\$697	\$(461)	\$238	\$4	\$11	\$253
Derivative Contracts							
Current Liabilities	\$—	\$(311)	\$241	\$(70)	\$—	\$—	\$(70)
Noncurrent Liabilities	—	(178)	162	(16)	(7)	—	(23)
Total Mark-to-Market Derivative (Liabilities)	\$—	\$(489)	\$403	\$(86)	\$(7)	\$—	\$(93)
Total Net Mark-to-Market Derivative Assets (Liabilities)	\$2	\$208	\$(58)	\$152	\$(3)	\$11	\$160
Balance Sheet Location	As of December 31, 2014				PSE&G (A) Not Designated Energy-Related Contracts	PSEG (A) Fair Value Hedges Interest Rate Swaps	Consolidated Total Derivatives
	Power (A) Cash Flow Hedges Energy- Related Contracts	Not Designated Energy- Related Contracts	Netting (B)	Total Power				Millions
Derivative Contracts							
Current Assets	\$18	\$597	\$(408)	\$207	\$18	\$15	\$240
Noncurrent Assets	—	171	(109)	62	8	7	77
Total Mark-to-Market Derivative Assets	\$18	\$768	\$(517)	\$269	\$26	\$22	\$317
Derivative Contracts							
Current Liabilities	\$—	\$(568)	\$436	\$(132)	\$—	\$—	\$(132)
Noncurrent Liabilities	—	(138)	105	(33)	—	—	(33)
Total Mark-to-Market Derivative (Liabilities)	\$—	\$(706)	\$541	\$(165)	\$—	\$—	\$(165)
Total Net Mark-to-Market Derivative Assets	\$18	\$62	\$24	\$104	\$26	\$22	\$152

(Liabilities)

Substantially all of Power's and PSEG's derivative instruments are contracts subject to master netting agreements.

(A) Contracts not subject to master netting or similar agreements are immaterial and did not have any collateral posted or received as of September 30, 2015 and December 31, 2014. 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 on the Condensed Consolidated Balance Sheets. As of September 30, 2015 and

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December 31, 2014, net cash collateral (received) paid of \$(58) million and \$24 million, respectively, were netted against the corresponding net derivative contract positions. Of the \$(58) million as of September 30, 2015, \$(32) million and \$(38) million of cash collateral were netted against current assets and noncurrent assets, respectively, and \$5 million and \$7 million were netted against current liabilities and noncurrent liabilities, respectively. Of the \$24 million as of December 31, 2014, \$(4) million and \$(8) million were netted against current assets and noncurrent assets, respectively, and \$32 million and \$4 million were netted against current liabilities and noncurrent 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 to a below investment grade 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 the NYMEX and ICE that are fully collateralized) was \$78 million and \$127 million as of September 30, 2015 and December 31, 2014, respectively. As of September 30, 2015 and December 31, 2014, Power had the contractual right of offset of \$12 million and \$18 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 to a below investment grade rating, it would have had additional collateral obligations of \$66 million and \$109 million as of September 30, 2015 and December 31, 2014, 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 \$796 million and \$945 million as of September 30, 2015 and December 31, 2014, respectively, discussed in Note 8. Commitments and Contingent Liabilities.

The following shows the effect on the Condensed Consolidated Statements of Operations and on Accumulated Other Comprehensive Income (AOCI) of derivative instruments designated as cash flow hedges for the three months ended September 30, 2015 and 2014.

	Amount of			Amount of			Amount of		
	Pre-Tax	Location	Pre-Tax	Pre-Tax	Location of	Pre-Tax	Pre-Tax	Location of	Pre-Tax
	Gain (Loss)	of Pre-Tax Gain	Gain (Loss)	Gain (Loss)	Pre-Tax Gain	Gain (Loss)	Gain (Loss)	(Loss) Recognized in	Gain (Loss)
	Recognized in	(Loss) Reclassified	Reclassified	Reclassified	(Loss) Recognized in	Recognized in	Recognized in	Income on	Recognized in
	AOCI on	from AOCI into	from AOCI	into Income	Income on	Income on	Income on	Derivatives	Derivatives
Derivatives in	Derivatives	Income	into Income	(Effective	Derivatives	Derivatives	Derivatives	(Ineffective	Derivatives
Cash Flow Hedging	(Effective		(Effective	Portion)	(Ineffective Portion)	(Ineffective	(Ineffective	Portion)	Portion)
Relationships	Portion)		Portion)	Three Months	Three Months	Three Months	Three Months	Three Months	Three Months
	Ended		Ended	Ended	Ended	Ended	Ended	Ended	Ended
	September 30,		September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	2015	2014	2015	2014	2015	2014	2015	2014	2014
	Millions		Millions		Millions		Millions		Millions
PSEG	\$1	\$3	Operating Revenues	\$—	\$1	Operating Revenues	\$—	\$—	

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Energy-Related Contracts							
Total PSEG	\$1	\$3		\$—	\$1		\$— \$—
Power							
Energy-Related Contracts	\$1	\$3	Operating Revenues	\$—	\$1	Operating Revenues	\$— \$—
Total Power	\$1	\$3		\$—	\$1		\$— \$—

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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 nine months ended September 30, 2015 and 2014.

Derivatives in Cash Flow Hedging Relationships	Amount of Pre-Tax Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) Nine Months Ended		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		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, 2015	2014		September 30, 2015	2014		September 30, 2015	2014
PSEG								
Energy-Related Contracts	\$2	\$(4)	Operating Revenues	\$17	\$(11)	Operating Revenues	\$—	\$—
Total PSEG	\$2	\$(4)		\$17	\$(11)		\$—	\$—
Power								
Energy-Related Contracts	\$2	\$(4)	Operating Revenues	\$17	\$(11)	Operating Revenues	\$—	\$—
Total Power	\$2	\$(4)		\$17	\$(11)		\$—	\$—

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 Millions	After-Tax
Balance as of December 31, 2014	\$17	\$10
Gain Recognized in AOCI	1	1
Less: Gain Reclassified into Income	(17	) (10
Balance as of June 30, 2015	\$1	\$1
Gain Recognized in AOCI	1	—
Less: Gain Reclassified into Income	—	—
Balance as of September 30, 2015	\$2	\$1

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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, 2015 and 2014.

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, 2015		Nine Months Ended September 30, 2014	
		Millions			
PSEG and Power					
Energy-Related Contracts	Operating Revenues	\$ 154	\$ 93	\$ 202	\$ (759)
Energy-Related Contracts	Energy Costs	(4)	(12)	(4)	65
Total PSEG and Power		\$ 150	\$ 81	\$ 198	\$ (694)

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 NPNS 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 for each of the three months and \$15 million for each of the nine months ended September 30, 2015 and 2014, respectively.

The following reflects the gross volume, on an absolute value basis, of derivatives as of September 30, 2015 and December 31, 2014.

Type	Notional	Total Millions	PSEG	Power	PSE&G
As of September 30, 2015					
Natural Gas	Dth	193	—	154	39
Electricity	MWh	291	—	291	—
Financial Transmission Rights (FTRs)	MWh	21	—	21	—
Interest Rate Swaps	U.S. Dollars	850	850	—	—
As of December 31, 2014					
Natural Gas	Dth	274	—	216	58
Electricity	MWh	310	—	310	—
FTRs	MWh	15	—	15	—
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, 2015, 98% of the credit 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).

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The following table provides information on Power's credit risk from others, net of cash collateral, as of September 30, 2015. 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 Millions	Securities Held as Collateral	Net Exposure	Number of Counterparties >10%	Net Exposure of Counterparties >10% Millions	
Investment Grade—External Rating	\$348	\$118	\$230	2	\$127	(A)
Non-Investment Grade—External Rating	1	—	1	—	—	
Investment Grade—No External Rating	11	—	11	—	—	
Non-Investment Grade—No External Rating	4	—	4	—	—	
Total	\$364	\$118	\$246	2	\$127	

(A) Represents net exposure of \$87 million with PSE&G. The remaining net exposure of \$40 million is with a non-affiliated power purchaser which is an investment grade counterparty.

As of September 30, 2015, collateral held from counterparties where Power had credit exposure included \$43 million in cash collateral and \$75 million in letters of credit.

As of September 30, 2015, Power had 133 active counterparties.

PSE&G's supplier master agreements are approved by the BPU and govern the terms of its electric supply procurement contracts. These agreements define a supplier's performance assurance requirements and allow a supplier to meet its credit requirements with a certain amount of unsecured credit. The amount of unsecured credit is determined based on the supplier's credit ratings from the major credit rating agencies and the supplier's tangible net worth. The credit position is based on the initial market price, which is the forward price of energy on the day the procurement transaction is executed, compared to the forward price curve for energy on the valuation day. To the extent that the forward price curve for energy exceeds the initial market price, the supplier is required to post a parental guaranty or other security instrument such as a letter of credit or cash, as collateral to the extent the credit exposure is greater than the supplier's unsecured credit limit. As of September 30, 2015, primarily all of the posted collateral was in the form of parental guarantees. The unsecured credit used by the suppliers represents PSE&G's net credit exposure. PSE&G's suppliers' credit exposure is calculated each business day. As of September 30, 2015, PSE&G had no net credit exposure with suppliers, including Power.

PSE&G is permitted to recover its costs of procuring energy through the BPU-approved BGS tariffs. PSE&G's counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates.

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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, PSE&G and Power have the ability to access. These consist primarily of listed equity securities and money market mutual funds.

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, 2015, these consisted primarily of long-term gas supply contracts and certain electric load contracts.

The following tables present information about PSEG's, PSE&G's and Power's respective assets and (liabilities) measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014, 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 PSE&G and Power.

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Description	Recurring Fair Value Measurements as of September 30, 2015				
	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)	\$226	\$—	\$226	\$—	\$—
Derivative Contracts:					
Energy-Related Contracts (B)	\$242	\$(461)	\$—	\$694	\$9
Interest Rate Swaps (C)	\$11	\$—	\$—	\$11	\$—
NDT Fund (D)					
Equity Securities	\$825	\$—	\$824	\$1	\$—
Debt Securities—Govt Obligations	\$454	\$—	\$—	\$454	\$—
Debt Securities—Other	\$401	\$—	\$—	\$401	\$—
Other Securities	\$35	\$—	\$35	\$—	\$—
Rabbi Trust (D)					
Equity Securities—Mutual Funds	\$20	\$—	\$20	\$—	\$—
Debt Securities—Govt Obligations	\$106	\$—	\$—	\$—	\$—