PUBLIC SERVICE ENTERPRISE GROUP INC
Form 10-K
February 26, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013,
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

Commission File Number	Registrants, State of Incorporation, Address, and Telephone Number	I.R.S. Employer Identification No.
001-09120	PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED (A New Jersey Corporation) 80 Park Plaza, P.O. Box 1171 Newark, New Jersey 07101-1171 973 430-7000 http://www.pseg.com	22-2625848
001-34232	PSEG POWER LLC (A Delaware Limited Liability Company) 80 Park Plaza—T25 Newark, New Jersey 07102-4194 973 430-7000 http://www.pseg.com	22-3663480
001-00973	PUBLIC SERVICE ELECTRIC AND GAS COMPANY (A New Jersey Corporation) 80 Park Plaza, P.O. Box 570 Newark, New Jersey 07101-0570 973 430-7000 http://www.pseg.com	22-1212800

Securities registered pursuant to Section 12(b) of the Act:

Registrant	Title of Each Class	Name of Each Exchange On Which Registered
Public Service Enterprise Group Incorporated	Common Stock without par value	New York Stock Exchange
PSEG Power LLC	8 5/8% Senior Notes, due 2031	New York Stock Exchange
Public Service Electric and Gas Company	First and Refunding Mortgage Bonds 9 1/4% Series CC, due 2021 6 3/4% Series VV, due 2016 8%, due 2037 5%, due 2037	New York Stock Exchange

(Cover continued on next page)

Table of Contents

(Cover continued from previous page)

Securities registered pursuant to Section 12(g) of the Act:

Registrant	Title of Each Class
PSEG Power LLC	Limited Liability Company Membership Interest
Public Service Electric and Gas Company	Medium-Term Notes

Indicate by check mark whether each registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Public Service Enterprise Group Incorporated	Yes x	No ¨
PSEG Power LLC	Yes ¨	No x
Public Service Electric and Gas Company	Yes x	No ¨

Indicate by check mark if each of the registrants is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether each of the registrants (1) has 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) has been subject to such filing requirements for the past 90 days. Yes x 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 the 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 ¨	Non-accelerated filer ¨
PSEG Power LLC	Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x
Public Service Electric and Gas Company	Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x

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 x

The aggregate market value of the Common Stock of Public Service Enterprise Group Incorporated held by non-affiliates as of June 30, 2013 was $16,421,163,580 based upon the New York Stock Exchange Composite Transaction closing price.

The number of shares outstanding of Public Service Enterprise Group Incorporated's sole class of Common Stock as of January 31, 2014 was 506,164,959.

As of January 31, 2014, 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.

PSEG Power LLC and Public Service Electric and Gas Company are wholly owned subsidiaries of Public Service Enterprise Group Incorporated and each meet the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K. Each is filing its Annual Report on Form 10-K with the reduced disclosure format authorized by General Instruction I.

DOCUMENTS INCORPORATED BY REFERENCE

Part of Form 10-K of Public Service Enterprise Group Incorporated	Documents Incorporated by Reference
III	Portions of the definitive Proxy Statement for the 2014 Annual Meeting of Stockholders of Public Service Enterprise Group Incorporated, which definitive Proxy Statement is expected to be filed with the Securities and Exchange Commission on or about March 10, 2014, as specified herein.

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 are 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 Item 1A. Risk Factors, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), Item 8. Financial Statements and Supplementary Data —Note 13. Commitments and Contingent Liabilities, and other factors discussed in filings we make with the United States Securities and Exchange Commission (SEC) including our subsequent reports on Form 10-Q and Form 8-K and available on our website: http://www.pseg.com. These factors include, but are not limited to:

- adverse changes in the demand for or the price of the capacity and energy that we sell into wholesale electricity markets,
- adverse changes in energy industry law, policies and 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 in the future, 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 our operations,
- changes in nuclear regulation and/or general developments in the nuclear power industry, including various impacts from any accidents or incidents experienced at our facilities or by others in the industry, that could limit operations of our nuclear generating units,
- actions or activities at one of our nuclear units located on a multi-unit site that might adversely affect our ability to continue to operate that unit or other units located at the same site,
- any inability to balance our energy obligations, available supply and risks,
- any deterioration in our credit quality or the credit quality of our counterparties, including in our leveraged leases,
- availability of capital and credit at commercially reasonable terms and conditions and our ability to meet cash needs,
- changes in the cost of, or interruption in the supply of, fuel and other commodities necessary to the operation of our generating units,
- delays in receipt of necessary permits and approvals for our construction and development activities,
- delays or unforeseen cost escalations in our construction and development activities,
- any inability to achieve, or continue to sustain, our expected levels of operating performance,
- any equipment failures, accidents, severe weather events or other incidents that impact our ability to provide safe and reliable service to our customers, and any inability to obtain sufficient coverage or recover proceeds of insurance with respect to such events,
- cybersecurity attacks or intrusions that could adversely impact our businesses,
- increases in competition in energy supply markets as well as competition for certain transmission projects,
- any inability to realize anticipated tax benefits or retain tax credits,
- challenges associated with recruitment and/or retention of a qualified workforce,
- adverse performance of our decommissioning and defined benefit plan trust fund investments and changes in funding requirements, and
-

changes in technology, such as distributed generation and micro grids, and greater reliance on these technologies and changes in customer behaviors, including energy efficiency, net-metering and demand response.

All of the forward-looking statements made in this report are qualified by these cautionary statements and we cannot assure you that the results or developments anticipated by management will be realized or even if realized, will have the expected consequences to, or effects on, us or our business prospects, financial condition or results of operations. Readers are cautioned not to place undue reliance on these forward-looking statements in making any investment decision. Forward-looking statements made in this report apply only as of the date of this report. While we may elect to update forward-looking statements from time to time, we specifically disclaim any obligation to do so, even if internal estimates change, unless otherwise required by applicable securities laws.

The forward-looking statements contained in this report are intended to qualify for the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Table of Contents

FILING FORMAT AND GLOSSARY

This combined Annual Report on Form 10-K is separately filed by Public Service Enterprise Group Incorporated (PSEG), PSEG Power LLC (Power) and Public Service Electric and Gas Company (PSE&G). Information relating to any individual company is filed by such company on its own behalf. Power and PSE&G are each only responsible for information about itself and its subsidiaries.

Discussions throughout the document refer to PSEG and its direct operating subsidiaries, Power and PSE&G. 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. In addition, certain key acronyms and definitions are summarized in a glossary beginning on page 186.

WHERE TO FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document that we file at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. You may also obtain our filed documents from commercial document retrieval services, the SEC's internet website at www.sec.gov or our website at www.pseg.com. Information on our website should not be deemed incorporated into or as a part of this report. Our Common Stock is listed on the New York Stock Exchange under the ticker symbol PEG. You can obtain information about us at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

PART I

ITEM 1. BUSINESS

We were incorporated under the laws of the State of New Jersey in 1985 and our principal executive offices are located at 80 Park Plaza, Newark, New Jersey 07102. We conduct our business through two direct wholly owned subsidiaries, Power and PSE&G, each of which also has its principal executive offices at 80 Park Plaza, Newark, New Jersey 07102.

We are an energy company with a diversified business mix. Our operations are located primarily in the Northeastern and Mid- Atlantic United States. Our business approach focuses on operational excellence, financial strength and disciplined investment. As a holding company, our profitability depends on our subsidiaries' operating results. Below are descriptions of our two principal direct operating subsidiaries.

Power	PSE&G
A Delaware limited liability company formed in 1999 that integrates its nuclear, fossil and renewable generating asset operations with its wholesale energy sales, fuel supply and energy trading functions.	A New Jersey corporation, incorporated in 1924, which is a franchised public utility in New Jersey. It is also the provider of last resort for gas and electric commodity service for end users in its service territory.
Earns revenues from selling under contract or on the spot market a range of diverse products such as electricity, natural gas, capacity, emissions credits and a series of energy-related products used to optimize the operation of the energy grid.	Earns revenues from its regulated rate tariffs under which it provides electric transmission and electric and gas distribution to residential, commercial and industrial customers in its service territory. It also offers appliance services and repairs to customers throughout its service territory.
	Has also implemented demand response and energy efficiency programs and invested in solar generation within New Jersey.

Our other direct wholly owned subsidiaries are: PSEG Energy Holdings L.L.C. (Energy Holdings), which earns its revenues primarily from its portfolio of lease investments; PSEG Long Island LLC (PSEG LI), which operates the Long Island Power Authority's transmission and distribution system under a contractual agreement; and PSEG Services Corporation (Services), which provides us and our operating subsidiaries with certain management, administrative and general services at cost.

Table of Contents

The following is a more detailed description of our business, including a discussion of our:

- Business Operations and Strategy
- Competitive Environment
- Employee Relations
- Regulatory Issues
- Environmental Matters

BUSINESS OPERATIONS AND STRATEGY

Power

Through Power, we seek to produce low-cost energy by efficiently operating our nuclear, coal, gas, oil-fired and renewable generation assets, while balancing generation output, fuel requirements and supply obligations through energy portfolio management. We use our owned generation combined with commodity contracts and financial instruments to cover our commitments for Basic Generation Service (BGS) in New Jersey and other bilateral supply contract agreements.

Products and Services

As a merchant generator, our profit is derived from selling a range of products and services under contract to power marketers and to others, such as investor-owned and municipal utilities, and to aggregators who resell energy to retail consumers, or in the open market. These products and services include:

- Energy—the electrical output produced by generation plants that is ultimately delivered to customers for use in lighting, heating, air conditioning and operation of other electrical equipment. Energy is our principal product and is priced on a usage basis, typically in cents per kilowatt hour (kWh) or dollars per megawatt hour (MWh).
- Capacity—a product distinct from energy, is a market commitment that a given generation unit will be available to an Independent System Operator (ISO) for dispatch when it is needed to meet system demand. Capacity is typically priced in dollars per megawatt (MW) for a given sale period.
- Ancillary Services—related activities supplied by generation unit owners to the wholesale market that are required by the ISO to ensure the safe and reliable operation of the bulk power system. Owners of generation units may bid units into the ancillary services market in return for compensatory payments. Costs to pay generators for ancillary services are recovered through charges imposed on market participants.
- Emissions Allowances and Congestion Credits—Emissions allowances (or credits) represent the right to emit a specific amount of certain pollutants. Allowance trading is used to control air pollution by providing economic incentives for achieving reductions in the emissions of pollutants. Congestion credits (or Financial Transmission Rights) are financial instruments that entitle the holder to a stream of revenues (or charges) based on the hourly congestion price differences across a transmission path.

Power also sells wholesale natural gas, primarily through a full requirements Basic Gas Supply Service (BGSS) contract with PSE&G to meet the gas supply requirements of PSE&G's customers. This long-term arrangement was for an initial period which extended through March 31, 2012 and continues on a year-to-year basis unless terminated by either party with a one year notice.

Approximately 46% of PSE&G’s peak daily gas requirements is provided from Power’s firm gas transportation capacity, which is available every day of the year. Power satisfies the remainder of PSE&G’s requirements from storage contracts, liquefied natural gas, seasonal purchases, contract peaking supply, propane and refinery gas. Based upon the availability of natural gas beyond PSE&G's daily needs, Power also sells gas to others.

In addition to its nuclear and fossil generation fleet, Power owns and operates 88 MW of photovoltaic (PV) solar generation facilities and has a 50% ownership interest in an oil-fired generation facility in Hawaii.

The remainder of this section about Power covers our nuclear and fossil fleet in the Mid-Atlantic and Northeast regions which comprise the vast majority of Power’s operations and financial performance.

Table of Contents

How Power Operates

We own approximately 13,466 MW of generation capacity, of which 13,274 MW of nuclear and fossil generation capacity is located in the Northeast and Mid-Atlantic regions of the United States in some of the country's largest and most developed electricity markets.

The map below shows the locations of our Northeast and Mid-Atlantic nuclear and fossil generation facilities:

- Generation Capacity

Power has approved the expenditure of $419 million for an extended power uprate of the Peach Bottom nuclear units. The uprate is expected to result in an increase in Power's share of nominal capacity of approximately 130 MW. The uprate is expected to be in service in 2015 for Unit 2 and 2016 for Unit 3. Total expenditures through December 31, 2013 were $154 million.

Power has also approved the expenditure of $191 million for the upgrading of its natural gas-fired combined cycle units located at Bergen and Linden in New Jersey and at the Bethlehem Energy Center (BEC) unit located in New York. When completed in 2018, these upgrades will add approximately 152 MW of capacity and improve the heat rates of these units. Total expenditures through December 31, 2013 were $13 million.

For additional information on each of our generation facilities, see Item 2. Properties.

Our nuclear and fossil installed capacity utilizes a diverse mix of fuels: 44% gas, 28% nuclear, 18% coal, 9% oil and 1% pumped storage. This fuel diversity helps to mitigate risks associated with fuel price volatility and market demand cycles. Our total generating output in 2013 was approximately 53,000 gigawatt hours (GWh). The generation mix by fuel type has changed slightly in recent years due to the relatively favorable price of natural gas as compared to coal, making it more economical to run certain of our gas units than our coal units. The following table indicates the proportionate share of generating output by fuel type in 2013.

Table of Contents

Generation by Fuel Type (A)	Actual 2013	
Nuclear:		
New Jersey facilities	38%	
Pennsylvania facilities	17%	
Fossil:		
Coal:		
Pennsylvania facilities	11%	
Connecticut facilities	1%	
Coal and Natural Gas:		
New Jersey facilities	2%	
Oil and Natural Gas:		
New Jersey facilities	24%	
New York facilities	7%	
Connecticut facilities	—%	(B)
Total	100%	

(A) Excludes pumped storage, solar facilities and fossil generation in Hawaii
(B) Less than one percent

•Generation Dispatch

Our generation units are typically characterized as serving one or more of three general energy market segments: base load; load following; and peaking, based on their operating capability and performance. On a capacity basis, our portfolio of generation assets consists of 33% base load, 43% load following and 24% peaking. This diversity helps to reduce the risk associated with market demand cycles and allows us to participate in the market at each segment of the dispatch curve.

•Base Load Units run the most and typically operate whenever they are available. These units generally derive revenues from energy and capacity sales. Variable operating costs are low due to the combination of highly efficient operations and the use of relatively lower-cost fuels. Performance is generally measured by the unit's "capacity factor," or the ratio of the actual output to the theoretical maximum output. In 2013, our base load capacity factors were as follows:

Unit	2013 Capacity Factor
Nuclear	
Salem Unit 1	87.0%
Salem Unit 2	99.5%
Hope Creek	85.6%
Peach Bottom Unit 2	98.4%
Peach Bottom Unit 3	85.3%
Coal	
Keystone	83.7%
Conemaugh	79.1%

No assurances can be given that these capacity factors will be achieved in the future.

•Load Following Units typically operate between 20% and 80% of the time. The operating costs are higher per unit of output due to the use of higher-cost fuels such as oil, natural gas and, in some cases, coal or lower overall unit

efficiency. They operate less frequently than base load units and derive revenues from energy, capacity and ancillary services.

Table of Contents

- Peaking Units run the least amount of time and utilize higher-priced fuels. These units typically operate less than 20% of the time. Costs per unit of output tend to be much higher than for base load units given the combination of higher heat rates and fuel costs. The majority of revenues are from capacity and ancillary service sales. The characteristics of these units enable them to capture energy revenues during periods of high energy prices.

In the energy markets in which we operate, owners of power plants specify to the ISO prices at which they are prepared to generate and sell energy based on the marginal cost of generating energy from each individual unit. The ISOs will generally dispatch in merit order, calling on the lowest variable cost units first and dispatching progressively higher-cost units until the point that the entire system demand for power (known as the system “load”) is satisfied reliably. Base load units are dispatched first, with load following units next, followed by peaking units.

During periods when one or more parts of the transmission grid are operating at full capability, thereby resulting in a constraint on the transmission system, it may not be possible to dispatch units in merit order without violating transmission reliability standards. Under such circumstances, the ISO will dispatch higher-cost generation out of merit order within the congested area and power suppliers will be paid an increased Locational Marginal Price (LMP) in congested areas, reflecting the bid prices of those higher-cost generation units.

The following chart depicts the unconstrained merit order of dispatch of our units in PJM Interconnection L.L.C. (PJM), the ISO in the region where most of our generation units are located, based on illustrative historical dispatch cost. It should be noted that market price fluctuations have resulted in changes from historical norms, with lower gas prices allowing some gas-fired generation to displace some coal-fired generation in the load-following portion of the curve.

The size of each facility's circle in the above chart illustrates the relative MW generating capacity of that facility. For additional information on each of our generation facilities, see Item 2. Properties.

The bid price of the last unit dispatched by an ISO establishes the energy market-clearing price. After considering the market-clearing price and the effect of transmission congestion and other factors, the ISO calculates the LMP for every location in the system. The ISO pays all units that are dispatched their respective LMP for each MWh of energy produced, regardless of their specific bid prices. Since bids generally approximate the marginal cost of production, units with lower marginal costs typically generate higher operating profits than units with comparatively higher marginal costs.

This method of determining supply and pricing creates a situation where natural gas prices often have a major influence on the price that generators will receive for their output, especially in periods of relatively strong demand. Therefore, significant changes in the price of natural gas will often translate into significant changes in the wholesale price of electricity. This can be seen in the following graphs which present historical annual spot prices and forward calendar prices as averaged over each year at two liquid trading hubs.

Table of Contents

Historical data and forward prices imply that the price of natural gas will continue to have a strong influence on the price of electricity in the primary markets in which we operate.

The prices reflected in the preceding graphs above do not necessarily illustrate our contract prices, but they are representative of market prices at relatively liquid hubs, with nearer-term forward pricing generally resulting from more liquid markets than pricing for later years. In addition, the prices do not reflect locational differences resulting from congestion or other factors, such as the availability of natural gas from the Marcellus and other shale-gas regions, which can be considerable. While these prices provide some perspective on past and future prices, the forward prices are highly volatile and there can be no assurance that such prices will remain in effect or that we will be able to contract output at these forward prices.

Fuel Supply

•Nuclear Fuel Supply—We have long-term contracts for nuclear fuel. These contracts provide for:

•purchase of uranium (concentrates and uranium hexafluoride),

•conversion of uranium concentrates to uranium hexafluoride,

Table of Contents

- enrichment of uranium hexafluoride, and
- fabrication of nuclear fuel assemblies.

- Coal Supply—Our Keystone, Conemaugh and Bridgeport stations operate on coal. Our Hudson and Mercer stations have the ability to operate on both coal and natural gas. We have coal contracts with numerous suppliers. Coal is delivered to our units through a combination of rail, truck, barge or ocean shipments.

In order to control emissions levels, our Bridgeport 3 unit uses a specific type of coal obtained from Indonesia. If the supply from Indonesia or equivalent coal from other sources was not available for this facility, its long-term operations would be adversely impacted since additional material capital expenditures would be required to modify this station to enable it to operate using a broader mix of coal sources.

- Gas Supply—Natural gas is the primary fuel for the bulk of our load following and peaking fleet. We purchase gas directly from natural gas producers and marketers. These supplies are transported to New Jersey by three interstate pipelines with which we have contracted. In addition, we have firm gas transportation contracts to serve our BEC station in New York.

We have 1.3 billion cubic feet-per-day of firm transportation capacity under contract to meet our obligations under the BGSS contract. This transportation capacity includes approximately 0.6 billion cubic feet-per-day of access to the northeast Pennsylvania Marcellus shale gas region. We supplement that supply with a total storage capacity of 76 billion cubic feet. On an as-available basis, this firm transportation capacity may also be used to serve the gas supply needs of our generation fleet.

- Oil—Oil is used as the primary fuel for one load following steam unit and nine combustion turbine peaking units and can be used as an alternate fuel by several load following and peaking units that have dual-fuel capability. Oil for operations is drawn from on-site storage and is generally purchased on the spot market and delivered by truck, barge or pipeline.

We expect to be able to meet the fuel supply demands of our customers and our own operations. However, the ability to maintain an adequate fuel supply could be affected by several factors not within our control, including changes in prices and demand, curtailments by suppliers, severe weather and other factors. For additional information, see Item 7. Management's Discussion and Analysis (MD&A)—Overview of 2013 and Future Outlook and Item 8. Financial Statements and Supplementary Data—Note 13. Commitments and Contingent Liabilities.

Markets and Market Pricing

The vast majority of Power’s generation assets are located in three centralized, competitive electricity markets operated by ISO organizations all of which are subject to the regulatory oversight of the Federal Energy Regulatory Commission (FERC):

- PJM Regional Transmission Organization—PJM conducts the largest centrally dispatched energy market in North America. It serves over 61 million people, nearly 20% of the total United States population, and has a peak demand of 165,492 MW. The PJM Interconnection coordinates the movement of electricity through all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. The majority of our generating stations operate in PJM.
- New York—The New York ISO (NYISO) is the market coordinator for New York State and is responsible for managing the New York Power Pool and for administering its energy marketplace. This service area has a population of about 20 million and a peak demand of 33,939 MW. Our BEC station operates in New York.
- New England—The ISO-New England (ISO-NE) is the market coordinator for the New England Power Pool and for administering its energy marketplace which covers Maine, New Hampshire, Vermont, Massachusetts, Connecticut and Rhode Island. This service area has a population of about 14 million and a peak demand of 28,130 MW. Our Bridgeport and New Haven stations operate in Connecticut.

The price of electricity varies by location in each of these markets. Depending upon our production and our obligations, these price differentials can serve to increase or decrease our profitability.

Commodity prices, such as electricity, gas, coal, oil and emissions, as well as the availability of our diverse fleet of generation units to operate, also have a considerable effect on our profitability. These commodity prices have been, and continue to be, subject to significant market volatility. Over the long-term, the higher the forward prices are, the more attractive an environment exists for us to contract for the sale of our anticipated output. However, higher prices

also increase the cost of

Table of Contents

replacement power; thereby placing us at greater risk should our generating units fail to function effectively or otherwise become unavailable.

Over the past few years, a decline in wholesale natural gas prices has resulted in lower electric energy prices. One of the reasons for the decline in natural gas prices is greater supply from more recently developed sources, such as shale gas. This trend has reduced margin on forward sales as we re-contract our expected generation output.

In addition to energy sales, we earn revenue from capacity payments for our generating assets. These payments are compensation for committing our generating capacity to the ISO for dispatch at its discretion. Capacity payments reflect the value to the ISO of assurance that there will be sufficient generating capacity available at all times to meet system reliability and energy requirements. Currently, there is sufficient capacity in the markets in which we operate. However, in certain areas of these markets there are transmission system constraints which raise concerns about reliability and create a more acute need for capacity.

In PJM and ISO-NE, where we operate most of our generation, the market design for capacity payments provides for a structured, forward-looking, transparent capacity pricing mechanism. This is through the Reliability Pricing Model (RPM) in PJM and the Forward Capacity Market (FCM) in ISO-NE. These mechanisms provide greater transparency regarding the value of capacity and provide a pricing signal to prospective investors in new generating facilities so as to encourage expansion of capacity to meet future market demands.

The prices to be received by generating units in PJM for capacity have been set through RPM base residual auctions and depend upon the zone in which the generating unit is located. For each delivery year, the prices differ in the various areas of PJM, depending on the constraints in each area of the transmission system. Keystone and Conemaugh receive lower prices than the majority of our PJM generating units since there are fewer constraints in that region and our generating units in northern New Jersey usually receive higher pricing.

Our PJM generating units are located in several zones and Power expects to realize the following average capacity prices from the base auctions which have been completed:

Delivery Year	MW-day
June 2013 to May 2014	$244
June 2014 to May 2015	$162
June 2015 to May 2016	$167
June 2016 to May 2017	$166

The price that must be paid by an entity serving load in the various zones is also set through these auctions. These prices can be higher or lower than the prices noted in the table above due to import and export capability to and from lower-priced areas.

Like PJM and ISO-NE, the NYISO provides capacity payments to its generating units, but unlike the other two markets, the New York market does not provide a forward price signal beyond a six month auction period.

We have obtained price certainty for our PJM and New England capacity through May 2017 through the RPM and FCM pricing mechanisms.

On a prospective basis, many factors may affect the capacity pricing, including but not limited to:

- load and demand,
- available amounts of demand response resources,
- capacity imports from external regions,
- available generating capacity (including retirements, additions, derates, forced outages, etc.),
- transmission capability between zones,
- pricing mechanisms, including potentially increasing the number of zones to create more pricing sensitivity to changes in supply and demand, as well as other potential changes that PJM and the other ISOs may propose over time, and
- legislative and/or regulatory actions that permit states to subsidize local electric power generation.

For additional information on the RPM and FCM markets, as well as on state subsidization through various mechanisms, see Regulatory Issues—Federal Regulation.

Table of Contents

Hedging Strategy

To mitigate volatility in our results, we seek to contract in advance for a significant portion of our anticipated electric output, capacity and fuel needs. We seek to sell a portion of our anticipated lower-cost generation over a multi-year forward horizon, normally over a period of two to three years. We believe this hedging strategy increases stability of earnings.

Among the ways in which we hedge our output are: (1) sales at PJM West and (2) BGS contracts. Sales at PJM West reflect block energy sales at the liquid PJM Western Hub and other transactions that seek to secure price certainty for our generation related products. In addition, the BGS-Fixed Price contract, a full requirements contract that includes energy and capacity, ancillary and other services, is awarded for three-year periods through an auction process managed by the New Jersey Board of Public Utilities (BPU). The volume of BGS contracts and the electric utilities that our generation operations serve will vary from year to year. Pricing for the BGS contracts, including a capacity component, for recent and future periods by purchasing utility is as follows:

Load Zone ($/MWh)	2010-2013	2011-2014	2012-2015	2013-2016	2014-2017
PSE&G	$95.77	$94.30	$83.88	$92.18	$97.39
Jersey Central Power & Light	$95.17	$92.56	$81.76	$83.70	$84.44
Atlantic City Electric	$98.56	$100.95	$85.10	$87.27	$87.80
Rockland Electric Company	$103.32	$106.84	$92.51	$92.58	$95.61

Although we enter into these hedges in an effort to provide price certainty for a large portion of our anticipated generation, there is variability in both our actual output as well as in our hedges. Our actual output will vary based upon total market demand, the relative cost position of our units compared to other units in the market and the operational flexibility of our units. Our hedge volume can also vary, depending on the type of hedge into which we have entered. The BGS auction, for example, results in a contract that provides for the supplier to serve a percentage of the default load of a New Jersey electric distribution company (EDC), that is, the load that remains after some customers have chosen to be served directly either by third party suppliers or through municipal aggregation. The amount of power supplied through the BGS auction varies based on the level of the EDC's default load, which is affected by the number of customers who choose a third party supplier, as well as by other factors such as weather and the economy.

In recent years, as market prices declined from previous levels, there was an incentive for more of the smaller commercial and industrial electric customers to switch to third party suppliers. In a falling price environment, this has a negative impact on our margins, as the anticipated BGS pricing is replaced by lower spot market pricing. As average BGS rates have declined to a level that more closely resembles current market prices, customers may see less of an incentive to switch to third party suppliers. We are unable to determine the degree to which this switching, or "migration," will continue, but the impact on our results could be material should market prices fall significantly.

As of February 11, 2014, we had contracted for the following percentages of our anticipated base load generation output for the next three years with modest amounts beyond 2016.

Base Load Generation	2014	2015	2016
Generation Sales	100%	75%-80%	30%-35%

In a changing market environment, this hedging strategy may cause our realized prices to differ materially from current market prices. In a rising price environment, this strategy normally results in lower margins than would have been the case if little or no hedging activity had been conducted. Alternatively, in a falling price environment, this hedging strategy will tend to create margins higher than those implied by the then current market.

Our fuel strategy is to maintain certain levels of uranium in inventory and to make periodic purchases to support such levels. Our nuclear fuel commitments cover approximately 100% of our estimated uranium, enrichment and fabrication requirements through 2015 and a portion of 2016. We also have various long-term fuel purchase

commitments for coal to support our fossil generation stations. These purchase obligations are consistent with our strategy to enter into contracts for its fuel supply in comparable volumes to our sales contracts.

We take a more opportunistic approach in hedging our anticipated natural gas-fired generation. The generation from these units is less predictable, as a significant portion of these units will only dispatch when aggregate market demand has exceeded the supply provided by lower-cost units. Additionally, the recent development of low-cost gas supplies in the Marcellus region presents opportunities during certain portions of the year to procure gas for our generating units at attractive prices.

Table of Contents

PSE&G

Our regulated transmission and distribution public utility, PSE&G, distributes electric energy and gas to customers within a designated service territory running diagonally across New Jersey where approximately 6.2 million people, or about 70% of New Jersey's population resides.

Products and Services

Our utility operations primarily earn margins through the transmission and distribution of electricity and the distribution of gas.

- Transmission—the movement of electricity at high voltage from generating plants to substations and transformers, where it is then reduced to a lower voltage for distribution to homes, businesses and industrial customers. Our revenues for these services are based upon tariffs approved by the FERC.
- Distribution—the delivery of electricity and gas to the retail customer’s home, business or industrial facility. Our revenues for these services are based upon tariffs approved by the BPU.

The commodity portion of our utility business’ electric and gas sales is managed by BGS and BGSS suppliers. Pricing for those services are set by the BPU as a pass-through, resulting in no margin for our utility operations.

We also earn margins through competitive services, such as appliance repair.

In addition to our current utility products and services, we have implemented several programs to increase the level of regulated solar generation within New Jersey, including:

- programs to help finance the installation of solar power systems throughout our electric service area, and
- programs to develop, own and operate solar power systems.

We have also implemented a set of energy efficiency and demand response programs to encourage conservation and energy efficiency by providing energy and cost saving measures directly to businesses and families. For additional information

Table of Contents

concerning these programs and the components of our tariffs, see Regulatory Issues—State Regulation and Item 8. Financial Statements and Supplementary Data—Note 6. Regulatory Assets and Liabilities.

How PSE&G Operates

We are a transmission owner in PJM and we provide distribution service to 2.2 million electric customers and 1.8 million gas customers in a service area that covers approximately 2,600 square miles running diagonally across New Jersey. We serve the most heavily populated, commercialized and industrialized territory in New Jersey, including its six largest cities and approximately three hundred suburban and rural communities.

Transmission

We use formula rates for our transmission cost of service and investments. Formula-type rates provide a method of rate recovery where the transmission owner annually determines its revenue requirements through a fixed formula which considers Operations and Maintenance expenditures, Rate Base and capital investments and applies an approved return on equity (ROE) in developing the weighted average cost of capital. Our approved rates provide for a base ROE of 11.68% on existing and new transmission investment, while certain investments are entitled to earn an additional incentive rate. For more information, see Regulatory Issues—Federal Regulation—Transmission Regulation.

Transmission Statistics

December 31, 2013

Network Circuit Miles	Billing Peak (MW)	Historical Annual Load Growth 2009-2013
1,499	10,414	(0.5)%

During 2013, we continued to execute our five major regional transmission projects for which we were assigned construction responsibility by PJM:

Major Transmission Projects
As of December 31, 2013

Project	Total Estimated Project Costs Millions	Total Project Spend	Expected In-Service Date
Susquehanna-Roseland	$790	$661	June 2014/June 2015
Northeast Grid Reliability	$907	$228	June 2015
North Central Reliability	$390	$349	June 2014
Burlington-Camden 230kV	$399	$301	June 2014
Mickleton-Gloucester-Camden 230kV	$435	$122	June 2015

In December 2013, we were assigned construction by PJM of a new transmission project that will provide a double-circuit 345kV line in the Bergen-Linden Corridor to maintain reliability. This project has an expected in-service date of June 2018, and an estimated construction cost of up to $1.2 billion. The net increase in PSE&G's capital expenditures is expected to be less than the estimated cost of the 345 kV project, as it will eliminate the need for certain other projects that had been previously assigned by PJM.

Distribution

PSE&G distributes gas and electricity to end users in our service territory. Our load requirements were split among residential, commercial and industrial customers, as described in the following table for 2013. We believe that we have all the franchise rights (including consents) necessary for our electric and gas distribution operations in the territory we serve.

11

Table of Contents

	% of 2013 Sales	
Customer Type	Electric	Gas
Commercial	57%	36%
Residential	33%	60%
Industrial	10%	4%
Total	100%	100%

While our customer base has remained steady, gas load has increased and electric load has declined as illustrated:

Electric and Gas Distribution Statistics

	December 31, 2013 Number of Customers		Electric Sales and Gas Sold and Transported		Historical Annual Load Growth 2009-2013
Electric	2.2	Million	41,277	GWh	(1.1)%
Gas	1.8	Million	3,813	Million Therms	2.1%

The decline in electric sales is the result of changes in customer usage patterns, including conservation, and the slowdown in economic activity that occurred during the recent recession. Gas sales increased as a result of increased usage by non-firm customers as a result of lower gas prices and more favorable winter weather.

Solar Generation

In order to support New Jersey's Energy Master Plan and the state's renewable energy goals, we have undertaken two major solar initiatives at PSE&G, the Solar Loan Program and the Solar 4 All Program. Our Solar Loan Program provides solar system financing to our residential and commercial customers. The loans are repaid with cash or solar renewable energy certificates (SRECs). We sell the SRECs used to repay the loans through a periodic auction, the proceeds of which are used to offset program costs. Our Solar 4 All Program invests in utility-owned solar PV centralized solar systems installed on PSE&G property and third party sites, and solar panels installed on distribution system poles in our electric service territory. We sell the energy and capacity from the systems in the PJM wholesale electricity market. In addition, we sell SRECs generated by the projects through the same periodic auction used in the loan program, the proceeds of which are used to offset program costs. As of December 31, 2013, we have invested an aggregate of approximately $700 million in both solar programs.

Supply

Although commodity revenues make up almost 43% of our revenues, we make no margin on the supply of electricity and gas since the actual costs are passed through to our customers.

All electric and gas customers in New Jersey have the ability to choose their own electric energy and/or gas supplier. Pursuant to the BPU requirements, we serve as the supplier of last resort for two types of electric and gas customers within our service territory that are not served by another supplier. The first type, which represents about 80% of PSE&G’s load requirements, provides default supply service for smaller industrial and commercial customers and residential customers at seasonally-adjusted fixed prices for a three-year term (BGS-Fixed Price). These rates change annually on June 1 and are based on the average price obtained at auctions in the current year and two prior years. The second type provides default supply for larger customers, with energy priced at hourly PJM real-time market prices for a contract term of 12 months (BGS-CIEP).

We procure the supply to meet our BGS obligations through auctions authorized by the BPU for New Jersey’s total BGS requirement. These auctions take place annually in February. Results of these auctions determine which energy suppliers are authorized to supply BGS to New Jersey’s EDCs. Once validated by the BPU, electricity prices for BGS service are set. Approximately one-third of PSE&G’s total BGS-Fixed Price eligible load is auctioned each year for a three-year term. For information on current prices, see Item 8. Financial Statements and Supplementary Data—Note 13. Commitments and Contingent Liabilities.

PSE&G procures the supply requirements of its default service BGSS gas customers through a full requirements contract with Power. The BPU has approved a mechanism designed to recover all gas commodity costs related to BGSS for residential customers. BGSS filings are made annually by June 1 of each year, with an effective date of October 1. PSE&G's revenues are matched with its costs using deferral accounting, with the goal of achieving a zero cumulative balance by September 30 of each

Table of Contents

year. In addition, we have the ability to put in place two self-implementing BGSS increases on December 1 and February 1 of up to 5% and also may reduce the BGSS rate at any time. See Item 8. Financial Statements and Supplementary Data—Note 6. Regulatory Assets and Liabilities for information on recent self-implementing credits. Any difference between rates charged under the BGSS contract and rates charged to our residential customers is deferred and collected or refunded through adjustments in future rates. Commercial and industrial customers that do not have third party suppliers are also supplied under the BGSS arrangement. These customers are charged a market-based price largely determined by prices for commodity futures contracts.

Markets and Market Pricing

Historically, there has been significant volatility in commodity prices. Such volatility can have a considerable impact on us since a rising commodity price environment results in higher delivered electric and gas rates for customers. This could result in decreased demand for electricity and gas, increased regulatory pressures and greater working capital requirements as the collection of higher commodity costs from our customers may be deferred under our regulated rate structure. A declining commodity price on the other hand, would be expected to have the opposite effect. For additional information, including the impact of natural gas commodity prices on electricity prices such as BGS, see Item 7. MD&A—Overview of 2013 and Future Outlook.

Other

Energy Holdings primarily owns and manages a portfolio of lease investments. Over the past several years, we have terminated all of our international leveraged leases in order to reduce the cash tax exposure related to these leases. We have also reduced our risk by opportunistically monetizing all of our previous international investments.

The majority of Energy Holdings' remaining $825 million of domestic lease investments are primarily energy-related leveraged leases. As of December 31, 2013, 70% of our total leveraged lease investments were rated as below investment grade by Standard & Poor's.

Energy Holdings' leveraged leasing portfolio is designed to provide a fixed rate of return. Leveraged lease investments involve three parties: an owner/lessor, a creditor and a lessee. In a typical leveraged lease financing, the lessor purchases an asset to be leased. The purchase price is typically financed 80% with debt provided by the creditor and the balance comes from equity funds provided by the lessor. The creditor provides long-term financing to the transaction secured by the property subject to the lease. Such long-term financing is non-recourse to the lessor and, with respect to our lease investments, is not presented on our Consolidated Balance Sheets.

The lessor acquires economic and tax ownership of the asset and then leases it to the lessee for a period of time no greater than 80% of its remaining useful life. As the owner, the lessor is entitled to depreciate the asset under applicable federal and state tax guidelines. The lessor receives income from lease payments made by the lessee during the term of the lease and from tax benefits associated with interest and depreciation deductions with respect to the leased property. Our ability to realize these tax benefits is dependent on operating gains generated by our other operating subsidiaries and allocated pursuant to the consolidated tax sharing agreement between us and our operating subsidiaries.

Lease rental payments are unconditional obligations of the lessee and are set at levels at least sufficient to service the non-recourse lease debt. The lessor is also entitled to any residual value associated with the leased asset at the end of the lease term. An evaluation of the after-tax cash flows to the lessor determines the return on the investment. Under accounting principles generally accepted in the United States (GAAP), the leveraged lease investment is recorded net of non-recourse debt and income is recognized as a constant return on the net unrecovered investment.

For additional information on leases, including the credit, tax and accounting risks, see Item 1A. Risk Factors, Item 7A. Quantitative and Qualitative Disclosures About Market Risk—Credit Risk, Item 8. Financial Statements and Supplementary Data—Note 8. Financing Receivables and Note 13. Commitments and Contingent Liabilities.

On December 31, 2013, PSEG Long Island LLC (PSEG LI) and the Long Island Power Authority (LIPA) entered into a twelve year Amended and Restated Operations Services Agreement (OSA) effective January 1, 2014 to operate LIPA’s electric transmission and distribution (T&D) system in Long Island, New York. As required by the OSA, PSEG LI also provides administrative support functions to LIPA. PSEG LI uses its brand in the Long Island T&D service area. Pursuant to the OSA, PSEG LI acts as LIPA's agent in performing many of its obligations and in return (a) receives reimbursement for pass-through operating expenditures, (b) receives a fixed management fee, and (c) is

eligible to receive an incentive fee contingent on meeting established performance metrics. In addition, there is the opportunity for the parties to extend the contract for an additional eight years subject to the achievement by PSEG LI of certain performance levels during the initial term of the OSA. Also, beginning in 2015, Power will provide fuel procurement and power management services to LIPA under separate agreements.

Table of Contents

COMPETITIVE ENVIRONMENT

Power

Various market participants compete with us and one another in buying and selling in the wholesale energy markets, entering into bilateral contracts and selling to aggregated retail customers. Our competitors include:

- merchant generators,
- domestic and multi-national utility generators,
- energy marketers,
- banks, funds and other financial entities,
- fuel supply companies, and
- affiliates of other industrial companies.

New additions of lower-cost or more efficient generation capacity could make our plants less economical in the future. Although it is not clear if this capacity will be built or, if so, what the economic impact will be, such additions could impact market prices and our competitiveness.

Our business is also under competitive pressure due to demand side management (DSM) and other efficiency efforts aimed at changing the quantity and patterns of usage by consumers which could result in a reduction in load requirements. A reduction in load requirements can also be caused by economic cycles, weather, municipal aggregation and other customer migration and other factors. In addition, how resources such as demand response and capacity imports are permitted to bid into the capacity markets also affects the prices paid to generators such as Power in these markets. It is also possible that advances in technology, such as distributed generation and micro grids, will reduce the cost of alternative methods of producing electricity to a level that is competitive with that of most central station electric production. To the extent that additions to the electric transmission system relieve or reduce congestion in eastern PJM where most of our plants are located, our revenues could be adversely affected. Changes in the rules governing what types of transmission will be built, who is permitted to build transmission and who will pay the costs of future transmission could