PUBLIC SERVICE ELECTRIC & GAS CO
Form 10-Q
October 31, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED September 30, 2016
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 Newark, New Jersey 07102 973 430-7000 http://www.pseg.com	22-2625848
001-00973	PUBLIC SERVICE ELECTRIC AND GAS COMPANY (A New Jersey Corporation) 80 Park Plaza Newark, New Jersey 07102 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 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 ý No ¨

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files). Yes ý No ¨

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

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

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

As of October 18, 2016, Public Service Enterprise Group Incorporated had outstanding 505,896,218 shares of its sole class of Common Stock, without par value.

As of October 18, 2016, 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.

Table of Contents

Table of Contents

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 ongoing low pricing 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, including prudency reviews, disallowances and changes in authorized returns,
- any deterioration in our credit quality or the credit quality of our counterparties,
- changes in federal and state environmental regulations and enforcement that could increase our costs or limit our operations,
- adverse outcomes of any legal, regulatory or other proceeding, settlement, investigation or claim applicable to us and/or the energy industry,
- 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 or increase the cost 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,
- delays or unforeseen cost escalations in our construction and development activities, or the inability to recover the carrying amount of our assets,
- availability of capital and credit at commercially reasonable terms and conditions and our ability to meet cash needs,
- increases in competition in energy supply markets as well as for transmission projects,
- changes in technology, such as distributed generation, storage and micro grids, and greater reliance on these technologies,
- changes in customer behaviors, including increases in energy efficiency, net-metering and demand response,
- adverse performance of our decommissioning and defined benefit plan trust fund investments and changes in funding requirements,
- 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 insurance proceeds with respect to such events,
- acts of terrorism, cybersecurity attacks or intrusions that could adversely impact our businesses,
- delays in receipt of necessary permits and approvals for our construction and development activities,
- any inability to achieve, or continue to sustain, our expected levels of operating performance,

- changes in the cost of, or interruption in the supply of, fuel and other commodities necessary to the operation of our generating units,
- economic recessions,
- an inability to realize anticipated tax benefits or retain tax credits,
- challenges associated with recruitment and/or retention of a qualified workforce, and
- changes in the credit quality and the ability of lessees to meet their obligations under our domestic leveraged leases.

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

Table of Contents

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.

FILING FORMAT

This combined Quarterly Report on 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 are each only responsible for information about itself and its subsidiaries.

Discussions throughout the document refer to PSEG and its direct operating subsidiaries, PSE&G and Power. Depending on the context of each section, references to “we,” “us,” and “our” relate to PSEG or to the specific company or companies being discussed.

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
OPERATING REVENUES	$2,450	$2,688	$6,971	$8,137
OPERATING EXPENSES				
Energy Costs	866	815	2,326	2,577
Operation and Maintenance	776	746	2,215	2,170
Depreciation and Amortization	231	313	679	960
Total Operating Expenses	1,873	1,874	5,220	5,707
OPERATING INCOME	577	814	1,751	2,430
Income from Equity Method Investments	3	3	9	10
Other Income	47	47	139	171
Other Deductions	(8)	(14)	(39)	(36)
Other-Than-Temporary Impairments	(5)	(30)	(25)	(45)
Interest Expense	(99)	(96)	(288)	(291)
INCOME BEFORE INCOME TAXES	515	724	1,547	2,239
Income Tax Expense	(188)	(285)	(562)	(869)
NET INCOME	$327	$439	$985	$1,370
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
BASIC	505	505	505	505
DILUTED	508	508	508	508
NET INCOME PER SHARE:				
BASIC	$0.65	$0.87	$1.95	$2.71
DILUTED	$0.64	$0.87	$1.94	$2.70
DIVIDENDS PAID PER SHARE OF COMMON STOCK	$0.41	$0.39	$1.23	$1.17

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
NET INCOME	$ 327	$ 439	$985	$1,370
Other Comprehensive Income (Loss), net of tax				
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of $(24), $33, $(50) and $35 for the three and nine months ended 2016 and 2015, respectively	24	(31)	50	(32)
Unrealized Gains (Losses) on Cash Flow Hedges, net of tax (expense) benefit of $0, $(1), $(1) and $6 for the three and nine months ended 2016 and 2015, respectively	1	—	2	(9)
Pension/Other Postretirement Benefit Costs (OPEB) adjustment, net of tax (expense) benefit of $(5), $(5), $(17) and $(17) for the three and nine months ended 2016 and 2015, respectively	9	9	25	25
Other Comprehensive Income (Loss), net of tax	34	(22)	77	(16)
COMPREHENSIVE INCOME	$ 361	$ 417	$1,062	$1,354

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	September 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 450	$ 394
Accounts Receivable, net of allowances of $67 in 2016 and 2015	1,031	1,068
Tax Receivable	23	305
Unbilled Revenues	180	197
Fuel	366	463
Materials and Supplies, net	591	513
Prepayments	145	135
Derivative Contracts	149	242
Regulatory Assets	253	164
Other	21	13
Total Current Assets	3,209	3,494
PROPERTY, PLANT AND EQUIPMENT	38,225	35,494
Less: Accumulated Depreciation and Amortization	(9,421)	(8,955)
Net Property, Plant and Equipment	28,804	26,539
NONCURRENT ASSETS		
Regulatory Assets	3,124	3,196
Long-Term Investments	1,066	1,233
Nuclear Decommissioning Trust (NDT) Fund	1,857	1,754
Long-Term Tax Receivable	177	171
Long-Term Receivable of Variable Interest Entity (VIE)	509	495
Other Special Funds	243	227
Goodwill	16	16
Other Intangibles	154	102
Derivative Contracts	86	77
Other	243	231
Total Noncurrent Assets	7,475	7,502
TOTAL ASSETS	$ 39,488	$ 37,535

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	September 30, 2016	December 31, 2015
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$ —	$ 734
Commercial Paper and Loans	255	364
Accounts Payable	1,363	1,369
Derivative Contracts	40	76
Accrued Interest	127	96
Accrued Taxes	214	42
Clean Energy Program	185	142
Obligation to Return Cash Collateral	132	128
Regulatory Liabilities	96	123
Regulatory Liabilities of VIEs	9	42
Other	383	459
Total Current Liabilities	2,804	3,575
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment Tax Credits (ITC)	8,661	8,166
Regulatory Liabilities	151	175
Asset Retirement Obligations	708	679
OPEB Costs	1,207	1,228
OPEB Costs of Servco	395	375
Accrued Pension Costs	400	487
Accrued Pension Costs of Servco	108	114
Environmental Costs	430	415
Derivative Contracts	13	27
Long-Term Accrued Taxes	197	212
Other	241	181
Total Noncurrent Liabilities	12,511	12,059
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 9)		
CAPITALIZATION		
LONG-TERM DEBT	10,697	8,834
STOCKHOLDERS' EQUITY		
Common Stock, no par, authorized 1,000 shares; issued, 2016 and 2015—534 shares	4,928	4,915
Treasury Stock, at cost, 2016—29 shares; 2015—28 shares	(714)	(671)
Retained Earnings	9,480	9,117
Accumulated Other Comprehensive Loss	(218)	(295)
Total Common Stockholders' Equity	13,476	13,066
Noncontrolling Interest	—	1
Total Stockholders' Equity	13,476	13,067

Total Capitalization	24,173	21,901
TOTAL LIABILITIES AND CAPITALIZATION	$ 39,488	$ 37,535

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$985	$1,370
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	679	960
Amortization of Nuclear Fuel	154	162
Impairment Costs	102	—
Provision for Deferred Income Taxes (Other than Leases) and ITC	445	230
Non-Cash Employee Benefit Plan Costs	95	121
Leveraged Lease (Income) Loss, Adjusted for Rents Received and Deferred Taxes	(12)	6
Loss on Leases, Net of Tax	86	—
Net Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	96	(87)
Change in Accrued Storm Costs	(6)	15
Net Change in Other Regulatory Assets and Liabilities	(66)	26
Cost of Removal	(109)	(82)
Net Realized (Gains) Losses and (Income) Expense from NDT Fund	(12)	(2)
Net Change in Certain Current Assets and Liabilities:		
Tax Receivable	282	206
Accrued Taxes	202	127
Margin Deposit	(4)	142
Other Current Assets and Liabilities	(229)	15
Employee Benefit Plan Funding and Related Payments	(81)	(87)
Other	154	106
Net Cash Provided By (Used In) Operating Activities	2,761	3,228
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(2,985)	(2,782)
Proceeds from Sales of Capital Leases and Investments	—	12
Proceeds from Sales of Available-for-Sale Securities	551	1,120
Investments in Available-for-Sale Securities	(576)	(1,163)
Other	(44)	(28)
Net Cash Provided By (Used In) Investing Activities	(3,054)	(2,841)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Commercial Paper and Loans	(109)	20
Issuance of Long-Term Debt	1,975	600
Redemption of Long-Term Debt	(824)	(300)
Redemption of Securitization Debt	—	(191)
Cash Dividends Paid on Common Stock	(622)	(592)
Other	(71)	(55)
Net Cash Provided By (Used In) Financing Activities	349	(518)

Net Increase (Decrease) in Cash and Cash Equivalents	56	(131)
Cash and Cash Equivalents at Beginning of Period	394	402
Cash and Cash Equivalents at End of Period	$450	$271
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	$(274)	$292
Interest Paid, Net of Amounts Capitalized	$252	$265
Accrued Property, Plant and Equipment Expenditures	$579	$321

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
OPERATING REVENUES	$1,684	$1,766	$4,746	$5,234
OPERATING EXPENSES				
Energy Costs	721	740	1,979	2,176
Operation and Maintenance	376	391	1,110	1,171
Depreciation and Amortization	137	231	412	712
Total Operating Expenses	1,234	1,362	3,501	4,059
OPERATING INCOME	450	404	1,245	1,175
Other Income	22	22	61	59
Other Deductions	(1)	—	(3)	(2)
Interest Expense	(72)	(67)	(214)	(203)
INCOME BEFORE INCOME TAXES	399	359	1,089	1,029
Income Tax Expense	(144)	(137)	(393)	(398)
NET INCOME	$255	$222	$696	$631

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
NET INCOME	$ 255	$ 222	$ 696	$ 631
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of $0 and $0 for the three and nine months ended 2016 and 2015, respectively	—	—	1	(1)
COMPREHENSIVE INCOME	$ 255	$ 222	$ 697	$ 630

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

Table of Contents

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

	September 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 406	$ 198
Accounts Receivable, net of allowances of $67 in 2016 and 2015	806	787
Accounts Receivable—Affiliated Companies	28	222
Unbilled Revenues	180	197
Materials and Supplies	190	148
Prepayments	94	31
Regulatory Assets	253	164
Derivative Contracts	—	13
Other	20	9
Total Current Assets	1,977	1,769
PROPERTY, PLANT AND EQUIPMENT	25,617	23,732
Less: Accumulated Depreciation and Amortization	(5,701)	(5,504)
Net Property, Plant and Equipment	19,916	18,228
NONCURRENT ASSETS		
Regulatory Assets	3,124	3,196
Long-Term Investments	305	330
Other Special Funds	54	49
Other	110	105
Total Noncurrent Assets	3,593	3,680
TOTAL ASSETS	$ 25,486	$ 23,677

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

Table of Contents

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

	September 30, 2016	December 31, 2015
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$ —	$ 171
Commercial Paper and Loans	—	153
Accounts Payable	702	724
Accounts Payable—Affiliated Companies	214	292
Accrued Interest	83	70
Clean Energy Program	185	142
Derivative Contracts	4	—
Obligation to Return Cash Collateral	132	128
Regulatory Liabilities	96	123
Regulatory Liabilities of VIEs	9	42
Other	276	297
Total Current Liabilities	1,701	2,142
NONCURRENT LIABILITIES		
Deferred Income Taxes and ITC	5,703	5,181
OPEB Costs	908	937
Accrued Pension Costs	147	202
Regulatory Liabilities	151	175
Environmental Costs	364	365
Asset Retirement Obligations	220	218
Derivative Contracts	—	11
Long-Term Accrued Taxes	92	109
Other	114	114
Total Noncurrent Liabilities	7,699	7,312
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 9)		
CAPITALIZATION		
LONG-TERM DEBT	7,816	6,650
STOCKHOLDER’S EQUITY		
Common Stock; 150 shares authorized; issued and outstanding, 2016 and 2015—132 shares	892	892
Contributed Capital	695	695
Basis Adjustment	986	986
Retained Earnings	5,695	4,999
Accumulated Other Comprehensive Income	2	1
Total Stockholder’s Equity	8,270	7,573
Total Capitalization	16,086	14,223
TOTAL LIABILITIES AND CAPITALIZATION	$ 25,486	$ 23,677

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

Table of Contents

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

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$696	$631
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	412	712
Provision for Deferred Income Taxes and ITC	482	96
Non-Cash Employee Benefit Plan Costs	55	71
Cost of Removal	(109)	(82)
Change in Accrued Storm Costs	(6)	15
Net Change in Other Regulatory Assets and Liabilities	(66)	26
Net Change in Certain Current Assets and Liabilities:		
Accounts Receivable and Unbilled Revenues	2	30
Materials and Supplies	(42)	(13)
Prepayments	(63)	(67)
Accounts Payable	(30)	34
Accounts Receivable/Payable—Affiliated Companies, net	154	190
Other Current Assets and Liabilities	(6)	(18)
Employee Benefit Plan Funding and Related Payments	(64)	(72)
Other	(14)	(35)
Net Cash Provided By (Used In) Operating Activities	1,401	1,518
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(2,035)	(1,946)
Proceeds from Sales of Available-for-Sale Securities	16	16
Investments in Available-for-Sale Securities	(17)	(18)
Other	6	13
Net Cash Provided By (Used In) Investing Activities	(2,030)	(1,935)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Short-Term Debt	(153)	20
Issuance of Long-Term Debt	1,275	600
Redemption of Long-Term Debt	(271)	(300)
Redemption of Securitization Debt	—	(191)
Other	(14)	(8)
Net Cash Provided By (Used In) Financing Activities	837	121
Net Increase (Decrease) In Cash and Cash Equivalents	208	(296)
Cash and Cash Equivalents at Beginning of Period	198	310
Cash and Cash Equivalents at End of Period	$406	$14
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	$(279)	$(29)
Interest Paid, Net of Amounts Capitalized	$194	$186

Accrued Property, Plant and Equipment Expenditures	$404	$251

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
OPERATING REVENUES	$1,075	$1,096	$3,102	$3,846
OPERATING EXPENSES				
Energy Costs	462	367	1,481	1,669
Operation and Maintenance	289	263	807	748
Depreciation and Amortization	86	75	245	226
Total Operating Expenses	837	705	2,533	2,643
OPERATING INCOME	238	391	569	1,203
Income from Equity Method Investments	3	3	9	11
Other Income	23	25	74	109
Other Deductions	(6)	(14)	(33)	(32)
Other-Than-Temporary Impairments	(5)	(30)	(25)	(45)
Interest Expense	(24)	(30)	(66)	(94)
INCOME BEFORE INCOME TAXES	229	345	528	1,152
Income Tax Benefit (Expense)	(90)	(139)	(208)	(445)
NET INCOME	$139	$206	$320	$707

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
NET INCOME	$ 139	$ 206	$ 320	$ 707
Other Comprehensive Income (Loss), net of tax				
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of $(23), $32, $(48) and $33 for the three and nine months ended 2016 and 2015, respectively	22	(29)	47	(29)
Unrealized Gains (Losses) on Cash Flow Hedges, net of tax (expense) benefit of $0, $(1), $0 and $6 for the three and nine months ended 2016 and 2015, respectively	—	—	—	(9)
Pension/OPEB adjustment, net of tax (expense) benefit of $(5), $(5), $(15) and $(15) for the three and nine months ended 2016 and 2015, respectively	7	7	21	21
Other Comprehensive Income (Loss), net of tax	29	(22)	68	(17)
COMPREHENSIVE INCOME	$ 168	$ 184	$ 388	$ 690

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

Table of Contents

PSEG POWER LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
Millions
(Unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 12	$ 12
Accounts Receivable	174	217
Accounts Receivable—Affiliated Companies	126	276
Short-Term Loan to Affiliate	514	363
Fuel	366	463
Materials and Supplies, net	399	363
Derivative Contracts	149	223
Prepayments	16	25
Other	3	7
Total Current Assets	1,759	1,949
PROPERTY, PLANT AND EQUIPMENT	12,271	11,354
Less: Accumulated Depreciation and Amortization	(3,564)	(3,227)
Net Property, Plant and Equipment	8,707	8,127
NONCURRENT ASSETS		
NDT Fund	1,857	1,754
Long-Term Investments	106	119
Goodwill	16	16
Other Intangibles	154	102
Other Special Funds	60	55
Derivative Contracts	86	77
Other	65	51
Total Noncurrent Assets	2,344	2,174
TOTAL ASSETS	$ 12,810	$ 12,250

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

Table of Contents

PSEG POWER LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
Millions
(Unaudited)

	September 30, 2016	December 31, 2015
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$ —	$ 553
Accounts Payable	477	432
Accounts Payable—Affiliated Companies	156	33
Derivative Contracts	36	76
Accrued Interest	43	25
Other	82	107
Total Current Liabilities	794	1,226
NONCURRENT LIABILITIES		
Deferred Income Taxes and ITC	2,375	2,347
Asset Retirement Obligations	485	457
OPEB Costs	238	230
Derivative Contracts	13	16
Accrued Pension Costs	143	166
Long-Term Accrued Taxes	79	35
Other	162	87
Total Noncurrent Liabilities	3,495	3,338
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 9)		
LONG-TERM DEBT	2,381	1,684
MEMBER'S EQUITY		
Contributed Capital	2,214	2,214
Basis Adjustment	(986)	(986)
Retained Earnings	5,084	5,014
Accumulated Other Comprehensive Loss	(172)	(240)
Total Member's Equity	6,140	6,002
TOTAL LIABILITIES AND MEMBER'S EQUITY	$ 12,810	$ 12,250

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

Table of Contents

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

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$320	$707
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	245	226
Amortization of Nuclear Fuel	154	162
Provision for Deferred Income Taxes and ITC	(34)	109
Net Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	96	(87)
Impairment Costs	102	—
Non-Cash Employee Benefit Plan Costs	28	36
Net Realized (Gains) Losses and (Income) Expense from NDT Fund	(12)	(2)
Net Change in Certain Current Assets and Liabilities:		
Fuel, Materials and Supplies	(27)	113
Margin Deposit	(4)	142
Accounts Receivable	(11)	54
Accounts Payable	(29)	(99)
Accounts Receivable/Payable—Affiliated Companies, net	235	115
Other Current Assets and Liabilities	20	(26)
Employee Benefit Plan Funding and Related Payments	(10)	(9)
Other	187	117
Net Cash Provided By (Used In) Operating Activities	1,260	1,558
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(923)	(797)
Proceeds from Sales of Available-for-Sale Securities	490	1,057
Investments in Available-for-Sale Securities	(512)	(1,083)
Short-Term Loan—Affiliated Company, net	(151)	(281)
Other	(55)	(46)
Net Cash Provided By (Used In) Investing Activities	(1,151)	(1,150)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Long-Term Debt	700	—
Cash Dividend Paid	(250)	(400)
Redemption of Long-Term Debt	(553)	—
Other	(6)	(2)
Net Cash Provided By (Used In) Financing Activities	(109)	(402)
Net Increase (Decrease) in Cash and Cash Equivalents	—	6
Cash and Cash Equivalents at Beginning of Period	12	9
Cash and Cash Equivalents at End of Period	$12	$15

Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	$(7)	$284
Interest Paid, Net of Amounts Capitalized	$51	$76
Accrued Property, Plant and Equipment Expenditures	$175	$70

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

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

Note 1. Organization and Basis of Presentation

Organization

Public Service Enterprise Group (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:

- Public Service Electric and Gas Company (PSE&G)—which is a public utility engaged principally in the transmission of electricity and distribution of electricity and natural gas in certain areas of New Jersey. PSE&G is subject to regulation by the New Jersey Board of Public Utilities (BPU) and the 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.
- PSEG Power LLC (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 transacting functions primarily in the Northeast and Mid-Atlantic United States through its principal direct wholly owned subsidiaries. Power's subsidiaries are subject to regulation by FERC, the Nuclear Regulatory Commission (NRC), the Environmental Protection Agency (EPA) 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 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, 2015.

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, 2015.

Note 2. Recent Accounting Standards

New Standards Issued But Not Yet Adopted

Revenue from Contracts with Customers

This accounting standard clarifies the principles for recognizing revenue and removes inconsistencies in revenue recognition requirements; improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; and provides 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 standard 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. PSEG is currently analyzing the impact of this standard on its financial statements and disclosures as well as the transition method to use to adopt the guidance. PSEG is considering the impacts of outstanding industry related issues currently being addressed by the AICPA's Revenue Recognition Working Group and the FASB's Transition Resource Group, including its ability to recognize revenue for certain contracts where there is uncertainty regarding collection, bundled price sales contracts and accounting for contributions in aid of construction.

Recognition and Measurement of Financial Assets and Financial Liabilities

This accounting standard will change how entities measure equity investments that are not consolidated or accounted for under the equity method. Under the new guidance, equity investments (other than those accounted for using the equity method) will be measured at fair value through Net Income instead of Other Comprehensive Income (Loss). Entities that have elected the fair value option for financial liabilities will present changes in fair value due to a change in their own credit risk through Other Comprehensive Income (Loss). For equity investments which do not have readily determinable fair values, the impairment assessment will be simplified by requiring a qualitative assessment to identify impairments. The new standard also changes certain disclosures.

The standard is effective for annual and interim reporting periods beginning after December 15, 2017. PSEG is currently analyzing the impact of this standard on our financial statements; however, PSEG expects increased volatility in Net Income due to changes in fair value of our equity securities within the Nuclear Decommissioning Trust (NDT) and Rabbi Trust Funds.

Leases

This accounting standard replaces existing lease accounting guidance and requires lessees to recognize all leases with a term greater than 12 months on the balance sheet using a right-of-use asset approach. At lease commencement, a lessee will recognize a lease asset and corresponding lease obligation. A lessee will classify its leases as either finance leases or operating leases based on whether control of the underlying assets has transferred to the lessee. A lessor will classify its leases as operating or direct financing leases, or as sales-type leases based on whether control of the underlying assets has transferred to the lessee. Both the lessee and lessor models require additional disclosure of key information. The standard requires lessees and lessors to apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. However, existing guidance related to leveraged leases will not change.

The standard is effective for annual and interim periods beginning after December 15, 2018 with retrospective application to previously issued financial statements for 2018 and 2017. Early application is permitted. PSEG is currently analyzing the impact of this standard on its financial statements.

Stock Compensation-Improvements to Employee Share-Based Payment Accounting

This accounting standard was issued to simplify aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows.

Under the new guidance, all excess tax benefits and tax deficiencies will be recognized in income tax expense rather than recognized in additional paid in capital. In the statement of cash flows, excess tax benefits and deficiencies will be classified with other income tax cash flows as an operating activity rather than a financing activity as currently classified. In addition, the minimum statutory tax withholding requirements were simplified in order to facilitate equity classification of the award.

The standard is effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption is permitted for an entity in any interim or annual period. An entity that elects early adoption must adopt all of the amendments in the same period; however, the amendments within this update require different adoption methods. PSEG is evaluating early adoption of the standard in the fourth quarter of 2016; however, PSEG does not expect adoption to materially affect its financial statements.

Measurement of Credit Losses on Financial Instruments

This accounting standard provides a new model for recognizing credit losses on financial assets carried at amortized cost. The new model requires entities to use an estimate of expected credit losses that will be recognized as an impairment allowance rather than a direct write-down of the amortized cost basis. The estimate of expected credit losses is to be based on past events, current conditions and supportable forecasts over a reasonable period. For purchased financial assets with credit deterioration, a similar model is to be used; however, the initial allowance will be added to the purchase price rather than reported as an allowance. Credit losses on available-for-sale securities should be measured in a manner similar to current GAAP; however, this standard requires those credit losses to be presented as an allowance, rather than a write-down. This new standard also requires additional disclosures of credit quality indicators for each class of financial asset disaggregated by year of origination.

The standard is effective for annual and interim periods beginning after December 15, 2019; however, entities may adopt early beginning in the annual or interim periods after December 15, 2018. PSEG is currently analyzing the impact of this standard on its financial statements.

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

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments
This accounting standard reduces the diversity in practice in how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows.
The standard is effective for annual and interim periods beginning after December 15, 2017; however, entities may adopt early including in an interim period. PSEG is currently analyzing the impact of this standard on its financial statements.

Note 3. Early Plant Retirements
On October 3, 2016, Power determined that it will cease generation operations of the existing coal/gas units at the Hudson and Mercer generating stations on June 1, 2017. Power has filed deactivation notices with PJM for these existing units at both stations and final must-offer exception requests for the 2020-2021 PJM capacity auction to the PJM Independent Market Monitor. Power expects the units to continue to be available to generate electricity and receive previously cleared capacity payments through the date the units cease operations. The exact timing of the early retirement of these units will be reviewed for reliability impacts by PJM, the regional transmission organization that controls the area where these units are located, and may be impacted by operational and other conditions that could subsequently arise.
PSEG and Power undertake their annual five year strategic planning process primarily during the third and fourth quarters of each year. The primary factors considered during this process that contributed to the decision to retire these units early include significant declines in revenues and margin caused by a sustained period of depressed wholesale power prices and reduced capacity factors caused by lower natural gas prices making coal generation less economically competitive than natural gas-fired generation. Despite experiencing recent warmer than normal weather in PJM this summer, Power did not experience the usual increase in electricity prices in PJM as it had in past hot summers. This trend has a further adverse economic impact to these units because they generally dispatch and earn energy margin on peak hot and cold days. In addition, the upcoming PJM capacity auction in May 2017 for the capacity period from June 2020 to May 2021 will be the first to require all generating units to meet the increased operating performance standards of PJM’s new capacity performance regulations. During the current annual five-year strategic planning process, Power determined, on October 3, 2016, that the costs to upgrade the existing units at the Hudson and Mercer stations to comply with these higher reliability standards to be too significant and not economic given current market conditions, including anticipated future capacity prices, current forward energy prices and past operational performance results of the units. While these units have the capability to run on both coal and natural gas, they have higher operating costs and fuel consumption as well as longer start-up times compared to newer combined cycle gas units.
The decision to retire the Hudson and Mercer units early will have a material effect on PSEG’s and Power’s results of operations. In the third quarter of 2016, PSEG and Power recognized the following one-time pre-tax charges in Energy Costs, Operation and Maintenance and Depreciation expense:

	Three Months Ended September 30, 2016
	Millions
Statement of Operations Expense (pre-tax)	
Energy Costs	
Coal Inventory Lower of Cost or Market Adjustments and Capacity Penalties	$ 62
Operation and Maintenance	

Materials and Supplies Obsolescence	31
Write-down of Construction Work in Progress	14
Other (A)	3
Depreciation and Amortization	
Accelerated Depreciation including Asset Retirement Costs	4
Total Pre-Tax Expense	$ 114

(A) Includes severance and miscellaneous costs.

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

In addition to these one-time charges, Power will recognize incremental Depreciation and Amortization during the remainder of 2016 of $568 million and $946 million into 2017 due to the significant shortening of the expected economic useful lives of Hudson and Mercer. Additional employee-related salary continuance and severance costs and various miscellaneous costs may also be incurred during the period prior to retirement. Finally, Power currently anticipates using the sites for alternative industrial activity. However, if Power determines not to use the sites for alternative industrial activity, the early retirement of the units at these sites would trigger investigation and possible remediation of identified environmental contamination. The amounts for any such environmental investigation or remediation are neither currently probable nor estimable but may be material.

PSEG and Power evaluate long-lived assets for impairment whenever events or changes in circumstances, such as significant adverse changes in regulation, business climate or market conditions, including a current expectation that a long-lived asset will be sold or disposed of significantly before the end of its previously estimated useful life, could potentially indicate an asset's or asset group's carrying amount may not be recoverable. In such an event, an undiscounted cash flow analysis is performed to determine if an impairment exists. When a long-lived asset's or asset group's carrying amount exceeds the associated undiscounted estimated future cash flows, the asset/asset group is considered impaired to the extent that its fair value is less than its carrying amount. As disclosed for Power, cash flows for long-lived assets and asset groups are determined at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The cash flows from the generation units are generally evaluated at a regional portfolio level (PJM, NYISO, ISO-NE) along with cash flows generated from the customer supply and risk management activities, inclusive of cash flows from contracts, including those that are accounted for as derivatives or that meet the normal purchases and normal sales exemption. An impairment would result in a reduction of the value of the long-lived asset/asset group through a noncash charge to earnings.

Because the Hudson and Mercer generating units will cease operations significantly before the end of their previously estimated useful lives, Power performed a recoverability test for its portfolio of generating assets in the PJM region to determine if an impairment exists. As of September 30, 2016, the estimated undiscounted future cash flows of the PJM asset group exceeded the carrying amount and no impairment was identified.

In addition, PSEG and Power continue to monitor their other coal assets, including the Keystone, Conemaugh and Bridgeport Harbor generating stations, to ensure their economic viability through the end of their designated useful lives. The precise timing of a change in useful lives may be dependent upon events out of PSEG's and Power's control and may impact their ability to operate or maintain certain assets in the future. These generating stations may be impacted by factors such as environmental legislation, co-owner capital requirements and continued depressed wholesale power prices or capacity factors, among other things. Any early retirement of our other coal units before the end of their current estimated useful lives may have a material adverse impact on PSEG's and Power's future financial results.

Note 4. Variable Interest Entities (VIEs)

VIEs 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 was pledged as collateral to a trustee. PSE&G acted as the servicer for these entities to collect securitization transition charges authorized by the BPU. These funds were remitted to Transition Funding and Transition Funding II and were used for interest and principal payments on the transition bonds and related costs. During 2015, Transition Funding and Transition Funding II paid their final securitization bond payments and as of December 31, 2015, no further debt or related costs remained with these VIEs. Effective January 1, 2016, PSE&G commenced refunding the overcollections from customers associated with these VIEs and expects to fully refund these liabilities in 2016.

VIE 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.

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 $116 million and $96 million for the three months and $315 million and $262 million for the nine months ended September 30, 2016 and 2015, 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 5. 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, 2015.

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

Transmission Formula Rate Filings—In June 2016, PSE&G filed its 2015 true-up adjustment pertaining to its transmission formula rates in effect for 2015. This resulted in an adjustment of $34 million less than the 2015 originally filed revenues primarily due to the impact of bonus depreciation legislation enacted after PSE&G filed its 2015 formula rate requirement in October 2014. PSE&G had recognized the majority of this adjustment in its Consolidated Statement of Operations for the year ended December 31, 2015.

In October 2016, the 2017 Annual Formula Rate Update was filed with FERC and requests approximately $121 million in increased annual transmission revenues effective January 1, 2017, subject to true-up.

Energy Strong Recovery Filing—In March and September of each year, PSE&G files with the BPU for base rate recovery of Energy Strong investments which include a return of and on its investment. In June 2016, PSE&G updated its March cost recovery petition to include Energy Strong investments in service as of May 31, 2016 which represents estimated annual increases in electric and gas revenues of $16 million and $23 million, respectively. In August 2016, the BPU approved these rate increases effective September 1, 2016.

In September 2016, 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, 2016 through November 30, 2016. The petition requests rates to be effective March 1, 2017, consistent with the BPU Order of approval of the Energy Strong Program. The annualized requested increase in electric revenue requirement is approximately $15 million. This matter is pending.

Basic Gas Supply Service (BGSS)—In June 2016, PSE&G made its annual BGSS filing with the BPU requesting a reduction of $87 million in annual BGSS revenues. In September 2016, the BPU approved a Stipulation in this matter on a provisional basis and the BGSS rate was reduced from approximately 40 cents to 34 cents per therm effective October 1, 2016. The rate is subject to final settlement.

Weather Normalization Clause—On July 1, 2016, PSE&G filed a petition requesting approval to collect $54 million in net deficiency gas revenues as a result of the warmer than normal 2015-2016 Winter Period. The deficiency gas revenues would be collected from customers over the 2016-2017 and 2017-2018 Winter Periods (October 1 through May 31). In September 2016, the BPU approved PSE&G's filing on a provisional basis with respect to the $54 million in deficiency revenues to be collected from customers effective October 1, 2016.

Solar and Energy Efficiency - Green Program Recovery Charges (GPRC)—Each year PSE&G files with the BPU for annual recovery of its Green Program investments which include a return on its investment and recovery of expenses. On July 1, 2016, PSE&G filed its 2016 GPRC cost recovery petition requesting recovery for the nine combined components of the electric and gas GPRC. The filing proposes rates for the period October 1, 2016 through September 30, 2017 designed to recover approximately $44 million and $13 million in electric and gas revenues, respectively, on an annual basis associated with PSE&G’s implementation of these BPU approved programs. In September 2016, the BPU approved the July 2016 filing on a provisional basis, with new rates effective October 1, 2016.

Gas System Modernization Program (GSMP)—In October 2016, PSE&G updated its initial annual GSMP cost recovery petition seeking BPU approval to recover in gas base rates an estimated annual revenue increase of $10 million effective

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

January 1, 2017. This increase represents the return of and on investment for GSMP investments in service through September 30, 2016. This matter is pending.
Universal Service Fund (USF)/Lifeline—In September 2016, the BPU approved rates set to recover state-wide costs incurred by New Jersey electric and gas distribution companies under the State's USF/Lifeline energy assistance programs effective October 1, 2016. PSE&G earns no margin on the collection of the USF and Lifeline programs resulting in no impact on its Consolidated Statement of Operations.
Remediation Adjustment Charge (RAC)—In April 2016, the BPU approved PSE&G's filing with respect to its RAC 23 petition allowing recovery of $54 million effective May 7, 2016 related to net Manufactured Gas Plant expenditures from August 1, 2014 through July 31, 2015.

Note 6. 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."

Outstanding Loans by Class of Customer

Consumer Loans	As of September 30, 2016	As of December 31, 2015
	Millions	
Commercial/Industrial	$ 165	$ 177
Residential	11	12
Total	$ 176	$ 189

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.
During the third quarter of 2016, Energy Holdings completed its annual review of estimated residual values embedded in the NRG REMA, LLC (REMA) leveraged leases. The outcome indicated that the revised residual value estimates were lower than the recorded residual values and the decline was deemed to be other than temporary due to the adverse economic conditions experienced by coal generation in PJM, as discussed in Note 3. Early Plant Retirements, negatively impacting the economic outlook of the leased assets. As a result, a pre-tax write-down of $137 million was reflected in Operating Revenues in the quarter ended September 30, 2016, calculated by comparing the gross investment in the leases before and after the revised residual estimates.

21

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

The following table shows Energy Holdings' gross and net lease investment as of September 30, 2016 and December 31, 2015, respectively.

	As of September 30, 2016	As of December 31, 2015
	Millions	
Lease Receivables (net of Non-Recourse Debt)	$630	$ 631
Estimated Residual Value of Leased Assets	346	519
Total Investment in Rental Receivables	976	1,150
Unearned and Deferred Income	(320)	(366)
Gross Investment in Leases	656	784
Deferred Tax Liabilities	(661)	(724)
Net Investment in Leases	$(5)	$ 60

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, 2016	Lease Receivables, Net of Non-Recourse Debt As of September 30, 2016
	Millions
AA	$ 16
BBB+ — BBB-	316
BB-	134
CCC	164
Total	$ 630

The "BB-" and the "CCC" ratings in the preceding table represent lease receivables related to coal-fired assets in Illinois and Pennsylvania, respectively. As of September 30, 2016, the gross investment in the leases of such assets, net of non-recourse debt, was $436 million ($(108) million, net of deferred taxes). A more detailed description of such assets under lease, as of September 30, 2016, is presented in the following table.

Asset	Location	Gross Investment	% Owned	Total MW	Fuel Type	Counterparties' S&P Credit Ratings	Counterparty
		Millions					
Powerton Station Units 5 and 6	IL	$ 134	64 %	1,538	Coal	BB-	NRG Energy, Inc.
Joliet Station Units 7 and 8	IL	$ 83	64 %	1,044	Gas	BB-	NRG Energy, Inc.
Keystone Station Units 1 and 2	PA	$ 55	17 %	1,711	Coal	CCC (B)	REMA
Conemaugh Station Units 1 and 2	PA	$ 55	17 %	1,711	Coal	CCC (B)	REMA
Shawville Station Units 1, 2, 3 and 4	PA	$ 109	100 %	603	Coal (A)	CCC (B)	REMA

(A) REMA 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 late fall of 2016 with the ability to use natural gas.

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

(B) On May 24, 2016, S&P lowered its corporate credit rating on REMA's parent company, GenOn Energy Inc. (GenOn) and affiliates (including REMA) to "CCC" from "CCC+" due to a weaker forward power curve, milder weather patterns and weakening financial measures. On October 7, 2016, Moody's downgraded the GenOn Corporate Family Rating to Caa3 to reflect its high debt burden relative to cash flow. GenOn reported in August 2016 that it did not expect to have sufficient liquidity to repay the senior unsecured notes due in June 2017.

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 which could be mitigated by tax indemnification claims with the counterparty. A bankruptcy of a lessee would likely delay and potentially limit 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. Although all lease payments are current, PSEG cannot predict the outcome of GenOn's efforts to restructure its portfolio and improve its liquidity and the possible related impact on REMA. PSEG continues to monitor any changes to REMA's and GenOn's status and potential impacts on Energy Holdings' lease investments. 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.

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 their affiliates and the quality and condition of assets under lease.

Note 7. Available-for-Sale Securities

NDT Fund

Power maintains an external master NDT to fund its share of decommissioning for its five nuclear facilities upon termination of operation. The trust contains two separate funds: a qualified fund and a non-qualified fund. Section 468A of the Internal Revenue Code limits the amount of money that can be contributed into a qualified fund. The trust funds are managed by third party investment advisers who operate under investment guidelines developed by Power.

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

	As of September 30, 2016			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	$691	$ 238	$ (7)	$922
Debt Securities				
Government Obligations	509	21	—	530
Other	349	13	(2)	360
Total Debt Securities	858	34	(2)	890
Other Securities	45	—	—	45
Total NDT Available-for-Sale Securities	$1,594	$ 272	$ (9)	$1,857

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

	As of December 31, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	$693	$ 185	$ (13)	$865
Debt Securities				
Government Obligations	483	8	(3)	488
Other	366	3	(10)	359
Total Debt Securities	849	11	(13)	847
Other Securities	42	—	—	42
Total NDT Available-for-Sale Securities	$1,584	$ 196	$ (26)	$1,754

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, 2016	As of December 31, 2015
	Millions	
Accounts Receivable	$ 9	$ 17
Accounts Payable	$ 7	$ 10

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, 2016				As of December 31, 2015			
	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)	$101	$ (6)	$4	$ (1)	$151	$ (13)	$1	$ —
Debt Securities								
Government Obligations (B)	41	—	4	—	245	(2)	19	(1)
Other (C)	34	—	25	(2)	222	(7)	36	(3)
Total Debt Securities	75	—	29	(2)	467	(9)	55	(4)
NDT Available-for-Sale Securities	$176	$ (6)	$33	$ (3)	$618	$ (22)	$56	$ (4)

(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, 2016.

(B) Debt Securities (Government Obligations)—Unrealized losses on Power's NDT investments in U.S. Treasury obligations and Federal Agency mortgage-backed securities were caused by interest rate changes. Since these investments are guaranteed by the U.S. government or an agency of the U.S. 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

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

more-likely-than-not required to sell. Power does not consider these securities to be other-than-temporarily impaired as of September 30, 2016.

(C) Debt Securities (Other)—Power's investments in corporate bonds are primarily in investment grade securities. It is not expected that these securities would settle for less than their amortized cost. Since 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, 2016.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	Millions			
Proceeds from NDT Fund Sales (A)	$139	$215	$470	$1,037
Net Realized Gains (Losses) on NDT Fund:				
Gross Realized Gains	$11	$14	$36	$47
Gross Realized Losses	(3)	(11)	(25)	(24)
Net Realized Gains (Losses) on NDT Fund	$8	$3	$11	$23

(A) 2015 proceeds include 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 $131 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, 2016.

The NDT available-for-sale debt securities held as of September 30, 2016 had the following maturities:

Time Frame	Fair Value
	Millions
Less than one year	$ 22
1 - 5 years	233
6 - 10 years	214
11 - 15 years	56
16 - 20 years	62
Over 20 years	303
Total NDT Available-for-Sale Debt Securities	$ 890

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, 2016, other-than-temporary impairments of $25 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.

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

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, 2016			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	$11	$ 11	$ —	$22
Debt Securities				
Government Obligations	104	3	—	107
Other	91	3	—	94
Total Debt Securities	195	6	—	201
Other Securities	1	—	—	1
Total Rabbi Trust Available-for-Sale Securities	$207	$ 17	$ —	$224

	As of December 31, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities	$12	$ 10	$ —	$22
Debt Securities				
Government Obligations	108	1	(1)	108
Other	82	—	(1)	81
Total Debt Securities	190	1	(2)	189
Other Securities	2	—	—	2
Total Rabbi Trust Available-for-Sale Securities	$204	$ 11	$ (2)	$213

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, 2016	As of December 31, 2015
	Millions	
Accounts Receivable	$ 1	$ 1
Accounts Payable	$ —	$ —

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

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, 2016				As of December 31, 2015			
	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)	4	—	1	—	53	(1)	2	—
Other (C)	9	—	5	—	46	(1)	9	—
Total Debt Securities	13	—	6	—	99	(2)	11	—
Rabbi Trust Available-for-Sale Securities	$13	$ —	$ 6	$ —	$99	$ (2)	$ 11	$ —

(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 Obligations)—Unrealized losses on PSEG's Rabbi Trust investments in U.S. Treasury obligations and Federal Agency mortgage-backed securities were caused by interest rate changes. Since these investments are guaranteed by the U.S. government or an agency of the U.S. 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, 2016.

(C) Debt Securities (Other)—PSEG's investments in corporate bonds are primarily in investment grade securities. It is not expected that these securities would settle for less than their amortized cost. Since PSEG does not intend to sell these securities nor will it be more-likely-than-not required to sell, PSEG does not consider these debt securities to be other-than-temporarily impaired as of September 30, 2016.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	Millions			
Proceeds from Rabbi Trust Sales	$20	$20	$81	$83
Net Realized Gains (Losses) on Rabbi Trust:				
Gross Realized Gains	$2	$—	$5	$2
Gross Realized Losses	(2)	(1)	(4)	(1)
Net Realized Gains (Losses) on Rabbi Trust	$—	$(1)	$1	$1

Gross realized gains disclosed in the preceding table were recognized in Other Income in the Condensed Consolidated Statements of Operations. Net unrealized gains of $10 million (after-tax) were a component of Accumulated Other Comprehensive Loss on the Condensed Consolidated Balance Sheets as of September 30, 2016.

27

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

The Rabbi Trust available-for-sale debt securities held as of September 30, 2016 had the following maturities:

Time Frame	Fair Value
	Millions
Less than one year	$ 9
1 - 5 years	42
6 - 10 years	48
11 - 15 years	9
16 - 20 years	9
Over 20 years	84
Total Rabbi Trust Available-for-Sale Debt Securities	$ 201

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). For the nine months ended September 30, 2016, no other-than-temporary impairments were recognized on securities in the Rabbi Trust. The assessment of fair market value compared to cost is applied on a weighted average basis taking into account various purchase dates and initial cost of the securities.
The fair value of assets in the Rabbi Trust related to PSEG, PSE&G and Power are detailed as follows:

	As of September 30, 2016	As of December 31, 2015
	Millions	
PSE&G	$ 44	$ 42
Power	55	52
Other	125	119
Total Rabbi Trust Available-for-Sale Securities	$ 224	$ 213

Note 8. 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.
Effective January 1, 2016, PSEG changed the approach used to measure future service and interest costs for pension benefits. For 2015 and prior, PSEG calculated service and interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligations. For 2016 and beyond, PSEG has elected to calculate service and interest costs by applying the specific spot rates along that yield curve to the plans’ liability cash flows. PSEG believes the new approach provides a more precise measurement of service and interest costs by aligning

the timing of the plans' liability cash flows to the corresponding spot rates on the yield curve. This change does not affect the measurement of the plan obligations. As a change in accounting estimate, this change is being reflected prospectively. Pension and OPEB costs, net of amounts capitalized, were reduced by $9 million and $3 million, for the three months ended September 30, 2016, respectively, and $26 million and $9 million for the nine months ended September 30, 2016, respectively, as compared to the 2016 amounts that would have been derived from applying PSEG's 2015 and prior years' methodology.

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

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 for PSEG, except for Servco.

	Pension Benefits		OPEB		Pension Benefits		OPEB	
	Three Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015	2016	2015	2016	2015
	Millions							
Components of Net Periodic Benefit Costs								
Service Cost	$28	$30	$5	$5	$ 82	$ 92	$13	$16
Interest Cost	50	59	15	16	151	176	44	50
Expected Return on Plan Assets	(98)	(103)	(8)	(7)	(295)	(310)	(23)	(22)
Amortization of Net								
Prior Service Cost (Credit)	(5)	(5)	(4)	(4)	(14)	(14)	(11)	(11)
Actuarial Loss	39	38	10	11	118	112	30	32
Total Benefit Costs	$14	$19	$18	$21	$ 42	$ 56	$53	$65

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

	Pension Benefits		OPEB		Pension Benefits		OPEB	
	Three Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015	2016	2015	2016	2015
	Millions							
PSE&G	$8	$ 10	$ 11	$ 13	$ 22	$ 30	$ 33	$ 41
Power	3	5	6	7	11	16	17	20
Other	3	4	1	1	9	10	3	4
Total Benefit Costs	$14	$ 19	$ 18	$ 21	$ 42	$ 56	$ 53	$ 65

PSEG contributed its entire planned contributions for the year 2016 of $21 million into its pension plans and $14 million into its OPEB plan during 2016.

Servco Pension and OPEB

At the direction of LIPA, Servco sponsors benefit plans that cover its current and former employees who meet certain eligibility criteria. Under the OSA, all of these and any future employee benefit costs are to be funded by LIPA. See Note 4. 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 has contributed its entire planned contribution of $28 million into its pension plan trusts during 2016. Servco's pension-related revenues and costs were $16 million and $17 million for the three months ended September 30, 2016 and 2015, respectively, and $28 million and $30 million for the nine months ended September 30, 2016 and 2015, respectively. The OPEB-related revenues earned and costs incurred for each of the three months and nine months ended September 30, 2016 and 2015 were immaterial.

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

Note 9. 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. 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.

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

The following table shows the face value of Power's outstanding guarantees, current exposure and margin positions as of September 30, 2016 and December 31, 2015.

	As of September 30, 2016	As of December 31, 2015
	Millions	
Face Value of Outstanding Guarantees	$1,797	$ 1,734
Exposure under Current Guarantees	$143	$ 172
Letters of Credit Margin Posted	$164	$ 122
Letters of Credit Margin Received	$136	$ 192
Cash Deposited and Received:		
Counterparty Cash Margin Deposited	$—	$ —
Counterparty Cash Margin Received	$(4)	$ (15)
Net Broker Balance Deposited (Received)	$(12)	$ (5)
Additional Amounts Posted:		
Other Letters of Credit	$51	$ 51

As part of determining credit exposure, Power nets receivables and payables with the corresponding net energy contract balances. See Note 11. 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 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 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.

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 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.

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. Construction is complete. The CPG is awaiting EPA approval of the construction report, long-term monitoring plan and confirmatory sampling plan. PSE&G's and Power's combined 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 contemplated 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 set forth various alternatives for remediating this portion of the Passaic River.

The CPG, which consisted of 52 members as of September 30, 2016, 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 for the preparation of the RI/FS is approximately $167 million, which the CPG continues to incur. Of the estimated $167 million, as of September 30, 2016, the CPG had spent approximately $156 million, of which PSE&G's and Power's combined share was approximately $10 million.

The CPG's draft FS set forth various alternatives for remediating the lower Passaic River. It set 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 on an undiscounted basis. 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 ranged from approximately $518 million to $772 million. Based on (i) the low end of the range of the current estimates of costs to remediate, (ii) PSE&G's and Power's estimated 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.

In March 2016, the EPA released its Record of Decision (ROD) for the FFS which requires the removal of 3.5 million cubic yards of sediment from the Passaic River's lower 8.3 miles at an estimated cost of $2.3 billion on an undiscounted basis (ROD Remedy). The ROD Remedy requires a bank-to-bank dredge ranging from approximately 5 to 30 feet deep in the federal navigation channel from River Mile 0 to River Mile 1.7 and an approximately 2.5 foot deep dredge everywhere else in the lower 8.3 miles of the river. An engineered cap approximately two feet thick will be placed over the dredged areas. Dredged sediments will be transported to facilities and landfills out-of-state. The EPA estimates the total project length to be about 11 years, including a one year period of negotiation with the PRPs, three to four years to design the project and six years for implementation.

Based upon the estimated cost of the ROD Remedy, PSEG’s estimate of PSE&G’s and Power’s shares of that cost, and the continued ability of PSE&G to recover such costs in its rates, PSE&G accrued an additional $36 million Environmental Costs Liability and a corresponding Regulatory Asset and Power accrued an additional $8 million Other Noncurrent Liability and a corresponding O&M Expense in the first quarter of 2016. As of September 30, 2016, these accruals bring the total liability to approximately $57 million, $46 million applicable to PSE&G and $11 million applicable to Power.

Also in March 2016, the EPA sent a notice letter to 105 PRPs, including PSE&G, all other past and present members of the CPG, including Occidental Chemical Corporation (OCC), and the towns of Newark, Kearny and Harrison and the Passaic Valley Sewerage Commission stating that the EPA wants to determine whether OCC, a successor company to Diamond

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

Shamrock, would voluntarily perform the remedial design for the ROD Remedy. On September 30, 2016, OCC and the EPA executed an Administrative Settlement Agreement and Order on Consent for Remedial Design under which OCC agreed to conduct the remedial design for the ROD. With OCC's commitment to perform the remedial design, it is anticipated that the EPA will begin negotiation of a remedial action consent decree, under which OCC and the other "major PRPs" will implement and/or pay for the EPA's ROD Remedy for the lower 8.3 miles. The EPA has not defined "major PRP."

On June 16, 2016, Tierra and Maxus, successors to Diamond Shamrock, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Although PSEG does not currently anticipate that the filing for bankruptcy by Tierra and Maxus will affect its allocable share or total liability for the Passaic River matter, PSEG, through the CPG and independently, will monitor the bankruptcy proceedings to identify any potential impact on PSEG's share of the costs.

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, which covers the entire 17 miles of the lower Passaic River, is finalized either in whole or in part, (ii) an agreement by the PRPs to perform either the ROD Remedy as issued, or an amended ROD Remedy determined through negotiation or litigation, and an agreed upon remedy for the remaining 8.7 miles of the river, are reached, (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 PSEG's 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 U.S. Department of Commerce and the U.S. 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 $424 million and $481 million through 2021, including its $46 million share for the Passaic River accrued as of September 30, 2016, as discussed above. Since no amount within the range is considered to be most likely, PSE&G has recorded a liability of $424 million as of September 30, 2016. Of this amount, $70 million was recorded in Other Current Liabilities and $354 million was reflected as Environmental Costs in Noncurrent Liabilities. PSE&G has recorded a $424 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. NJDEP, PSEG and EPA representatives have had discussions regarding whether sampling in the Passaic River is required to delineate coal tar from MGP sites that abut the Passaic River Superfund site. PSEG cannot determine at this time whether this will have an impact on the Passaic River Superfund remedy.

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

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 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.

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.

On June 10, 2016, the NJDEP issued a final NJPDES permit for Salem with an effective date of August 1, 2016. The final permit does not require installation of cooling towers and allows Salem to continue to operate utilizing the existing once-through cooling water system. The final permit does not mandate specific service water system modifications, but consistent with Section 316 (b) of the Clean Water Act, it requires additional studies and the selection of technology to address impingement for the service water system. On July 8, 2016, the Delaware Riverkeeper Network (Riverkeeper) filed a request challenging the NJDEP’s issuance of the final permit for Salem. The Riverkeeper’s filing does not change the effective date of the permit. If the Riverkeeper’s challenge were successful, Power may be required to incur additional costs to comply with the Clean Water Act. Such service water system modification costs could be material and could adversely impact the economic competitiveness of this facility.

State permitting decisions at Bridgeport and possibly New Haven could also have a material impact on Power’s ability to renew permits at its existing larger once-through cooled plants without making significant upgrades to existing intake structures and cooling systems.

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.

Power is actively engaged with the Connecticut Department of Energy and Environmental Protection (CTDEEP) regarding renewal of the current permit for the cooling water intake structure at Bridgeport Harbor Station Unit 3

(BH3). To address compliance with the EPA's Clean Water Act Section 316(b) final rule, the current proposal under consideration is that, if a final permit is issued, Power would continue to operate BH3 without making the capital expenditures for modification to the existing intake structure and retire BH3 in 2021, which is four years earlier than the current estimated useful life ending in 2025. Based on current discussions with the CTDEEP, if the proposal is accepted, a final permit could be issued in late 2016.

Separately, Power has also negotiated a Community Environmental Benefit Agreement (CEBA) with the City of Bridgeport, Connecticut. That CEBA provides that Power would retire BH3 early if all its precedent conditions occur, which include receipt of all final permits to build and operate a proposed new combined cycle generating facility on the same site that BH3 currently operates. The receipt of permits to allow construction and operation of the new facility could occur in 2017. Absent those conditions being met, and the permit for the cooling water intake structure referred to above not being issued, Power will seek to operate BH3 through the current estimated useful life.

In February 2016, the proposed new generating facility at Bridgeport Harbor was awarded a capacity obligation. Operations are expected to begin in mid-2019.

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

Jersey City, New Jersey Subsurface Feeder Cable Matter

In early October 2016, a discharge of mineral oil dielectric fluid from subsurface feeder cables located in the Hudson River near Jersey City, New Jersey, was identified and reported to the New Jersey Department of Environmental Protection (NJDEP). The feeder cables are located within a subsurface easement granted to PSE&G by the property owners, Newport Associates Development Company (NADC) and Newport Associates Phase I Developer Limited Partnership. The feeder cables are subject to agreements between PSE&G and Consolidated Edison Company of New York, Inc. (Con Edison) and are jointly owned by PSE&G and Con Edison, with PSE&G owning the portion of the cables located in New Jersey and Con Edison owning the portion of the cables located in New York. The NJDEP has declared an emergency and an emergency response action has been undertaken to investigate, contain, remediate and stop the fluid discharge; to assess, repair and restore the cables to good working order; and to restore the property. The U.S. Coast Guard has issued Notices of Federal Interest for an Oil Pollution Incident, to the property owners, PSE&G and Con Edison, and the NJDEP has issued a Field Directive to both PSE&G and Con Edison. The investigation and response actions related to the fluid discharge are ongoing. The investigation of the discharge and its potential cause is in the preliminary stages, making it difficult to determine the timing and potential costs to resolve this matter, as well as responsibility for such costs between PSE&G, Con Edison and NADC; however, based on currently available information and the potential scope of the necessary repair and remediation work, the costs could be material.

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 Bridgeport Harbor station and the jointly-owned Keystone and Conemaugh stations, have bottom ash transport water discharges that are regulated under this rule. Power is unable to predict if this rule will have a material impact on its future capital requirements, financial condition and 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, is residential and smaller commercial and industrial customers (BGS-Residential Small Commercial Pricing (RSCP)). The second category is larger customers that exceed a BPU-established load (kW) threshold (BGS-Commercial and Industrial Energy 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

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

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, 2016 is $335.33 per MW-day, replacing the BGS-CIEP auction year price ending May 31, 2016 of $272.78 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			
	2013	2014	2015	2016
36-Month Terms Ending	May 2016	May 2017	May 2018	May 2019 (A)
Load (MW)	2,800	2,800	2,900	2,800
$ per MWh	$92.18	$97.39	$99.54	$96.38

(A) Prices set in the 2016 BGS auction year became effective on June 1, 2016 when the 2013 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.

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 18. 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 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 beyond the needs of PSE&G's customers, Power can use the gas to supply its fossil generating stations.

Power also has various long-term fuel purchase commitments for coal through 2018 to support its fossil generation stations.

As of September 30, 2016, the total minimum purchase requirements included in these commitments were as follows:

Fuel Type	Power's Share of Commitments through 2020
	Millions

Nuclear Fuel		
Uranium	$	338
Enrichment	$	307
Fabrication	$	179
Natural Gas	$	904
Coal	$	235

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

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 and self-reported the errors. As the internal 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 Power’s peaking units. Power continues to implement procedures to help mitigate the risk of similar issues occurring in the future.
During the three month period 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. No additional charges to income have been recorded for this matter since that time.
Since September 2014, FERC Staff has been conducting a preliminary, non-public staff investigation into the matter and issued data requests covering a period from 2002 through the date of the self-report. This investigation is ongoing. Since that time, Power has responded to data requests from FERC Staff, including recent data requests in which Power has recalculated certain of its energy bids in PJM for a five year period, and may receive additional data requests or other fact finding. The FERC Staff investigation is still in the fact finding stage and there is considerable uncertainty around FERC’s response to PSEG’s legal arguments and the amount of disgorgement or other remedies FERC may ultimately seek.
PSEG is unable to reasonably estimate the range of possible loss for this matter; however, the amounts of potential disgorgement and other potential penalties that Power may incur span a wide range depending on the success of PSEG’s legal arguments. These arguments include that Power’s energy market bids in a substantial majority of the hours were below the allowed rate under the Tariff and therefore any errors in those hours were immaterial and that it is unclear whether the quantity of the bids violated any legal requirement. If PSEG’s legal arguments do not prevail in whole or in part with FERC or in a judicial challenge that PSEG may choose to pursue, it is likely that Power would record additional losses and that such additional losses would be material to PSEG’s and Power’s Consolidated Statements of Operations in the quarterly and annual periods in which they are recorded.
Nuclear Insurance Coverages
The following should be read in conjunction with Note 12. Commitments and Contingent Liabilities to the Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2015.
Based upon a review of its nuclear insurance, Power made changes to its Nuclear Electric Insurance Limited (NEIL) insurance coverage of the excess layer for property damage which became effective on April 1, 2016. The excess layer provides coverage above the primary layer of NEIL insurance coverage for property damage of $1.5 billion. For the excess layer at the Salem/Hope Creek site, Power purchased coverage for property damage of $300 million due to a nuclear event and $300 million due to a non-nuclear event. For the excess layer at the Peach Bottom site, Power purchased coverage for its ownership interest for property damage of $300 million due to a nuclear event. For the excess layer at the Peach Bottom site, Exelon purchased coverage for property damage of $600 million due to a non-nuclear event which covers the ownership interest of Power.

Note 10. Debt and Credit Facilities
Long-Term Debt Financing Transactions
The following long-term debt transactions occurred in the nine months ended September 30, 2016:
PSE&G
- issued $300 million of 1.90% Secured Medium-Term Notes, Series K due March 2021,
- issued $550 million of 3.80% Secured Medium-Term Notes, Series K due March 2046,

- issued $425 million of 2.25% Secured Medium-Term Notes, Series L due September 2026,
- retired $171 million of 6.75% Secured First and Refunding Mortgage Bonds, Series VV at maturity, and

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

- repurchased at par $100 million of Pollution Control Financing Authority of Salem County Bonds (Salem Bonds) and retired a like aggregate principal amount of its First and Refunding Mortgage Bonds which serviced and secured the Salem Bonds.

Power

- issued $700 million of 3.00% Senior Notes due June 2021,
- retired $303 million of 5.32% Senior Notes due September 2016 and
- retired $250 million of 2.75% Senior Notes due September 2016.

Short-Term Liquidity

PSEG meets its short-term liquidity requirements, as well as those of Power, primarily with cash and through the issuance of commercial paper. PSE&G maintains its own separate commercial paper program to meet its short-term liquidity requirements. Each commercial paper program is fully back-stopped by its own separate credit facilities.
The commitments under PSEG's $4.2 billion credit facilities are provided by a diverse bank group with no single institution representing more than 7% of the total commitments in PSEG's credit facilities. As of September 30, 2016, PSEG's total available credit capacity of $3.7 billion was in excess of its anticipated maximum liquidity requirements.
Each of PSEG's credit facilities is restricted as to availability and use to the specific companies as listed in the following table; however, if necessary, the PSEG facilities can also be used to support its subsidiaries' liquidity needs.
PSEG's total credit facilities and available liquidity as of September 30, 2016 were as follows:

Company/Facility	As of September 30, 2016 Total Facility Millions	Usage (D)	Available Liquidity	Expiration Date	Primary Purpose
PSEG					
5-year Credit Facility	$500	$10	$490	Apr 2019	Commercial Paper (CP) Support/Funding/Letters of Credit
5-year Credit Facility (A)	500	255	245	Apr 2020	CP Support/Funding/Letters of Credit
Total PSEG	$1,000	$265	$735		
PSE&G					
5-year Credit Facility (B)	$600	$14	$586	Apr 2020	CP Support/Funding/Letters of Credit
Total PSE&G	$600	$14	$586		
Power					
5-year Credit Facility	$1,600	$194	$1,406	Apr 2019	Funding/Letters of Credit
5-year Credit Facility (C)	953	11	942	Apr 2020	Funding/Letters of Credit
Total Power	$2,553	$205	$2,348		
Total	$4,153	$484	$3,669		

(A) PSEG facility will be reduced by $12 million in March 2018.
(B) PSE&G facility will be reduced by $14 million in March 2018.
(C) Power facility will be reduced by $24 million in March 2018.
(D) The primary use of PSEG's and PSE&G's credit facilities is to support their respective CP Programs. As of September 30, 2016, PSEG had $255 million outstanding under its CP Program at a weighted average interest rate of 0.79%. As of September 30, 2016, PSE&G had no amounts outstanding under its CP Program.

38

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

Note 11. 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 are not designated as either cash flow hedges or fair value hedges. These transactions are economic hedges and are recorded at fair market value.
Commodity Prices
Within PSEG and its affiliate companies, Power has the most exposure to commodity price risk. Power is exposed to 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. PSEG had no commodity derivative transactions designated as cash flow or fair value hedges as of September 30, 2016 and December 31, 2015.
Economic Hedges
Power enters into derivative contracts that 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 a long-term natural gas sales derivative contract to optimize its pipeline capacity utilization. Changes in the fair market value of the contract 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. The changes in fair value of the interest rate swaps are fully offset by the changes in the fair value of the underlying forecasted interest payments of

the debt. Interest rate swaps totaling $550 million that converted the retired Power's Senior Notes due September 2016 into variable-rate debt matured in the third quarter. There were no outstanding interest rate swaps as of September 30, 2016. As of December 31, 2015, the fair value of all the underlying hedges was $6 million. The effect of these hedges reduced interest expense by $2 million and $5 million for the three months ended September 30, 2016 and 2015, respectively, and $6 million and $15 million for the nine months ended September 30, 2016 and 2015, respectively.

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

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. As of September 30, 2016, PSEG had interest rate hedges outstanding totaling $500 million. These hedges convert PSEG's $500 million variable rate term loan due November 2017 into a fixed rate loan. The fair value of these hedges and the related ineffectiveness were immaterial as of September 30, 2016. PSEG interest rate hedges totaling $400 million were terminated during the second quarter and a gain of $2 million was recorded in Accumulated Other Comprehensive Income (Loss) (after tax) and will amortize to interest expense over the remaining life of Power's $700 million of 3% Senior Notes due June 2021. For additional information see Note 10. Debt and Credit Facilities. There were no outstanding interest rate cash flow hedges as of December 31, 2015. The Accumulated Other Comprehensive Income (Loss) (after tax) related to existing and terminated interest rate derivatives designated as cash flow hedges was $2 million as of September 30, 2016 and was immaterial as of December 31, 2015. The after-tax unrealized gains on these hedges expected to be reclassified to earnings during the next 12 months are immaterial. The expiration date of the longest-dated interest rate hedge is in May 2021.
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 PSEG's accounting policy, these positions have been offset on the Condensed Consolidated Balance Sheets of Power, PSE&G and PSEG. The following tabular disclosure does not include the offsetting of trade receivables and payables.

	As of September 30, 2016 (A)					
	Power			PSE&G	PSEG	Consolidated
	Not Designated			Not Designated	Designated as Hedges	
Balance Sheet Location	Energy-Related Contracts	Netting (B)	Total Power	Energy-Related Contracts	Interest Rate Swaps	Total Derivatives
	Millions					
Derivative Contracts						
Current Assets	$432	$(283)	$149	$ —	$ —	$ 149
Noncurrent Assets	305	(219)	86	—	—	86
Total Mark-to-Market Derivative Assets	$737	$(502)	$235	$ —	$ —	$ 235
Derivative Contracts						
Current Liabilities	$(314)	$278	$(36)	$ (4)	$ —	$ (40)
Noncurrent Liabilities	(219)	206	(13)	—	—	(13)
Total Mark-to-Market Derivative (Liabilities)	$(533)	$484	$(49)	$ (4)	$ —	$ (53)
Total Net Mark-to-Market Derivative Assets (Liabilities)	$204	$(18)	$186	$ (4)	$ —	$ 182

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

Balance Sheet Location	As of December 31, 2015 (A) Power Not Designated Energy-Related Contracts	Netting (B)	Total Power	PSE&G Not Designated Energy-Related Contracts	PSEG Designated as Hedges Interest Rate Swaps	Consolidated Total Derivatives
	Millions					
Derivative Contracts						
Current Assets	$700	$(477)	$223	$ 13	$ 6	$ 242
Noncurrent Assets	208	(131)	77	—	—	77
Total Mark-to-Market Derivative Assets	$908	$(608)	$300	$ 13	$ 6	$ 319
Derivative Contracts						
Current Liabilities	$(513)	$437	$(76)	$ —	$ —	$ (76)
Noncurrent Liabilities	(132)	116	(16)	(11)	—	(27)
Total Mark-to-Market Derivative (Liabilities)	$(645)	$553	$(92)	$ (11)	$ —	$ (103)
Total Net Mark-to-Market Derivative Assets (Liabilities)	$263	$(55)	$208	$ 2	$ 6	$ 216

(A) Substantially all of Power’s and PSEG’s derivative instruments are contracts subject to master netting agreements. Contracts not subject to master netting or similar agreements are immaterial and did not have any collateral posted or received as of September 30, 2016 and December 31, 2015. 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, 2016 and December 31, 2015, net cash collateral (received) paid of $(18) million and $(55) million, respectively, were netted against the corresponding net derivative contract positions. Of the $(18) million as of September 30, 2016, $(13) million and $(14) million of cash collateral were netted against current assets and noncurrent assets, respectively, and $9 million was netted against current liabilities. Of the $(55) million as of December 31, 2015, $(53) million and $(16) million were netted against current assets and noncurrent assets, respectively, and $12 million and $2 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. A below investment grade credit rating for Power would represent a three level downgrade from its current S&P and Moody’s ratings. 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, and contracts designated as NPNS) was $42 million and $78 million as of September 30, 2016 and December 31, 2015, respectively. As of September 30, 2016 and December 31, 2015, Power had the contractual right of offset of $11 million and $12 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 $31 million and $66 million as of September 30, 2016 and December 31, 2015, respectively, related to its derivatives, net of the contractual right of offset under master agreements and the application of collateral.

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

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, 2016 and 2015.

Derivatives in Cash Flow Hedging Relationships	Amount of Pre-Tax Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)		Location of Pre-Tax Gain (Loss) Reclassified from AOCI into Income	Amount of Pre-Tax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)		Location of Pre-Tax Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)	Amount of Pre-Tax Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)	
	Three Months Ended September 30,			Three Months Ended September 30,			Three Months Ended September 30,	
	2016	2015		2016	2015		2016	2015
	Millions							
PSEG								
Energy-Related Contracts	$—	$ 1	Operating Revenues	$ —	$ —	Operating Revenues	$ —	$ —
Interest Rate Swaps	1	—	Interest Expense	—	—	Interest Expense	—	—
Total PSEG	$1	$ 1		$ —	$ —		$ —	$ —
Power								
Energy-Related Contracts	$—	$ 1	Operating Revenues	$ —	$ —	Operating Revenues	$ —	$ —
Total Power	$—	$ 1		$ —				