



**PSEG** *Public Service Enterprise Group*

**American Gas Association**

**2011 AGA Financial Forum**

Orlando, FL

**May 16, 2011**

# Forward-Looking Statement

Readers are cautioned that statements contained in this presentation about our and our subsidiaries' future performance, including future revenues, earnings, strategies, prospects, consequences and all other statements that are not purely historical, are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. When used herein, the words "anticipate", "intend", "estimate", "believe", "expect", "plan", "should", "hypothetical", "potential", "forecast", "project", variations of such words and similar expressions are intended to identify forward-looking statements. Although we believe that our expectations are based on reasonable assumptions, they are subject to risks and uncertainties and we can give no assurance they will be achieved. The results or developments projected or predicted in these statements may differ materially from what may actually occur. Factors which could cause results or events to differ from current expectations include, but are not limited to:

- adverse changes in energy industry law, policies and regulation, including market structures and a potential shift away from competitive markets toward subsidized market mechanisms, transmission planning and cost allocation rules, including rules regarding how transmission is planned and who is permitted to build transmission going forward, and reliability standards,
- any inability of our transmission and distribution businesses to obtain adequate and timely rate relief and regulatory approvals from federal and state regulators,
- changes in federal and state environmental regulations that could increase our costs or limit operations of our generating units,
- changes in nuclear regulation and/or general developments in the nuclear power industry, including various impacts from any accidents or incidents experienced at our facilities or by others in the industry that could limit operations of our nuclear generating units,
- actions or activities at one of our nuclear units located on a multi-unit site that might adversely affect our ability to continue to operate that unit or other units located at the same site,
- any inability to balance our energy obligations, available supply and trading risks,
- any deterioration in our credit quality, or the credit quality of our counterparties,
- availability of capital and credit at commercially reasonable terms and conditions and our ability to meet cash needs,
- any inability to realize anticipated tax benefits or retain tax credits,
- changes in the cost of, or interruption in the supply of, fuel and other commodities necessary to the operation of our generating units,
- delays in receipt of necessary permits and approvals for our construction and development activities,
- delays or unforeseen cost escalations in our construction and development activities,
- adverse changes in the demand for or price of the capacity and energy that we sell into wholesale electricity markets,
- increase in competition in energy markets in which we compete,
- challenges associated with retention of a qualified workforce,
- adverse performance of our decommissioning and defined benefit plan trust fund investments and changes in discount rates and funding requirements, and
- changes in technology and customer usage patterns.

For further information, please refer to our Annual Report on Form 10-K, including Item 1A. Risk Factors, and subsequent reports on Form 10-Q and Form 8-K filed with the Securities and Exchange Commission. These documents address in further detail our business, industry issues and other factors that could cause actual results to differ materially from those indicated in this presentation. In addition, any forward-looking statements included herein represent our estimates only as of today and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements from time to time, we specifically disclaim any obligation to do so, even if our internal estimates change, unless otherwise required by applicable securities laws.

# GAAP Disclaimer

PSEG presents Operating Earnings in addition to its Net Income reported in accordance with accounting principles generally accepted in the United States (GAAP). Operating Earnings is a non-GAAP financial measure that differs from Net Income because it excludes gains or losses associated with Nuclear Decommissioning Trust (NDT), Mark-to-Market (MTM) accounting, and other material one-time items. PSEG presents Operating Earnings because management believes that it is appropriate for investors to consider results excluding these items in addition to the results reported in accordance with GAAP. PSEG believes that the non-GAAP financial measure of Operating Earnings provides a consistent and comparable measure of performance of its businesses to help shareholders understand performance trends. This information is not intended to be viewed as an alternative to GAAP information. The last two slides in this presentation include a list of items excluded from Income from Continuing Operations to reconcile to Operating Earnings, with a reference to that slide included on each of the slides where the non-GAAP information appears.



## **PSEG** – *Defining the Future*

**Caroline Dorsa**

**Executive Vice President and Chief Financial Officer**

# PSEG Advantage: Right platform to deliver value to customers and investors...



*Electric & Gas Delivery  
and Transmission*

PSE&G positioned to meet NJ's energy policy and economic growth objectives with a \$4.5 billion investment program through 2013



*Regional Wholesale Energy*

PSEG Power's low-cost, base load and load following fleet is geographically well positioned and environmentally responsible



*Renewable Investments*

PSEG Energy Holdings positioned to pursue attractive renewable generation opportunities

...with a track record for safeguarding shareholder interests.

# PSEG Advantage: Asset mix, strong operations...

## PSE&G

Reliability One Award winner for Mid-Atlantic Region – 9<sup>th</sup> year in a row

Regulatory agreements and cost control provide opportunity for improved returns

Investment program focused on growth and providing customers with clean, reliable energy

## PSEG Power

Strong platform open to improvement in the market

Low-cost generating fleet combined with fuel flexibility supports margins

Hedging strategy mitigates near-term risk

Major environmental compliance capital program completed

## PSEG Energy Holdings

Reducing risk

Building a platform for renewables and investing through PPA-supported projects

International lease investments terminated

Holdings recourse debt paid down

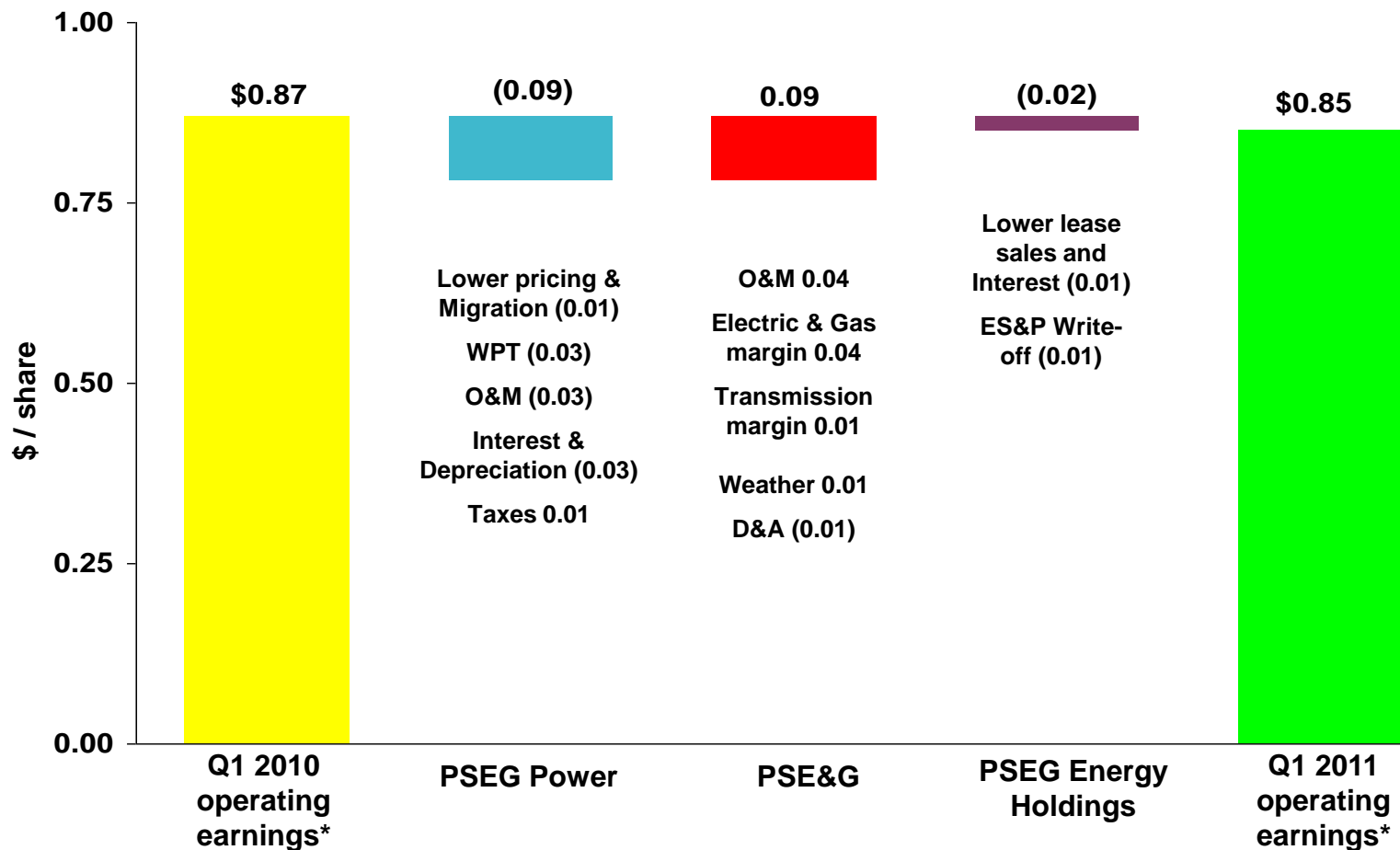
...with balance sheet to support growth.

# Earnings growth achieved...



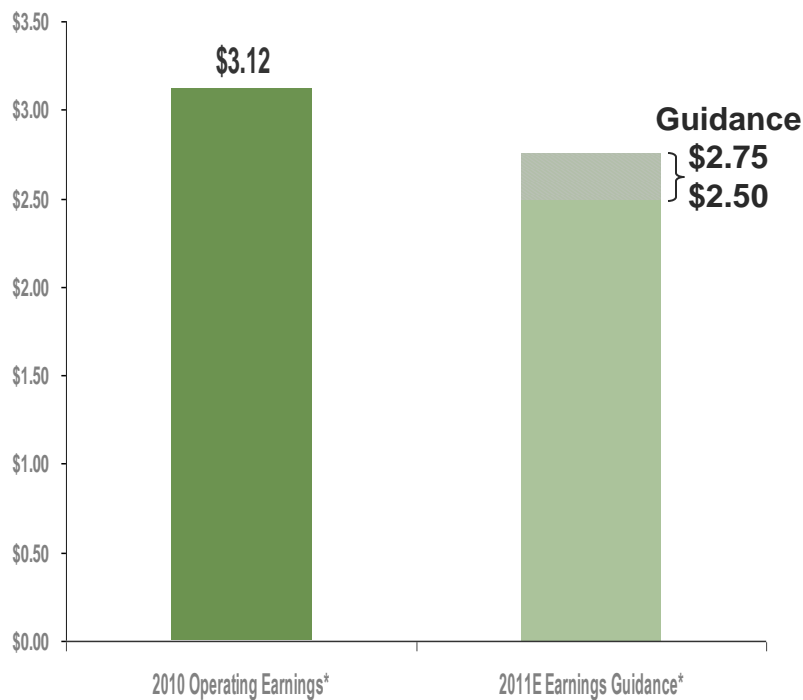
... through increased investment, higher output and lower costs.

# PSEG EPS Reconciliation – Q1 2011 versus Q1 2010



# PSEG's 2011 earnings guidance reflects continued improvement at PSE&G...

## Earnings Per Share



\*See page 21 for Items excluded from Income from Continuing Operations to reconcile to Operating Earnings. E Estimate.

## 2011 Drivers



### PSE&G

- Network transmission service revenue increase = ~ \$0.05 per share
- Full year of E&G Rate Relief = ~ \$0.05 per share
- Each 1% change in Load = ~ \$0.02 per share
- Each 1% change in O&M = ~ \$0.01 per share
- 2010 Utility ROE 9.9%; Each 10 bp = \$0.01 per share



### PSEG *Power LLC*

#### Revenue/Margin

- Decline in average Hedge Price/Volume = ~ (\$0.25-\$0.30) per share
- Decline in Capacity revenues = ~ (\$0.15-\$0.20) per share
- Improvement in WPT/BGSS = ~ \$0.03-\$0.05 per share

#### Other Expense

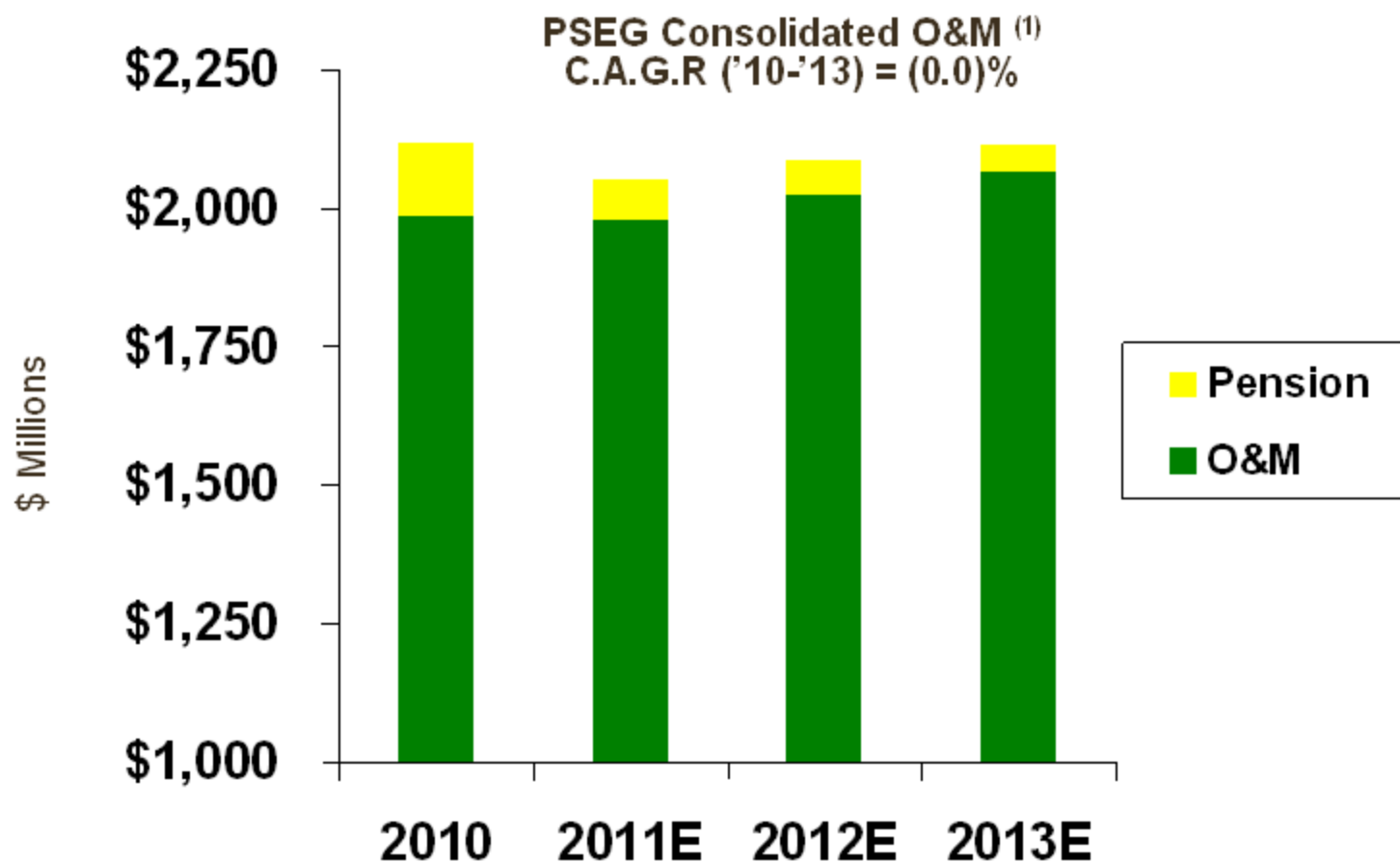
- Higher O&M = ~ (\$0.03) per share
- Increase in Depreciation rate = ~ (\$0.05) per share



### PSEG *Energy Holdings*

- Absence of LILO/SILO termination gains = ~ (\$0.05) per share
- Loss of Income from Asset Sales = ~ (\$0.05) per share

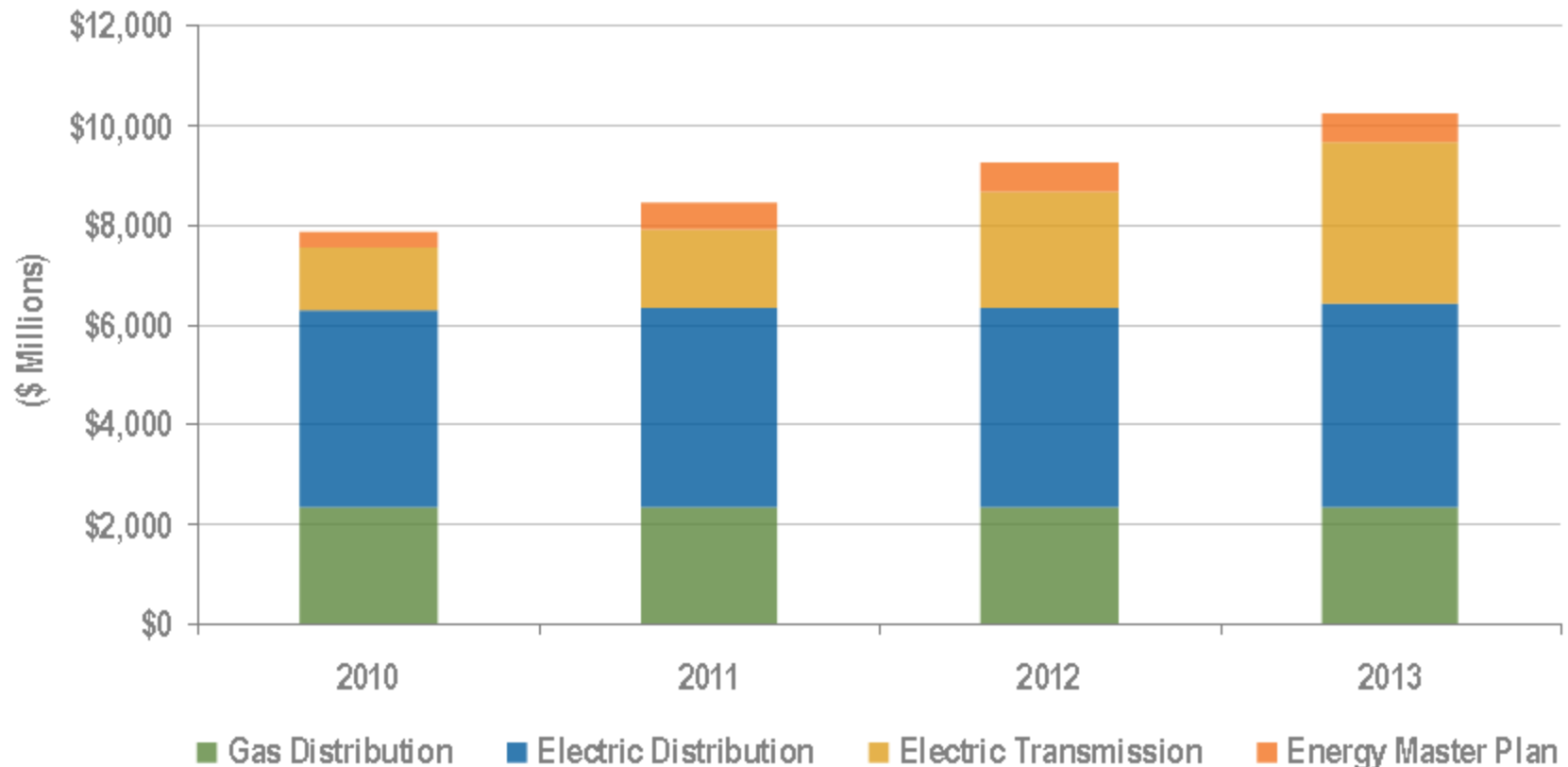
# Aggressive expense management...



...should result in essentially no O&M growth.

# PSE&G's investment program provides opportunity for ~9% annualized growth in rate base

**PSE&G Projected Rate Base\***



# Hedging Update...

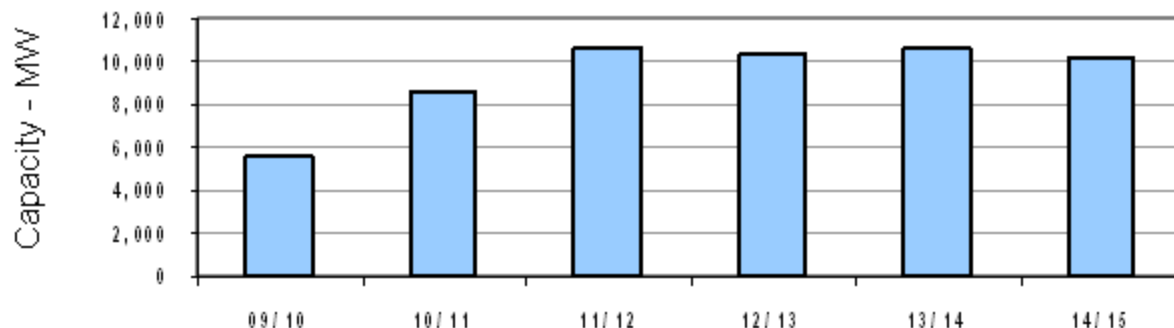
## Contracted Energy\*

		2011 May - Dec	2012	2013
<b>Base Load</b> <b>(Nuclear and Base Load Coal)</b>	Volume TWh	24	36	36
	% Hedged	100%	60% - 70%	20% - 30%
	Price \$/MWh	\$68	\$66	\$69
<b>Intermediate Coal, Combined Cycle, Peaking</b>	Volume TWh	12	18	20
	% Hedged	30% - 35%		
	Price \$/MWh	\$68		
<b>Total</b>	Volume TWh	36	54	56
	% Hedged	75% - 80%	40% - 50%	10% - 20%
	Price \$/MWh	\$68	\$66	\$69

... our strategy is to hedge our base load generation long term.

# Reliability Pricing Model – locational value of Power's generating fleet recognized...

PJM Capacity Available to Receive Auction Pricing



\$/MW-day PJM Zones	2009 / 2010	2010 / 2011	2011 / 2012	2012 / 2013	2013/2014	2014/2015
<b>Eastern MAAC</b>	\$191.32	\$174.29	\$110.00	\$139.73	\$245.00	\$136.50
<b>MAAC</b>	\$191.32	\$174.29	\$110.00	\$133.37	\$226.15	\$136.50
<b>PSEG</b>					\$245.00	
<b>PSEG North Zone</b>				\$185.00	\$245.00	\$225.00
<b>Rest of Pool</b>	\$102.04	\$174.29	\$110.00	\$16.46	\$27.73	\$125.99

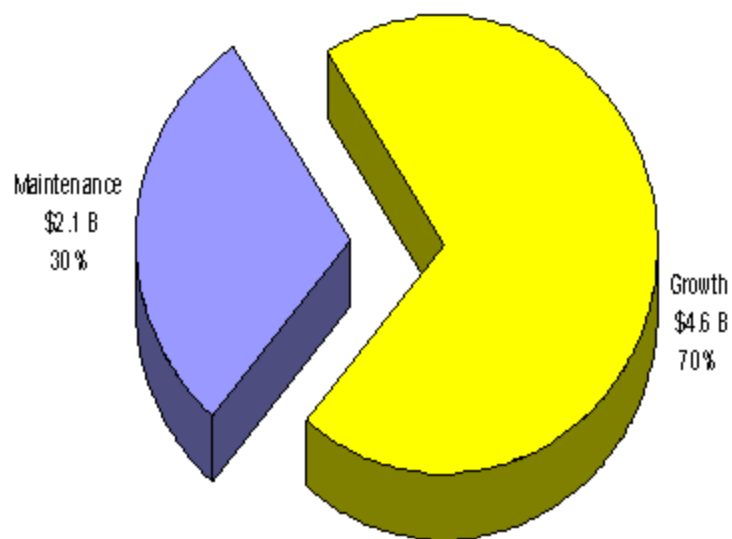
- Locational value of Power's fleet recognized.
- Bid for 89 MW of new capacity accepted for 2013/2014 auction; in-service June 2012.
- On schedule to complete 178 MW of previously cleared peaking capacity by June 2012.
- Latest auction influenced by updated demand forecast and transfer capabilities.

With nearly 1/3 of its capacity in PS North and nearly 2/3 of its capacity in EMAAC, Power's assets in congested locations received higher pricing.

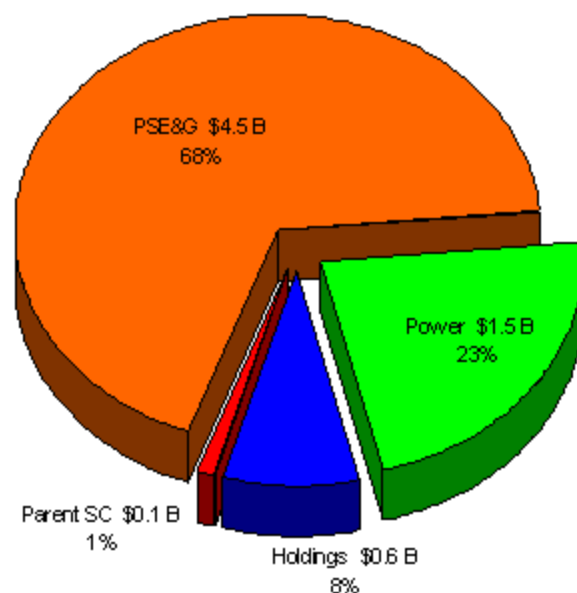
... with sites in the eastern part of PJM.

# Our capital spending is focused on growth

PSEG 2011-2013E Capital Spending  
\$6.7 Billion  
Growth vs. Maintenance Spend



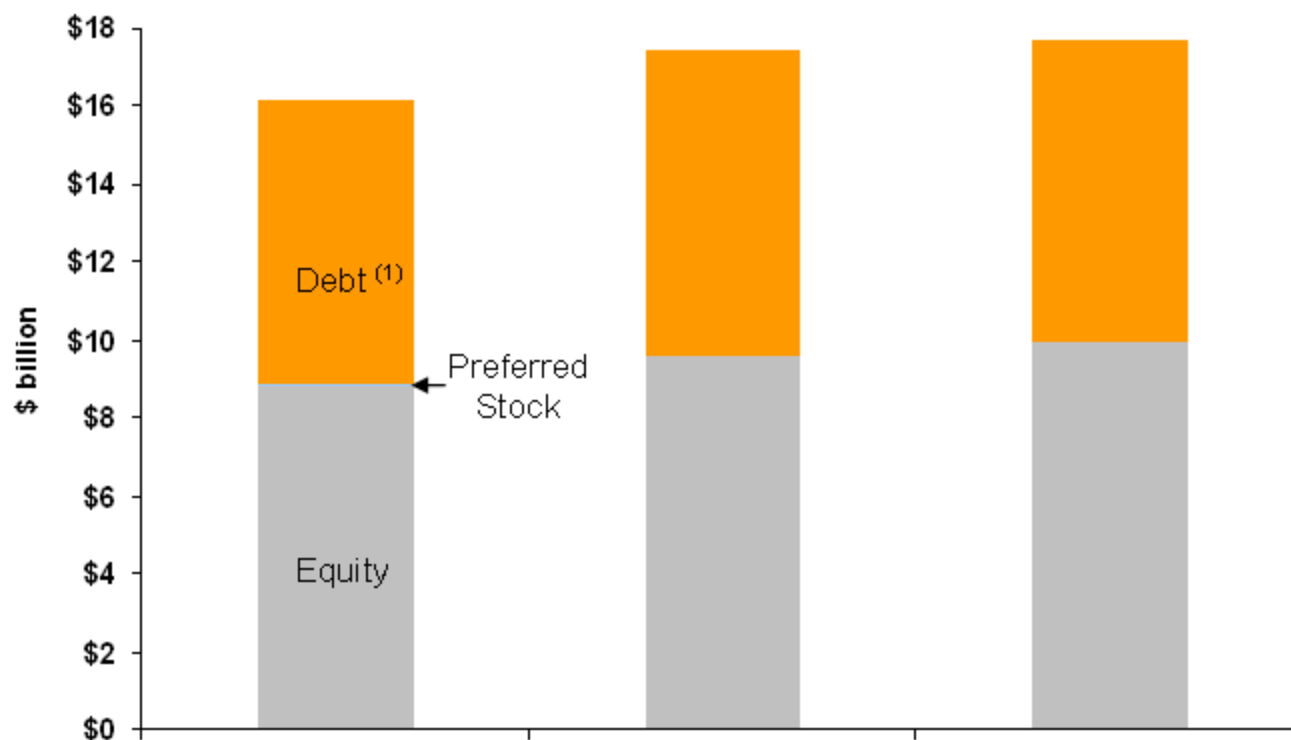
PSEG 2011-2013E Capital Spending  
\$6.7 Billion  
by Subsidiary



# PSEG's balance sheet strength and liquidity continue to improve...

- Cash position at March 31, 2011 was \$900 million
- Funded 2011 pension obligation depositing over \$400 million in Q1
- Retired PSEG Power's \$606 million of 7.75% Senior Notes which matured on April 15 using cash on hand
- Refinanced \$2.1 billion of credit facilities at PSEG, Power, and PSE&G in new, 5-year facilities; PSEG credit facilities now total \$4.3 billion
- Liquidity position at April 30, 2011 was \$4.2 billion
- Standard & Poor's affirmed credit ratings for PSEG, Power and PSE&G; Outlooks raised to Positive
- Moody's affirmed credit ratings for PSEG, Power and PSE&G; PSE&G's Outlook raised to Positive

# PSEG Consolidated Debt / Capitalization

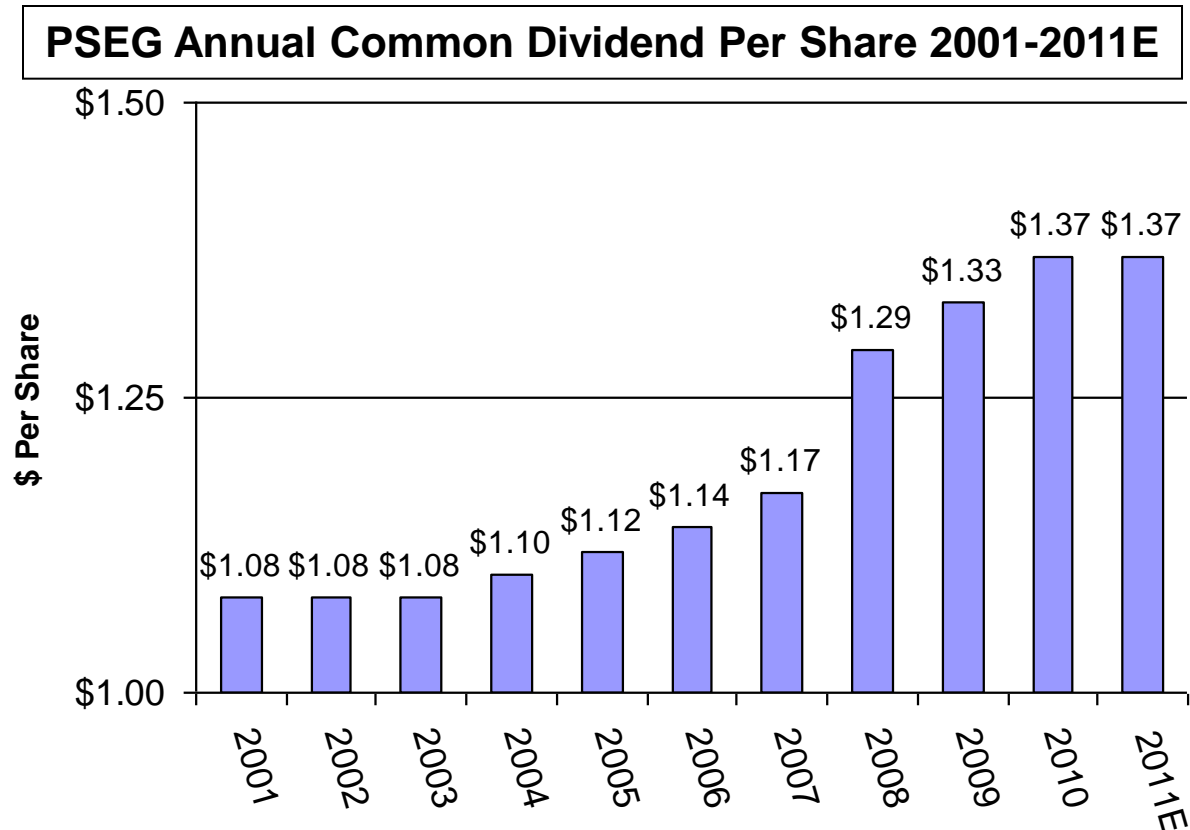


(in \$Millions)

	2009	2010	3/31/2011
Debt	7,311	7,812	7,763
Preferred Stock	80	0	0
Common Shareholders Equity	<u>8,788</u>	<u>9,633</u>	<u>9,957</u>
Debt plus Equity	16,179	17,445	17,720
Debt Ratio	45.2%	44.8%	43.8%

(1) Includes debt due within one year and short-term debt; excludes Securitization Debt and Non-Recourse Debt.

# PSEG Dividend – A 104-year commitment to returning cash to shareholders



# PSEG is responding to investors' questions

Investors' Questions	PSEG Position
<b>How is PSEG affected by policy changes?</b>	<ul style="list-style-type: none"><li>▪ Commercial operation of Back-End Technology puts us in good position on potential Clean Air rules</li></ul>
<b>What's the impact of commodity volatility?</b>	<ul style="list-style-type: none"><li>▪ Multi-year hedging</li><li>▪ Asset balance dampens relative fuel price volatility</li><li>▪ Capacity markets provide stability</li></ul>
<b>How are you responding to State incursion into markets?</b>	<ul style="list-style-type: none"><li>▪ Recent decision by FERC has upheld competitive market mechanisms</li><li>▪ We are also challenging the constitutionality of NJ's actions</li></ul>
<b>Do you need equity?</b>	<ul style="list-style-type: none"><li>▪ Strong cash flow enables us to execute our strategy, with room for additional investment, without the need to issue equity</li></ul>
<b>How is management incented to deliver value to shareholders?</b>	<ul style="list-style-type: none"><li>▪ Management's long-term incentives are based on a combination of return on invested capital and total shareholder return relative to peers over a multi-year period of time</li></ul>

# PSEG 2011 Operating Earnings Guidance - by Subsidiary

\$ millions (except EPS)	2011E	2010A
<b>PSEG Power</b>	\$ 765 – \$ 855	\$ 1,091
<b>PSE&amp;G</b>	\$ 495 – \$ 520	\$ 430
<b>PSEG Energy Holdings</b>	\$ 0 – \$ 5	\$ 49
<b>Enterprise</b>	\$ 5 – \$ 15	\$ 14
<b><i>Operating Earnings*</i></b>	\$ 1,265 – \$ 1,395	\$ 1,584
<b><i>Earnings per Share</i></b>	\$ 2.50 – \$ 2.75	\$ 3.12

# Items Excluded from Income from Continuing Operations to Reconcile to Operating Earnings

**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED**  
**Items Excluded from Income from Continuing Operations to**  
**Reconcile to Operating Earnings**  
**(Unaudited)**

Pro-forma Adjustments, net of tax	<i>For the Three Months Ended March 31,</i>	
	<i>2011</i>	<i>2010</i>
<b><u>Earnings Impact (\$ Millions)</u></b>		
Gain (Loss) on Nuclear Decommissioning Trust (NDT) Fund Related Activity (PSEG Power)	\$ 27	\$ 10
Gain (Loss) on Mark-to-Market (MTM) (PSEG Power)	<u>4</u>	<u>49</u>
<b>Total Pro-forma adjustments</b>	<b>\$ 31</b>	<b>\$ 59</b>
<b>Fully Diluted Average Shares Outstanding (in Millions)</b>	<b>507</b>	<b>507</b>
<b><u>Per Share Impact (Diluted)</u></b>		
Gain (Loss) on NDT Fund Related Activity (PSEG Power)	\$ 0.05	\$ 0.02
Gain (Loss) on MTM (PSEG Power)	<u>0.01</u>	<u>0.10</u>
<b>Total Pro-forma adjustments</b>	<b>\$ 0.06</b>	<b>\$ 0.12</b>

Please see page 3 for an explanation of PSEG's use of Operating Earnings as a non-GAAP financial measure and how it differs from Net Income.

# Items Excluded from Income from Continuing Operations to Reconcile to Operating Earnings

**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED**  
**Reconciling Items Excluded from Continuing Operations to Compute Operating Earnings**  
**(Unaudited)**

Pro-forma Adjustments, net of tax	<i>For the Twelve Months Ended December 31,</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
<b><u>Earnings Impact (\$ Millions)</u></b>			
Gain (Loss) on Nuclear Decommissioning Trust (NDT) Fund Related Activity (PSEG Power)	\$ 46	\$ 9	\$ (71)
Gain (Loss) on Mark-to-Market (MTM) (PSEG Power)	(1)	(11)	14
Market Transition Charge Refund (PSE&G)	(72)	-	-
Net Reversal of Lease Transaction Reserves (Energy Holdings)	-	29	-
Lease Transaction Reserves (Energy Holdings)	-	-	(490)
Asset Impairments	-	-	(13)
Premium on Bond Redemption	-	-	(1)
<b>Total Pro-forma adjustments</b>	<b>\$ (27)</b>	<b>\$ 27</b>	<b>\$ (561)</b>
<b>Fully Diluted Average Shares Outstanding (in Millions)</b>	<b>507</b>	<b>507</b>	<b>508</b>
<b><u>Per Share Impact (Diluted)</u></b>			
Gain (Loss) on Nuclear Decommissioning Trust (NDT) Fund Related Activity (PSEG Power)	\$ 0.09	\$ 0.02	\$ (0.14)
Gain (Loss) on Mark-to-Market (MTM) (PSEG Power)	-	(0.02)	0.03
Market Transition Charge Refund (PSE&G)	(0.14)	-	-
Net Reversal of Lease Transaction Reserves (Energy Holdings)	-	0.05	-
Lease Transaction Reserves (Energy Holdings)	-	-	(0.96)
Asset Impairments	-	-	(0.03)
Premium on Bond Redemption	-	-	-
<b>Total Pro-forma adjustments</b>	<b>\$ (0.05)</b>	<b>\$ 0.05</b>	<b>\$ (1.10)</b>

Please see page 3 for an explanation of PSEG's use of Operating Earnings as a non-GAAP financial measure and how it differs from Net Income.