

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization, Basis of Presentation and Summary of Significant Accounting Policies

Organization

Public Service Enterprise Group Incorporated (PSEG) is a public utility holding company that, acting through its wholly owned subsidiaries, is a predominantly regulated electric and gas utility and a nuclear generation business. PSEG's principal operating 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), the Federal Energy Regulatory Commission (FERC) and other federal and New Jersey state regulators. PSE&G also invests in regulated solar generation projects and energy efficiency (EE) and related programs in New Jersey, which are regulated by the BPU.
- **PSEG Power LLC (PSEG Power)**—which is an energy supply company that consists of the operations of merchant nuclear generating assets and fuel supply functions engaged in competitive energy sales via its principal direct wholly owned subsidiaries. PSEG Power's subsidiaries are subject to regulation by FERC, the Nuclear Regulatory Commission (NRC), and other federal regulators and state regulators in the states in which they operate.

PSEG's other direct wholly owned subsidiaries are: PSEG Long Island LLC (PSEG LI), which operates the Long Island Power Authority's (LIPA) electric transmission and distribution (T&D) system under an Operations Services Agreement (OSA); PSEG Energy Holdings L.L.C. (Energy Holdings), which primarily holds legacy lease investments and competitively bid, FERC regulated transmission; and PSEG Services Corporation (Services), which provides certain management, administrative and general services to PSEG and its subsidiaries at cost.

Basis of Presentation

The respective financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) applicable to Annual Reports on Form 10-K and in accordance with accounting guidance generally accepted in the United States (GAAP). Certain line item reclassifications have been made to prior year financial statements to conform with current year presentation. These reclassifications had no impact on PSEG's or PSE&G's results of operations, financial condition or cash flows.

Significant Accounting Policies

Principles of Consolidation

Each company consolidates those entities in which it has a controlling interest or is the primary beneficiary. See Note 4. Variable Interest Entity. Entities over which the companies exhibit significant influence, but do not have a controlling interest and/or are not the primary beneficiary, are accounted for under the equity method of accounting. Equity investments that do not qualify for consolidation or equity method accounting are recorded at fair value or, if fair value is not readily determinable, are initially recognized at cost and subsequently remeasured if there is an orderly transaction in an identical or similar investment of the same issuer or if the investment is impaired. All significant intercompany accounts and transactions are eliminated in consolidation.

PSE&G and PSEG Power also have undivided interests in certain jointly-owned facilities, with each responsible for paying its respective ownership share of construction costs, fuel purchases and operating expenses. PSE&G and PSEG Power consolidate their portion of any revenues and expenses related to their respective jointly-owned facilities in the appropriate revenue and expense categories.

Accounting for the Effects of Regulation

In accordance with accounting guidance for rate-regulated entities, PSE&G's financial statements reflect the economic effects of regulation. PSE&G defers the recognition of costs (a Regulatory Asset) or records the recognition of obligations (a Regulatory