

people providing

safe, reliable

economic and

green energy

ANNUAL REPORT 2009



PSEG Overview

Public Service Enterprise Group (PSEG), a diversified energy holding company with over \$28 billion in assets, is one of the nation's leading wholesale energy producers and most reliable electric and gas transmission and delivery utilities.

2009 Financial Highlights

While the forward-looking statements about PSEG's expectations made throughout this report are based on information currently available and on reasonable assumptions, actual results could be materially different. Historical results are not necessarily indicative of future earnings. For more information, please refer to PSEG reports that are filed periodically with the Securities and Exchange Commission.

Dollars in millions, where applicable	2009	2008	% change
Total Revenues	\$ 12,406	\$ 13,322	-7
Income from Continuing Operations	\$ 1,592	\$ 983	62
Pro Forma Operating Earnings (Non-GAAP)	\$ 1,579	\$ 1,542	2
Net Income	\$ 1,592	\$ 1,188	34
Earnings Per Share-Diluted			
Income from Continuing Operations	\$ 3.14	\$ 1.93	63
Pro Forma Operating Earnings (Non-GAAP)	\$ 3.12	\$ 3.03	3
Net Income	\$ 3.14	\$ 2.34	34
Weighted average common stock shares outstanding (in thousands)			
Diluted	507,064	508,427	0
Dividends Paid per Share	\$ 1.33	\$ 1.29	3
Book Value per Share – Year-end	\$ 17.37	\$ 15.36	13
Market Price per Share – Year-end	\$ 33.25	\$ 29.17	14
Total Assets	\$ 28,730	\$ 29,049	(1)

Note: Pro Forma Operating Earnings in 2009 exclude the net after-tax gains for NDT Fund related activity of \$9 million, or \$0.02 per share, net mark-to-market losses of \$25 million, or \$0.05 per share and the net reversal of lease transaction reserves of \$29 million, or \$0.05 per share. Pro Forma Operating Earnings in 2008 exclude the net after-tax losses for NDT Fund related activity of \$71 million, or \$0.14 per share, net gains on mark-to-market activity of \$16 million, or \$0.03 per share, asset impairments and related bond premium expenses of \$14 million, or \$0.03 per share and a charge for lease transaction reserves of \$490 million, or \$0.96 per share. PSEG believes that the non-GAAP financial measure "Operating Earnings" provides a consistent and comparable measure of performance of its businesses to help the shareholders understand performance trends.



**Letter from the Chairman,
President and Chief Executive Officer
Ralph Izzo**

In 2009, with the continued support of our skilled and dedicated workforce, we achieved new levels of operational excellence and enhanced our financial strength despite a weak economy and unusually cool summer weather that dampened energy demand.

We responded aggressively to these pressures on our business by intensifying our focus on reducing costs without compromising the high standards of safety and reliability for which we are known. Our employees are pitching in terrifically with ideas for savings that have added up. And our strong union-management relations are making an invaluable contribution as well.

While being extra-vigilant on the cost front, we are positioning PSEG for a rapidly evolving energy future, reflecting the urgent need to address climate change, along with ongoing infrastructure improvements to assure reliability.

We further strengthened our long-standing partnership with the state of New Jersey as we made new investments that supported the state's energy and carbon-reduction goals while providing a stimulus for the local economy and returns for our shareholders. And we gained increasing recognition for our efforts on the national level to promote low-carbon policies and legislation.

Our financial strength anchors us in difficult times, while enabling us to deploy capital for investment opportunities. Our businesses have continued to generate healthy income and cash flows. We further strengthened

our balance sheet in 2009. We improved our business focus through the transfer of our Texas generating assets from PSEG Energy Holdings to our PSEG Power subsidiary. And we reduced risk by successfully terminating many of the leases in our overseas leveraged lease portfolio.

We delivered operating earnings of \$3.12 per share in 2009, a three percent improvement over 2008 operating earnings of \$3.03 per share.

In February 2010, we increased our common stock dividend to an indicated annual rate of \$1.37 per share from \$1.33 per share. For seven consecutive years, we have increased our dividend, adding to one of the longest records of any U.S. company for paying dividends. PSEG has paid annual dividends on an uninterrupted basis since 1907. We are confident of our ability to maintain a dividend payout ratio in the 40-50 percent range we have targeted for some time.

We are determined to build on our record of keeping our commitments and delivering shareholder value. Our vision is to be increasingly recognized as a leader for people providing safe, reliable, economic and green energy.

We emphasize a tried-and-true strategy based on operational excellence, financial strength and disciplined investment. This strategy has produced solid results across our businesses.

**PSE&G:
Supporting New Jersey
Reliably...as Always**

PSE&G, our regulated energy delivery utility, remains a pillar of New Jersey's economy and quality of life – and a pillar for us. Known for its outstanding reliability, PSE&G serves 2.1 million electric customers and 1.7 million gas customers across New Jersey's densely populated corridor. This area includes the state's six largest cities and hundreds of towns and communities.

In 2009, for the fourth time in five years, PSE&G won the Reliability One national achievement award for superior electric reliability. And for the eighth consecutive year, PSE&G was similarly honored for regional reliability leadership.

Gas operations continued to get the job done with exemplary efforts, including last winter when it met the demands of a new peak gas-system delivery day. Throughout the year, the unsung heroes of our workforce rose to the occasion as they have in prior years, answering the call in storms and emergencies to restore customers' power and provide a helping hand.

In a year of rising unemployment, we expanded our efforts to assist eligible customers whose financial situation made it difficult for them to pay their electric or gas bills. And in an environment of falling fuel costs, we were able to pass along these savings to our customers. On three occasions in 2009, PSE&G decreased gas supply rates, for a total reduction of 18 percent from October 2008.

We never lightly approach the need for a rate increase, yet reliability must be maintained in all economic climates. In May 2009, in order to assure our continued ability to meet essential service obligations, PSE&G filed with the New Jersey Board of Public Utilities for an increase in electric and gas base rates. Even with this necessary increase, PSE&G's rates would remain lower than average among utilities in its region while delivering best-in-class service.

Maintaining reliability requires not only strong local distribution networks, but an adequate system of high power transmission lines. In February 2010, PSE&G received approval from the New Jersey Board of Public Utilities to construct the Susquehanna-to-Roseland (S-R) transmission line. This was a major milestone in the ongoing regulatory approval process for the project, which is required to prevent possible brownouts and blackouts. Due to this backbone reliability role, the S-R line has received federal approval for incentive rates.

PSE&G has long demonstrated the power of a utility to provide universal access to safe, reliable and economic energy. In 2009, PSE&G showed that utilities can be equally instrumental in efforts that expand access to green energy and boost the economy. In doing so, we are helping to brighten New Jersey's future while supporting some of society's most important objectives – for clean air, good jobs and healthier, sustainable communities.

Reflecting these objectives, PSE&G received regulatory approval in 2009 for nearly \$1.5 billion in green and accelerated infrastructure investments that allow for contemporaneous returns for our shareholders.

These activities fall in three main areas:

- **Energy Efficiency:** PSE&G is moving ahead with approximately \$200 million in conservation and carbon-abatement programs to help our customers save energy and dollars. This effort is improving access to energy efficiency for a broad range of customers, including low-income urban residents, small businesses, hospitals and municipalities.
- **Solar Energy:** PSE&G has more than \$600 million in initiatives supporting solar energy development in New Jersey. In December 2009, PSE&G received regulatory approval to expand its initial 30-megawatt solar loan program by approximately \$140 million to finance the installation of an additional 50 megawatts of solar energy systems on homes, businesses and municipal buildings. In addition, PSE&G is investing directly in solar through the \$515 million Solar 4 All program to bring 80 megawatts of grid-connected solar energy to all our customers and create more green jobs as well. This involves installing solar units on up to 200,000 utility poles and street lights in about 300 New Jersey communities – the world's largest effort of this type. Also, PSE&G has begun to develop solar gardens and roof-top installations at its own facilities and third-party sites.
- **Accelerated Infrastructure Projects:** PSE&G is investing \$694 million in accelerated system upgrades to provide a stimulus for New Jersey's economy while also improving reliability. This effort is underway and is expected to generate some 900 new jobs.

PSEG Power: Managing a Strong, Diverse Generation Portfolio

PSEG Power, our largest source of earnings, has approximately 15,500 megawatts of generating capacity and operates one of the most balanced portfolios among major U.S. power producers. PSEG Power's assets are located in attractive markets near load centers – mostly in the Northeastern U.S., but including 2,000 megawatts of capacity in Texas.

We actively manage our generation portfolio to take advantage of the flexibility we enjoy with base load, load-following and peaking units running on a variety of fuels and technologies – including nuclear, coal and natural gas. The breadth of our portfolio enables us to better respond to changes in fuel prices.

Risk management anchors our participation in energy markets. Our long-standing practice is to hedge a substantial part of our anticipated energy output on a rolling basis. We generally do this through mechanisms such as New Jersey's Basic Generation Service (BGS) auction, in which only a portion of the load is bid each year to help smooth out prices for suppliers and consumers alike.

Portfolio management ultimately depends on superb fleet operations – and PSEG Power has increasingly achieved operations characterized by excellence. In 2009, PSEG Power's nuclear and combined cycle fleets experienced record levels of output. Our nuclear generating facilities again had outstanding accomplishments such as Salem Unit 2's longest continuous run of 515 days between refueling outages. Our nuclear units combined to produce more than 50 percent

of PSEG Power's generation and a very solid capacity factor of 93.4 percent.

Upgrades have enabled us to expand our nuclear generating capacity with favorable economics, and these efforts continue. We have committed approximately \$400 million for nuclear upgrades at the Peach Bottom nuclear facility, which we jointly own with Exelon. We plan to implement these improvements in two phases, with the goal of adding approximately 165 megawatts by 2016.

We are working to ensure our nuclear units remain a vital resource long into the future. In 2009, we filed for a 20-year license extension for our Salem and Hope Creek units. And we plan to pursue an early site permit for a possible additional nuclear unit alongside our existing nuclear facilities in southern New Jersey. New nuclear is a long-term proposition. At this early stage, our aim is to keep our options open.

We have also benefited from improved fossil operations. In 2009, our coal units shaved 40 percent off average start-up times and reduced forced-outages by more than 50 percent. Our combined-cycle units ran more, and our peaking units performed with flying colors when called upon to run.

We are investing more than \$1 billion in state-of-the-art technology at our coal units to achieve dramatic reductions in emissions. In 2010, we expect to complete back-end installations at our Hudson and Mercer generating stations in New Jersey.

We are planning to build new peaking units in New Jersey and Connecticut. In 2009, we reached an agreement with the city of New Haven, Connecticut, allowing us to move forward with 130 megawatts of new peaking generation at our existing New Haven Harbor

generating station. The agreement reflects our strong commitment to the environment and to communities in which we operate.

PSEG Energy Holdings: Reducing Risk and Exploring Renewables

Our third business, PSEG Energy Holdings, is focused on maximizing the value of its current investment portfolio while pursuing attractive opportunities in renewable energy. This business has reduced the tax exposure on its leveraged lease portfolio. During 2009, PSEG Energy Holdings sold its interest in 12 leases; our activity reduced our cash tax potential liability by \$670 million to around \$660 million. We continue to evaluate the possibility of additional sales if economic thresholds are met.

PSEG Energy Holdings has renewable energy efforts related to offshore wind, solar and compressed air energy storage. Working closely with the state of New Jersey, we are assessing the viability of developing a 350-megawatt wind farm 16 miles off the southern New Jersey coast.

We have established a new subsidiary, PSEG Solar Source, with the goal of developing a portfolio of solar facilities throughout the United States. PSEG Solar Source opened a solar garden in 2009, a two-megawatt project for Mars Chocolate North America, and is working to complete two additional projects in Ohio and Florida totaling 27 megawatts in 2010.

We are pursuing opportunities in compressed air energy storage (CAES) through our joint venture with Energy Storage & Power. CAES is an enabling technology for

optimizing renewable energy resources and improving the capacity of combined-cycle plants. In 2009, the U.S. Department of Energy awarded grants to two projects that intend to use CAES technology.

Outlook: Growing an Operationally Excellent, Integrated Energy Business

The energy policy and market environment is highly uncertain. Wholesale energy prices trended lower in 2009, but remain unpredictable. We run our business with a close eye on developments, such as new supplies of domestic natural gas, which may affect markets in the near and long term.

Although economic conditions remain challenging, cost reduction programs implemented throughout our organization – including support from our union membership – should help us achieve our objectives.

Our position remains one of considerable strength. We benefit from a balanced business mix that includes a critical mass of strategically situated assets in regulated and competitive energy markets. Our financial strength and cash flows support our ability to pursue an organic growth strategy without needing to issue additional equity.

The dedication of our employees to operational excellence supports a high standard of reliability, cost control and value for our customers. We are building on more than 100 years of strong regulatory and community relationships as we respond to society's needs to replace aging infrastructure, improve reliability, prepare the grid for green resources and develop green resources ourselves.

Our strong, diverse generation fleet provides flexibility in volatile energy markets, and our hedging strategy has proven over many years to be an effective risk-reduction tool. We are participating more frequently in full-requirement auctions to preserve portfolio value. Our nuclear units are well positioned for a carbon-constrained world, and environmental upgrades are improving the viability of our fossil fleet.

In short, we are well positioned to grow as an integrated energy business characterized by a strong balance sheet, a passion for operational excellence, and as a leader in pursuit of growth investments with attractive risk-adjusted returns.

All of our stakeholders can be proud of the leadership position PSEG is establishing in promoting a sustainable energy future. In 2009, we received recognition for our efforts:

- PSEG was named for the second consecutive year to the Dow Jones Sustainability Index, which comprises leading companies in terms of their sustainability performance.
- PSEG was included also for the second straight year in the Carbon Disclosure Leadership Index, which recognizes companies for exemplary climate change disclosure practices.
- PSEG was among the leading companies honored by the U.S. Environmental Protection Agency's Climate Leaders program for achieving meaningful goals to reduce greenhouse gas emissions.
- PSEG was named to the Bloomberg Carbon Innovation Leadership Index, identifying companies that embed climate-related innovation in their operations and value chains.

Addressing climate change is fundamental to sustainability. In 2009, we set an ambitious but achievable target of reducing our carbon footprint a further 25 percent by the year 2025. We aim to achieve this goal through our three-pronged approach focused on energy efficiency, renewables, and clean central station power, including nuclear.

Progress toward this goal will depend, to a large extent, on national energy policy. We have been active in the energy policy debate. In 2009, we testified before Congress to urge the passage of climate legislation while calling for policies to encourage the development of renewables at the lowest possible cost, including transmission charges.

Enduring Values: Building on a Secure Foundation for a Bright Future.

Good, strong values are forever. Our company's reputation for integrity is a constant source of strength in a rapidly changing world. We are determined to safeguard PSEG's good name and precious reputation by upholding the highest standards of integrity in everything we do.

Our strong safety commitment defines us as well. Due to the efforts of our employees, we have built a solid position as a top industry performer on the safety front. We will not rest until we achieve an accident-free workplace.

Also integral to our culture is a strong, continuing commitment to the communities we serve. Nowhere does this commitment go deeper than in the state of New Jersey and the city of Newark.

In 2009, we further deepened our civic engagement, with a focus on programs that

support education, the health of children and families, and a cleaner, safer environment.

Many of these programs are especially important to the residents of New Jersey's cities. In 2009, we committed to provide \$1.5 million to New Jersey nonprofits that are striving to keep children safe and engaged in the critical hours after school. This contribution will help ensure that thousands of more young people across the Garden State benefit from quality after-school care.

Our employees are the heart of our community involvement. We applaud their outstanding volunteer efforts by awarding grants to philanthropic organizations they support.

I would like to thank our employees for all their fine work. They regularly show that people are the foundation of excellence in providing safe, reliable, economic and green energy.

In closing, I would like to thank our shareholders for their continued loyalty and support. We will continue working hard each day to justify your trust and confidence.

Sincerely,



Ralph Izzo
Chairman, President and
Chief Executive Officer
Public Service Enterprise Group

February 26, 2010

Board of Directors

Albert R. Gamper, Jr. is the retired Chairman of the Board and Chief Executive Officer of CIT Group, Inc., Livingston, New Jersey, a commercial finance company.

Conrad K. Harper is of counsel to the law firm of Simpson Thacher & Bartlett LLP, New York, New York.

William V. Hickey is President and Chief Executive Officer of Sealed Air Corporation, Elmwood Park, New Jersey, which manufactures food and specialty protective packaging materials and systems.

Ralph Izzo is Chairman of the Board, President and Chief Executive Officer of PSEG.

Shirley Ann Jackson is President of Rensselaer Polytechnic Institute, Troy, New York.

David Lilley is the retired Chairman of the Board, President and Chief Executive Officer of Cytec Industries Inc., Woodland Park, New Jersey, which is a global specialty chemicals and materials company.

Thomas A. Renyi is the retired Executive Chairman of the Bank of New York Mellon Corporation, New York, New York, a provider of banking and other financial services to corporations and individuals.

Hak Cheol (H.C.) Shin is Executive Vice President, Industrial and Transportation Business of 3M Company, St. Paul, Minnesota, a diversified technology company.

Richard J. Swift is the retired Chairman of the Financial Accounting Standards Advisory Council and retired Chairman of the Board, President and Chief Executive Officer of Foster Wheeler Ltd., Clinton, New Jersey, which provides design, engineering, construction, manufacturing, management, plant operations and environmental services.

Stockholder Information

Stock Exchange Listings

New York (PSEG Common Stock) Trading Symbol: PEG

Annual Meeting

Please note that the annual meeting of stockholders of Public Service Enterprise Group Incorporated will be held at the New Jersey Performing Arts Center (NJPAC), One Center Street, Newark, New Jersey, on Tuesday, April 20, 2010 at 2p.m.

Stockholder Services

Please include your Investor ID number or social security number in any inquiry you may have about stock transfer, dividends, dividend reinvestment, direct deposit, missing or lost certificates, change of address requests, or for any other account specific request.

Stockholder Services on the Internet

Please visit the Bank of New York Mellon Stockholder Services site:
www.bnymellon.com/shareowner/isd/
The Bank of New York Mellon's website offers online access and transaction processing to shareholders.

How to contact Stockholder Services

Toll free: 800-242-0813
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Mailing address:

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Shareowner Services Dept.
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Security Analysts and Institutional Investors

For information contact:
Vice President – Investor Relations
973-430-6565

Transfer Agent

The transfer agent for the Common Stock is:
The Bank of New York Mellon
480 Washington Boulevard
Jersey City, NJ 07310-1900

Enterprise Direct

PSEG offers Enterprise Direct, a stock purchase and dividend reinvestment plan. For additional information, including a plan prospectus and an enrollment form, call or send us an e-mail with your current mailing address.

Dividends

Dividends on the common stock of PSEG, as declared by the Board of Directors, are generally payable on the last business day of March, June, September and December of each year.

Direct Deposit of Dividends

No more dividend checks delayed in the mail. No waiting in bank lines. Your quarterly common stock dividend payments can be deposited electronically to your personal checking or savings account. More information, including instructions and a downloadable form, is available on our website at www.pseg.com or by contacting us by phone. It's a free service.

Deposit of Certificates

To eliminate the risk and cost of loss, shareholders can deposit their certificates with BNYMellon, or take advantage of DRS, a convenient service for holding and tracking your shares and still receive a paid dividend. For more information, contact BNYMellon on the web or by phone.

Forward Looking Statements: The statements contained in this communication about us and our subsidiaries' future performance, including, without limitation, future revenues, earnings, strategies, prospects 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. Although we believe that our expectations are based on information currently available and on reasonable assumptions, we can give no assurance they will be achieved. There are a number of risks and uncertainties that could cause actual results to differ materially from the forward-looking statements made herein. A discussion of some of these risks and uncertainties is contained in our Annual Report on Form 10-K and subsequent reports on Form 10-Q and Form 8-K filed with the Securities and Exchange Commission (SEC), and available on our website: <http://www.pseg.com>. 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 communication. 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.



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