



With Resilience Comes Sustainability



Sustainability is a business for the next 110 years. Our and greener energy – is in

Message from our Chairman

This is the 110th year of the PSEG family of companies. Our energy has long been instrumental in making life better for our customers and communities. We are the oldest and largest electric and gas utility in New Jersey as well as a large regional electricity provider. We have solar energy facilities in five states. Our dedicated employees remain our most important asset.

Sustainability is a business imperative as we chart our course for the next 110 years. Our vision – based on safe, reliable, economic and greener energy – is in the forefront of our thinking.

The successful utilities of the future will align their businesses ever more closely with the needs of society. One key challenge is the need for a resilient infrastructure to improve society's ability to withstand and recover from extreme weather. Superstorm Sandy, which struck New Jersey on

October 29, 2012, was the worst storm in our history. We don't know if or when another Sandy will strike. Yet it is indisputable that people are increasingly dependent on electricity at a time when the effects of changing weather patterns test our adaptive capacities more than ever.

Proactive strategies are needed to reduce our vulnerability to these events. Our Energy Strong investment plan would dedicate nearly \$4 billion over 10 years in improvements to further strengthen our electric and gas systems and help safeguard our customers and communities. This is a cornerstone investment in keeping with what PSEG has done for more than 100 years to support a bright future for New Jersey. It will provide lasting benefits to our customers. And it will take to the next level what it means to be a leader in providing safe, reliable, economic and greener energy.

imperative as we chart our course vision – based on safe, reliable, economic the forefront of our thinking.

Protecting critical infrastructure is an important facet of climate adaptation. We need to be just as proactive in addressing the roots of the problem by reducing pressures on the environment. We will continue to emphasize a sustainable energy strategy based on energy efficiency, renewables and other advanced, clean technologies. Over many years we have made large investments to reduce emissions of traditional pollutants from our fossil-fueled plants to a small fraction of former levels. We see this as a critical element of our competitive positioning while also contributing to our reputation for environmental leadership.

As you will see in this report, we continue to make significant strides toward becoming a more sustainable business. With the continued support of our employees, we have been able to make meaningful progress through wide-ranging and ongoing efforts to further reduce environmental impacts and strengthen economic

vibrancy on many different levels, while at the same time continuing to deliver value to our customers and shareholders alike.

There is no resting on laurels if companies such as PSEG are to meet society's evolving needs for sustainable energy. While we have far to travel on our journey, we are fortunate in having an outstanding workforce of diverse and highly skilled people. With their continued support, I am confident that the future will be even brighter not only for our company, but for the larger society around us.

Sincerely,



Ralph Izzo
Chairman, President and Chief Executive Officer

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About this Report

Public Service Enterprise Group Incorporated (PSEG) strives to be a leader in building an economically strong, environmentally responsible energy future. We are pleased to share with our customers, communities, shareholders and employees our 2013 Sustainability Report that updates our progress toward this goal in the previous year. The 2013 report is our fifth annual Sustainability Report and allows us to reflect on our progress over the past year with a fresh, new approach that captures our vision to be a recognized leader for **P**eople providing **S**afe, reliable, **E**conomic and **G**reener energy.

Each section in this report offers a critical look at the issues that matter most to our company and stakeholders as we strive to enhance the benefits we bring to people and reduce our environmental impact. We note progress in key areas but also discuss major challenges such as the need for a more resilient infrastructure that can better withstand extreme weather events such as Superstorm Sandy.

This report also provides an overview of our Energy Strong proposal and many other initiatives through which we invest for a bright future. We invite you to read more about our approach on the Sustainability section of our corporate website, located at: <http://www.pseg.com/sustainability>. With this report and our supplemental online information, we believe we meet the Global Reporting Initiative (GRI) Guidelines for Application Level B. Self-verification was conducted using GRI Sustainability Reporting Guidelines.

FEEDBACK

We welcome your feedback on our performance and reporting. For additional information about this report, the GRI information posted on our website or PSEG's sustainability initiatives, please contact Angela Ortiz at Angela.Ortiz@pseg.com or send your comments to sustainability@pseg.com.





PSEG at a Glance

Public Service Enterprise Group (PSEG) is New Jersey's largest provider of electric and gas service, serving 1.8 million gas customers and 2.2 million electric customers, approximately 70 percent of the state's population. We also own and operate a diverse fleet of power plants with more than 13,000 megawatts of generating capacity in the Northeast and Mid-Atlantic regions of the United States. We have been recognized not only for outstanding reliability, but also for our role in developing renewable solar energy. We are a publicly traded (NYSE: PEG) diversified energy company among the nation's leading utilities with approximately \$32 billion in assets. We are headquartered in Newark, NJ.

COMPANY OVERVIEW

PSEG conducts business through three operating subsidiaries: PSEG Power, Public Service Electric and Gas (PSE&G), and PSEG Energy Holdings.

PUBLIC SERVICE ELECTRIC AND GAS (PSE&G)

PSE&G is a franchised public utility that provides electric and gas distribution and transmission

2012 Results

Employees	9,802
Total Assets (in Millions)	\$ 31,725
Total Revenue (Dollars in Millions)	\$9,781
Income for Continuing Operations (Dollars in Millions)	\$1,275
Earnings Per Share-Diluted (Net Income)	\$2.51
Dividend Per Share	\$1.42

service to over 300 New Jersey communities. PSE&G's 2,600 square mile service territory runs diagonally across New Jersey. The company serves 2.2 million electric and 1.8 million gas customers, or approximately 70% of the state's population.

	Electric	Gas
Customers	2.2 Million	1.8 Million
Growth (2008 – 2012)	0.6%	0.6%
Electric Sales and Gas Sold and Transported	41,641 GWh	3,397 M Therms
Projected Annual Load Growth (2013 – 2015)	0.7%*	0.2%*
Historical Annual Peak Load Growth Transmission (2008 – 2012)	0.4%**	
Projected Annual Load Growth Transmission (2013 – 2015)	1.4%	
Sales Mix		
Residential	33%	60%
Commercial	57%	36%
Industrial	10%	4%

	Transmission	Electric	Gas
Approved Rate of Return	11.68% ROE***	10.3% ROE	10.3% ROE

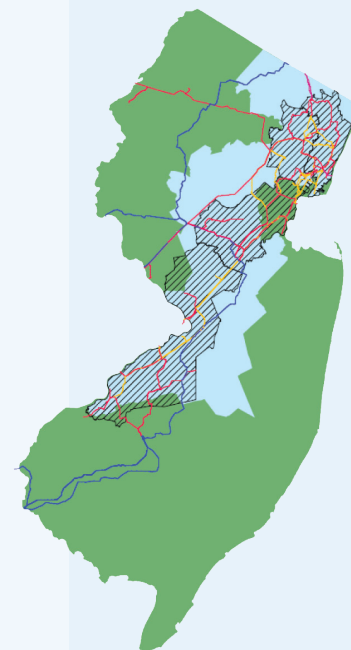
Renewables and Energy Efficiency Approved Programs



	2009-2012	Total Program Plan
Solar Loan	67 MW	81 MW
Solar 4 All	74 MW	80 MW
Energy Efficiency Annual Electric savings	160 GWh	200 GWh
Energy Efficiency Annual Gas savings	5M Therms	7M Therms

* Weather normalized - estimated annual growth per year over forecast period.

** Transmission load growth CAGR utilizes 2007 as base year.

*** Specific projects approved for incentive rate treatment with additional ROE.



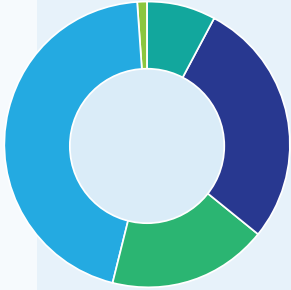
Electric territory 
Gas territory 

Transmission by Voltage

138kv 
161kv 
230kv 
345kv 
500kv 

Fuel Diversity

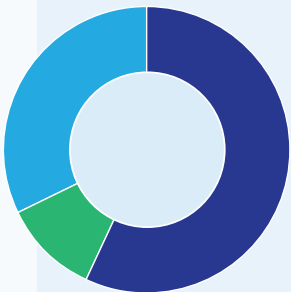
(Total MW: 13,226)



- Nuclear **28%**
- Pumped Storage **1%**
- Coal **18%**
- Gas **45%**
- Oil **8%**

Energy Produced

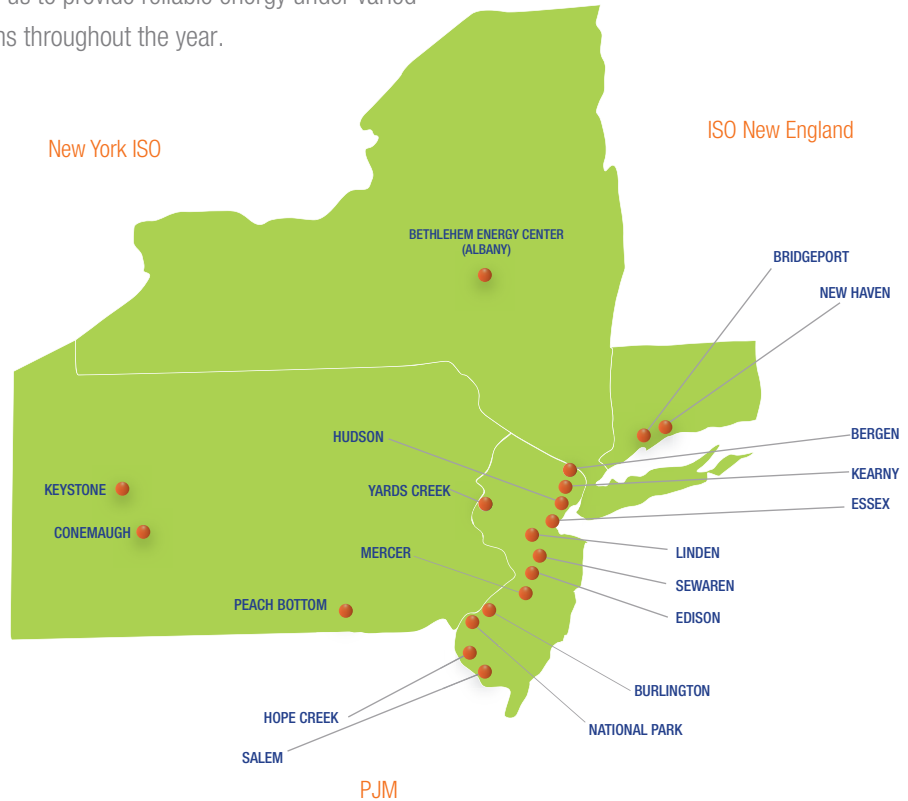
(Total GWh: 52,511)



- Nuclear **57%**
- Coal **11%**
- Gas **32%**

PSEG POWER

PSEG Power owns a fleet of diverse, low cost and geographically well-positioned generating assets in the Northeast and Mid-Atlantic regions of the U.S., enabling us to provide reliable energy under varied conditions throughout the year.



PSEG ENERGY HOLDINGS

PSEG Energy Holdings manages a portfolio of lease investments and generation projects, and develops, owns and operates a growing fleet of renewable energy resources throughout the country. PSEG Solar Source, a subsidiary of Energy Holdings, currently owns and operates a 69 MW fleet of PV solar facilities located in five states. The company has also formed a joint venture with Deepwater Wind to develop offshore wind along the coast of New Jersey.

PSEG VISION, STRATEGIC OBJECTIVES, SCORECARD MEASURES

This year marks PSEG's 110th year as a company, a testament of our sustainability to our shareholders, our customers and the communities we serve. PSEG's vision is to be a recognized leader for **P**eople providing **S**afe, reliable, **E**conomic and **G**reener energy – today and for our next 110 years - a vision that is consistent with who we are and what we have been throughout our long history. Our vision starts with people for good reason: Our employees are our most important asset by far.

As a sustainable company, we implement our vision with a constant eye on the three pillars of our strategy: operational excellence, financial strength and disciplined investment. Our attention to these fundamentals has served us well over many years and remains critical to our success. Each year we typically have 8 to 10 strategic objectives that articulate our priority goals. We communicate these objectives to all employees to help them understand their respective roles and help us all move forward together.

Operational excellence is the foundation of our proven business model. This model defines how we conduct business, establish priorities, develop and execute business plans as well as define and implement practices, processes, programs, and procedures. The model uses the Balanced Scorecard as a strategic management tool to monitor and assess performance and translate our priorities into tactical measures of success. We establish stretch goals on metrics related to operations, people, green energy, and safe and reliable service, measuring ourselves against top quartile performers in each category. Our Balanced Scorecard helps us keep a clear focus on our strategy and the role every employee plays in achieving our key priorities and strategic objectives.

PSEG recognizes that improvement and top performance are not self-sustaining and must be proactively managed on a continuing basis. The company accomplishes this by:

- Defining management accountability for governance, oversight, goal setting and performance;
- Fostering a workplace environment that enables us to attract, develop and retain a highly skilled, diverse and engaged workforce;
- Providing disciplined implementation of a shared management model framework which drives each line of business, supports organizational units in their efforts to achieve top performance levels and promotes continuous improvement;
- Utilizing a Balanced Scorecard template through which, and against which, the organization's performance can be assessed vis-a-vis internal measures and external benchmarks;
- Realizing synergies, identifying and implementing best practices to optimize organizational scale, resources and improvement efforts;
- Focusing on identifying and satisfying customer needs and objectives;
- Providing a platform for efficient knowledge transfer;
- Maintaining predictable, consistent guidelines and expectations for behavior based on our values of Accountability, Continuous Improvement, Customer Focus, Diversity, Ethics and Integrity, Respect, and Safety.

Our vision

**People providing
Safe, reliable,
Economic and
Greener energy**

Our values

**Accountability
Continuous Improvement
Customer Focus
Diversity
Ethics and Integrity
Respect
Safety**



Our Approach to Sustainability

For more than a hundred years we have been operating our business with a focus on sustainability. The yearly release of our sustainability report allows us to share progress with our diverse range of stakeholders, while also discussing challenges on the road ahead. We strive to be both systematic and comprehensive in our approach to sustainability-related issues. Doing so helps us to remain true to our most important commitments and to further improve performance – now and in the future.

Change is a constant in our industry – and world. A key challenge going forward is the need for a resilient infrastructure to improve society’s ability to withstand and recover from extreme and changing weather patterns. Superstorm Sandy – the worst storm in our history – was a defining event of 2012 not only for us but for our stakeholders. Sandy was preceded only a year before by two other devastating storms. Our Energy Strong investment plan, about which you can read more in this report, is designed to make our systems more resilient in the face of severe weather or other natural disasters.

Our focus on sustainability at PSEG reflects a deep recognition that our continued ability to prosper as a business depends on helping others prosper, too. Thus, we emphasize the importance of defining success not only by the bottom line but the environmental and social dimensions of performance.

We are mindful that the decisions we make today about energy infrastructure and policy will impact generations to come. We manage the business for the long term, and we are grateful for the work of those who managed the business before us with the same mindset. Our appreciation runs deep for the contributions of our employees over many generations. Their many accomplishments inspire us on our journey, as we strive to write a new, bright chapter in PSEG’s history.

How We Manage Sustainability

Employees across the entire company at all levels are involved with managing sustainability. We pride ourselves on being a company with strong leadership, great employees and proven processes to manage sustainability throughout the business.

LEADING FROM THE TOP AND ACROSS THE ORGANIZATION

Sustainability begins with our leadership but involves every employee. PSEG’s Executive Officers Group is responsible for providing sound leadership and management that contributes to the company’s long-term success and sets the right example for employees. Representing a wide range of experience, our officers take an active leadership role not only with regard to our business goals, but also on environmental issues and community engagement. We emphasize the role of every employee in working toward a sustainable future.

To translate our environmental health and safety goals into concrete practices, PSEG established a corporate Environmental, Health and Safety Policy in 1996. This policy, reviewed and approved by the PSEG Board of Directors, reflects the principles by which PSEG operates in eight areas associated with sustainable practices: associate health and safety; nuclear safety; climate change; environmental compliance; risk reduction; pollution prevention and resource conservation; open communication; and continuous improvement.

THE PSEG EH&S POLICY IS AVAILABLE ONLINE AT WWW.PSEG.COM/INFO/ENVIRONMENT/HEALTH.JSP

PSEG
operates
in



AREAS
ASSOCIATED
WITH
SUSTAINABLE
PRACTICES

CORPORATE SUSTAINABILITY GOALS

With all of our sustainability efforts we set sights on supporting PSEG's strategic business model as well as our strategic objectives. The sustainability goals we have set for ourselves reflect the alignment between our sustainability approach and the way we conduct our business.

Goal 1: To be a clear leader in reliability and safety, customer service and providing clean energy.

Goal 2: To be recognized as a great place to work where engaged employees are our differentiator.

Goal 3: To be a thought leader on energy and environmental issues.

Goal 4: To build upon our strong partnerships with New Jersey and with all the communities we serve.

Goal 5: To maintain a position of financial strength, enabling us to invest in a disciplined way for the future.

OUR MATERIAL ISSUES

For this report we focus our efforts on the issues that are most material to our business, the communities we serve and our environmental impacts. We regularly conduct a materiality analysis that assesses risks and opportunities to help identify PSEG's most important issues. Our process allows us to weigh and quantify the degree of importance that our business and stakeholders give to a variety of issues we must manage. It includes input from investors, customers, local communities, NGOs, employees and other stakeholders to ensure alignment between our sustainability goals and our business objectives.

This materiality matrix framework enables us to map out a clear path through the variety of environmental, financial and social challenges we face. The following are the most important issues to our stakeholders and business based on our materiality analysis for 2012:

- Reliability and Resiliency
- Nuclear Power
- Stakeholder Engagement
- Employee Engagement
- Financial Performance
- Renewable Energy
- Clean Air and Climate Change
- Talent Attraction and Retention
- Water

We develop goals and management processes for most of these, which are described in more detail throughout the report.

AWARDS AND RECOGNITION

We are proud of the external recognition that our sustainability commitment, leadership and compliance receive. Several independent bodies recognized PSEG's achievements in sustainability, investment in its people and economic accomplishments in 2012. These awards and honors testify to our employees' continued dedication and to the importance we place on being a long-term leader in economic, social and environmental performance. We are pleased to be recognized for our commitment to pursue responsible policies while creating jobs and fostering economic development.

Energy companies can help achieve some of society's most important goals while fueling long-

term growth. PSEG is demonstrating this is possible through our various investments in electric and gas infrastructure, energy efficiency, solar, nuclear and state-of-the-art emissions controls for power stations.

These efforts are producing substantial benefits for New Jersey and the wider region we serve. PSEG's 2012-2013 Awards and Recognition include:

2013

PSEG received “strong” management and governance scores by Standard & Poor’s in its 2012 ratings on Management and Governance Credit Factors. The “strong” designation for management and governance places PSEG among the top 6 percent of more than 2,000 North American companies rated by Standard & Poor’s.

PSE&G’s Multifamily Housing Program and Hospital Efficiency Program were recently honored for outstanding effectiveness and innovation by the **American Council for an Energy-Efficient Economy (ACEEE)** as part of their Third National Review of Exemplary Energy Efficiency Programs. The Residential Multifamily Housing Program was honored as an “exemplary” program, while the PSE&G Hospital Efficiency Program was lauded with an “honorable mention” in the national awards program. Programs selected for honors by ACEEE were judged especially noteworthy for their effectiveness and innovation in helping customers achieve greater levels of energy efficiency in their homes, businesses and industries.

PSEG was awarded the **2012 Regional Corporation of the Year Award** by the Certified Minority Business Enterprises of the **New York & New Jersey Minority Supplier Development Council, Inc.** Prior to winning this prestigious award, PSEG received outstanding recognition awards for the advancement of supplier diversity from the New Jersey Institute of Supply Chain Management and the New Jersey Board of Public Utilities Supplier Diversity Development Council.

PSEG received the **Extraordinary Employer Support Award** from the **Employer Support of Guard and Reserve (ESGR).** The company was recognized for its sustained support of employees who are Guard and Service members in the military. PSEG is one of only two New Jersey-based companies to ever receive this award.

PSEG Nuclear was honored by the **Salem County Vocational Technical Schools (SCVTS) Foundation** with its annual Leadership Award. PSEG was recognized for being a consistent dedicated partner in providing educational opportunities for many students throughout the county, especially for its support of SCVTS student scholarships, Academy of Energy applications and the annual career Exploration Summer Program for sixth and seventh grade students.

PSEG was recognized as an employer of choice by **Equal Opportunity magazine**, being named to its list of **“Top 50 Employers”** in the country. Featured in the publication’s 2013 winter edition, this annual listing denotes employers identified by Equal Opportunity magazine readers as an organization they would most prefer to work for or that they believe would provide a positive working environment for members of minority groups. PSEG’s ranking on this list celebrates its commitment to creating and sustaining an environment that promotes the principles of diversity and inclusion in all areas of the business.

PSE&G received an award from the **Edison Electric Institute** for outstanding restoration efforts after Superstorm Sandy. The award acknowledges PSE&G for restoring power to its nearly 1.9 million customers impacted by Sandy, as well as for its outstanding storm management practices, such as communicating effectively with the public. This is the second year industry peers have honored PSE&G with this award, recognizing the utility each time for its efforts to restore service promptly after a severe storm or natural disaster. Previously, PSE&G received the award for its response efforts to Hurricane Irene and the subsequent flood that occurred in 2011.

PSEG is one of Equal Opportunity magazine’s Top



EMPLOYERS IN THE COUNTRY

PSE&G
scored

939

ON THE OVERALL
CUSTOMER
SATISFACTION
INDEX (CSI), 19
POINTS BETTER
THAN LAST YEAR

2012

PSEG was named to the Dow Jones Sustainability World Index for the second consecutive year. It was one of only two American utilities to make this important international list. The index is a guide for investors who want to consider dedication to sustainability when making investment decisions. It also is a benchmark for companies that want to adopt sustainable best practices. The Dow Jones Sustainability Indexes (DJSI) recognize companies that are best in class among their peers in meeting certain economic, environmental and social criteria.

PSE&G was named **America's Most Reliable Electric Utility** for the fifth time in eight years. Additionally, the utility won the **ReliabilityOne Award** as the most reliable electric utility in the Mid-Atlantic region for the eleventh consecutive year. All utilities operating an electric delivery network in North America are eligible for consideration. **PA Consulting Group**, a national industry benchmarking group, considers over 150 utilities a year for this award, which honors excellence in delivering reliable electrical energy.

PSE&G was named an **NJBIZ "Healthcare Hero"** in recognition of its innovative energy efficiency program for hospitals. The award was given as part of the newspaper's **annual program** that honors the efforts of individuals and organizations that are making a significant impact on the quality of health care in New Jersey.

PSE&G moved to second place from 10th place last year on the **J.D. Power and Associates 2012 Electric Utility Residential Customer Satisfaction Study** among large utilities in the East region. The study is based on responses from more than 100,000 online interviews, among residential customers of the 126 largest electric utility brands across the United States, which collectively represent nearly 94 million households. PSE&G also scored 626 on the overall Customer Satisfaction Index (CSI), 19 points better than last year.

PSE&G ranked 3rd in the nation for Solar Energy - According to a **Solar Electric Power Association** (SEPA) survey, PSE&G had the third most solar capacity of any American utility added within its service territory in 2012. More than 144 solar megawatts were installed in PSE&G's service territory during the year. PSE&G's solar programs built or helped finance about 39 solar megawatts in 2012, or more than 25 percent of the total. PSE&G has placed in the top three in SEPA's rankings for four consecutive years.

PSEG ranked #29 in "G.I. Jobs Top 100 Military-Friendly Employers for 2012." A very competitive national list, this award is a testament to PSEG's diversity outreach and company benefits designed to create an inclusive workplace for military professionals and veterans.

Five thousand companies with annual revenues in excess of \$500 million competed for this prestigious award. Criteria for **"G.I. Jobs Top 100 Military-Friendly Employers for 2012"** rankings included assets dedicated to military hiring, Reserve/Guard policies, percentage of new hires who are veterans, veteran training programs, and previous three years' rankings.

PSEG was named to the **2012 FORTUNE List of Most Admired Companies, ranking fourth** among electric and gas companies in the United States.

PSE&G won the prestigious **Emergency Response Award** from the **Edison Electric Institute (EEI)** for its outstanding response in restoring customers during Hurricane Irene. The utility also was recognized for its advanced planning and enhanced communications prior to and throughout the storm and restoration efforts. PSE&G is a member of EEI, which is the association of U.S. shareholder-owned electric companies.

KEY PERFORMANCE INDICATORS AT A GLANCE

PSEG continues to advance toward its vision as a recognized leader for **P**eople providing **S**afe, reliable, **E**conomic and **G**reener energy. We are pleased to report progress toward our key

performance indicators. Most of these metrics are tracked monthly in our Balanced Scorecard and linked to performance incentives for our employees, including senior management. The results reflect the completion of some initiatives and the launch of others, as well as the exceptional management of unforeseen challenges this past year.

Summary of Key Performance Indicators

	2009	2010	2011	2012
People				
OSHA recordable case incidence rate	1.54	1.24	1.51	1.25
Lost Time Case Rate	0.49	0.24	0.55	0.5
Lost Time Cases	54	26	58	53
OSHA recordable cases	171	135	160	133
Fatalities	0	0	0	0
Safe and Reliable				
Transmission reliability (%)	99.996	99.996	99.973	99.995
SAIFI (System Average Interruption Frequency Index)	0.70	0.84	0.78	0.67
Customer Satisfaction (Overall satisfaction with PSE&G)	82	84	88	90
Forced Outage Rate (% EFORD)	1.5	1.2	1.1	1.7
Green				
Environmental Violations (2 year average)	10.0	10.5	5.0	4.5
Reportable Spills (federal level)	13	20	51	115*
GHG Direct (metric tons CO2e)	20,167,000	22,707,357	17,033,103	13,929,406
GHG Indirect (metric tons CO2e)	998,883	1,092,473	1,219,662	1,103,174
NOx (metric tons)	11,800	13,431	12,211	10,058
SO2 (metric tons)	36,005	21,902	14,647	9,155
Mercury (metric tons)	0.18	0.11	0.08	0.075

*Approximately 80 federal reportable spills occurred as a result of Superstorm Sandy

Ambassadors Program

Our employees have long been our best ambassadors. PSEG Ambassadors program is a voluntary initiative that allows PSEG employees to become involved in the legislative process, meet their elected officials and advocate on important issues.

ENGAGING OUR STAKEHOLDERS

Building strong relationships with our stakeholders is essential to maintain a high level of trust, understanding and service. We engage with stakeholders in various ways to meet their needs and find that we learn a great deal about how to continually improve our business. Connecting with our customers, investors, employees, communities, government officials, regulators and suppliers helps us run a better business and meet environmental and social expectations.

We believe our stakeholder relationships are best served by an approach that is both proactive and interactive, reflecting a healthy dialogue and frank exchange of ideas. Some of our stakeholder interests overlap and some compete. In our extensive outreach efforts we strive to:

- Educate stakeholders on our operations.
- Support and engage in local community activities, initiatives, and betterment programs.
- Respond openly and immediately to stakeholder concerns about construction, design, operation and environmental compliance of our operations.
- Give stakeholders a voice in decisions that impact them.
- Improve communications to all stakeholders during weather events and other emergencies, as well as on an ongoing basis.

PUBLIC AFFAIRS

The public affairs function at PSEG is closely linked to the mission and goals of the company and to the work of all PSEG employees. Two simple words express this link best: Public Service.

Indeed, the name Public Service was carefully chosen by our founder, Thomas McCarter, because it reflected the company's essential role

in society. In his own words, Public Service had a mission from its start "to develop the state of New Jersey and make it a better place to work and live." Today, after 110 years, this mission is more relevant than ever. It applies not only to New Jersey, but everywhere PSEG does business and where our operations touch the lives of people and communities.

Public policy has a direct impact on our business every day and we have long maintained close, working relationships with public officials at all levels of government. We have a State Government Affairs department, which manages outreach and relationships with government officials, the business community, NGOs and others in New Jersey and in other states where we do business. Likewise, we have a Federal Affairs department based in Washington, D.C., responsible for our engagement with the federal government, industry and business sectors, national environmental groups and other stakeholders. We strive to leverage our relationships and the trust that we have built and continue to build, with elected officials and other leaders, as well as with their staffs, our industry colleagues and others. We have long emphasized the importance of strategic alliances to help accomplish public policy objectives and will continue to do so.

Regional Public Affairs managers are an important face of stakeholder engagement in each region of our utility service area and nuclear emergency planning zones. They are trained and experienced in listening to and addressing public concerns and facilitating public hearings for stakeholders. They manage each step of stakeholder engagement and make critical decisions on a local level to continually improve our stakeholder engagement practices.

WAYS WE ENGAGE SPECIFIC STAKEHOLDERS

At PSEG, we recognize that different stakeholder groups prefer to communicate in different ways. We provide stakeholders with numerous channels, tailored to the needs of each group, to communicate interests and especially to resolve conflicts or concerns.

Our Stakeholders

Customers

Customers depend on us for safe, reliable service and easy access to pay bills, report service disruptions and register concerns. We make sure customers can reach us through our Customer Service Department, an email account, social media, a customer service phone line, a hotline for emergencies and several walk-in customer service centers.

Customer Service websites and phone line:

Contact Us website: <http://www.pseg.com/info/contact.jsp>

Our regular tracking of customer perception of the company indicated a need to better communicate with business customers. As a result, we launched a Business Solutions Center with a toll-free dedicated phone line and staff trained on issues specifically of concern to businesses.

Utility Outage website, hotline, Twitter:

Website: http://www.pseg.com/home/customer_service/outage_info/index.jsp

Real-Time Map: <http://www.pseg.com/outagecenter/index.jsp>

Twitter: <http://twitter.com/#!/psegdelivers>

Electric Reliability Projects website: http://www.pseg.com/family/pseandg/powerline/reliability_projects/index.jsp

List of customer service center locations:

http://pseg.com/home/customer_service/bill/centers.jsp

Investors

Keeping in touch with the investors who provide the capital we use to run our business helps us deliver strong returns and meet their expectations. Investor Relations communicates regularly with investors

including via analyst calls, financial reporting, and an investor website. Our Investor Relations calendar includes our annual shareholder meeting and more than 150 other meetings a year with individuals and groups within the investment community.

Investor Relations website:

<http://www.pseg.com/info/investors/index.jsp>

2012 Annual Report website:

<http://www.ezodproxy.com/pseg/2013/pseg2012ar/HTML2/default.htm>

Employees

Employees enable us to be a high performing organization, and we maintain numerous points of contact to meet their engagement needs. PSEG holds two Enterprise-wide Town Hall meetings for employees every year. Executives answer employees' questions (over 150 asked at each meeting) on the broadcast or in electronic media that goes to each employee desktop. Over 90 percent of employees rate the sessions positively. Our employees receive an electronic newsletter three to five times a week with current news, helpful tips, and policy and benefit information. The newsletter is also posted in each facility for all employees. There is a monthly print publication, PSEG Outlook, focused on employee recognition that is distributed to every employee in the company. PSEG has an internal website that is updated at least twice a day with news and information relevant to employees. Employees receive HR OnLine with up-to-date discussions of benefits and HR news. In addition, employees have direct contact with their managers, our Human Resources Department, and the PSEG Integrity Line. At the VP and Director level, there are multiple programmed opportunities for conversations with employees on a range of issues from departmental matters to ethics and diversity.

PSEG sponsors an employee blog called the "Buzz" on various topics of interest. We also have many opportunities for employees to interact with leadership such as breakfast meetings with the CEO, skip-level meetings with company Presidents and VPs, all-hands meetings, leadership forums (for officers and directors) and financial forums (for officers). In addition, there are four union/management leadership meetings to review earnings results on a quarterly basis hosted by the Chief Financial Officer. Union and management also meet within their respective lines of business to

PSEG is
among
the top



OF MORE THAN
2,000 NORTH
AMERICAN
COMPANIES
RATED BY
STANDARD &
POOR'S ON
MANAGEMENT
AND
GOVERNANCE

Social Media

PSEG champions the use of social media as a critical communications tool that has its greatest power during times of emergency. The company's innovative use of Twitter during Superstorm Sandy has been recognized as a best practice and involved sharing lessons learned with members of Congress about the expanding role of social media and mobile technology.

review scorecard progress, and each year the CEO holds a briefing for union and management. There are also several subsidiary publications that help to reinforce corporate messaging and subsidiary-specific news and highlights.

PSEG Outlook and back issues:

<http://www.pseg.com/info/retiree/outlook.jsp>

Employee Health and Safety website:

http://www.pseg.com/family/about/health_safety/system.jsp

Suppliers

We depend on numerous companies for goods, services, and advice to be successful. Companies that do business with us are in touch with PSEG procurement officers, project managers and other points of contact within our businesses. We sponsor regular vendor procurement fairs in cooperation with local chambers of commerce to give vendors the opportunity to meet with procurement representatives and discuss potential business opportunities.

PSEG has made supplier diversity a strategic business focus for over 20 years and believes that buying from a diverse group of suppliers allows us to better serve our customer base and communities. In 2012, PSEG again achieved strong results in supplier diversity, with \$201 million or 11 percent of our total supplier expenditure with certified minority and women owned business enterprises. We are committed to further expanding the use of diverse suppliers and keeping a strong focus on doing business with firms located within the state of New Jersey.

Communities

As a valuable member of more than 300 communities, we engage in a variety of ways including direct investment, community meetings, advisory groups, philanthropy, web and social media. Our employees are encouraged to volunteer in their own community or nearby needy communities throughout the year.

Several web pages and social media channels hosted by PSEG communicate about ongoing projects and environmental enhancements, and we maintain email,

phone and social media access to submit comments and concerns. Additionally, we engage many non-governmental organizations and community groups directly through our Regional Public Affairs managers and our Corporate Social Responsibility department.

Estuary Enhancement Program website:

<http://www.pseg.com/info/environment/estuary.jsp>

Community Cares Twitter:

<http://twitter.com/@psegcares>

Energy and Environmental Resource Center (EERC) website and Facebook account:

Website: <http://www.pseg.com/family/power/eerc/index.jsp>

Facebook: <http://www.facebook.com/PSEG.eerc>

PSEG FOUNDATION AND CORPORATE RESPONSIBILITY WEBSITE:

<http://www.pseg.com/info/community/index.jsp>

News and Media

Traditional and social media strengthen our connection with stakeholders by offering another means to educate stakeholders on our operations. Our media team regularly updates the public and media with press releases, press conferences and interviews with reporters. PSEG Corporate Communications also interacts with the public through Facebook, YouTube and Twitter. We have the largest number of Twitter followers of any utility in the U.S. and have been cited by several organizations for our use of social media during Superstorm Sandy.

Social Media

Social Media website: <http://www.pseg.com/info/media/social/index.jsp>

YouTube Channel: <http://www.youtube.com/psegvideo>

Twitter: <http://twitter.com/@PSEGNews>

Facebook: <https://www.facebook.com/PSEG>

Press releases and media relations website:

<http://pseg.com/info/media/news.jsp>





Building Economic Vibrancy

Affordable and reliable energy is fundamental to the economic prosperity of the communities we serve. PSEG is proud to be a strong contributor to our economy by creating jobs, paying wages, generating tax payments and supporting local suppliers in New Jersey. Additionally, we are investing \$6.9 billion in infrastructure, solar energy and energy efficiency projects that contribute to a more vibrant economy and create jobs. In challenging economic times, our role as an economic engine is more important than ever.

MAKING A STRONG ECONOMIC CONTRIBUTION

We recognize that to continue contributing to the local economy to the extent that we do, we need to remain financially strong ourselves despite facing challenges such as extreme weather, difficult energy markets and uncertainty about the direction of energy policy. We manage these challenges through our relentless focus on operational excellence, financial strength and disciplined investment. We believe that our strategy will continue to serve us well while positioning us to meet our enduring commitment to our stakeholders.

Creating business and jobs in the communities we serve

Thousands of New Jersey residents who work with and do business with PSEG each year create jobs and help to grow our economy. We directly employ nearly 10,000 people and spend \$1 billion annually on compensation to New Jersey workers. In addition, we provide another \$150 million in financial support to New Jersey retirees and survivors. The businesses and suppliers we work with provide additional jobs in the region. Several of our facilities are the primary economic engines of their communities, including our Salem and Hope

Creek nuclear facilities, the largest employer in Salem County, with over 1,500 employees.

Investments Fueling Economic Growth

Economic development in local communities is important to New Jersey and to PSEG's growth. Our investment plan includes more than \$6.1 billion in capital spending over the next three years, 80 percent of which is at PSE&G. Our transmission projects are expected to provide the equivalent of 6,500 jobs over this period. In addition, we have continued to invest in our generation fleet, including new peaking units to help meet the growing need for energy.

Our investments in renewable energy and energy efficiency are not only good for the environment, but create jobs and help build our economy. However, the economic impact of these programs goes beyond direct job creation and economic development by spurring innovation. Further information on our investment in renewable energy and energy efficiency is available in the **Greening Our Energy Future** section of this report.

Local tax payments and the funding of charitable organizations also fuel economic development by contributing to local services. Annually we spend approximately \$375 million on state and local

Our plan includes more than



BILLION IN
CAPITAL
SPENDING OVER
THE NEXT THREE
YEARS

taxes, which help fund roads and services such as job training to grow the economy. The PSEG Foundation funds another \$7 million for New Jersey organizations.

MORE ON OUR ECONOMIC DEVELOPMENT AND EMPLOYMENT IMPACT IN THE REGION IS AVAILABLE ONLINE AT: [HTTP://WWW.PSEG.COM/INFO/MEDIA/IMPACTNJ.JSP](http://www.pseg.com/info/media/impactnj.jsp)

Delivering Award-Winning Reliability

Reliability is a hallmark of excellence in our industry. This past year, PSE&G, our New Jersey energy delivery company, was again named America's most reliable electric utility by PA Consulting, an industry benchmarking firm. In addition to winning this national recognition for the fifth time in eight years, PSE&G was named the Mid-Atlantic region's most reliable electric utility for the 11th consecutive year. PSE&G was recognized as well for its outstanding response during the October 2011 snowstorm and Hurricane Irene.

Our reputation for reliability has opened new business opportunities. We have taken a range of preparatory steps this past year in regard to our 10-year contract to manage the electric transmission and distribution system of the Long Island Power Authority, beginning 2014.

We continue to invest to maintain and further strengthen reliability. Electric transmission – the highway network for moving power – represents the single largest part of our capital investment program. We passed an important milestone in 2012 when we received final approval from the National Park Service for the Susquehanna to Roseland line, a major grid upgrade that will improve electric service for millions of people. Also, in 2012, we obtained approval from the New Jersey Board of Public Utilities to construct the North Central Reliability Project, which will upgrade transmission lines and substations in northern and central areas of New Jersey.

These and other infrastructure investments are being done to support reliability, but they deliver additional benefits – creating good jobs, providing an economic stimulus, and lowering bills by reducing line losses and congestion. In addition to transmission, PSE&G is continuing to invest in electric and gas distribution – the “local roadways” of our pipes and wires – to support safe, highly reliable service.

For PSEG, reliability also means having power plants that are ready and available to run as needed. PSEG Power, our regional wholesale energy supply business, has a low-cost, well-run generation



PSE&G uses helicopters in constructing portions of the Susquehanna-Roseland line, a major reliability project, to minimize environmental impacts. This new 500,000-volt transmission line between Pennsylvania and New Jersey will help maintain electric system reliability for customers throughout the region. PSE&G's transmission-related capital expenditures are expected to total \$4.4 from 2013 through 2017 — investments which in addition to supporting reliability will create jobs and bolster New Jersey's economy.

fleet that is geographically well positioned and environmentally responsible. Our investments in our generating stations have improved their reliability. In June 2012, we brought online 400 megawatts of new, clean peaking capacity in New Jersey and Connecticut. These new units contributed admirably from the start.

Optimizing Value

Our generation fleet is not only one of the largest in the Northeastern United States, but also one of the most diverse by fuel mix and dispatch capability. This diversity helps us to optimize the value of our fleet, providing more flexibility in serving the needs of the market around the clock and throughout the year. For example, we have been running our natural gas-fueled, combustion-turbine units more and our coal units less in an environment with lower gas prices. Also, our New Jersey coal stations have dual-fuel capability and have increasingly used natural gas as economics dictate.

Our investments in clean, efficient power facilities testify to our strong environmental commitment, yet also reflect the effective functioning of competitive energy markets. We will continue to support market rules to ensure fair competition, provide proper incentives and protect the interests of consumers.

BEING THERE FOR OUR CUSTOMERS

For more than 100 years, PSEG employees have excelled in their dedication to our customers, and we never stop striving to keep improving in order to meet our customers' evolving expectations. We view every interaction with a customer as an opportunity to positively impact the perception of the service that PSEG provides.

We are proud to be a company known for its commitment to providing its customers with a high standard of quality service around the clock, year in and year out – and being there for them in times of special need and emergency. Our goal is to ensure customer satisfaction with a focus on continuing to deliver safe, reliable service while keeping costs as low as possible. In doing so, we must constantly manage costs to maximize value to our customers and shareholders, as well. It is a balance we work hard to get right.

Customer Service

We emphasize the important role that every employee has in upholding and carrying forward our strong customer service tradition. Each year we set quantitative targets for customer satisfaction as one of our top goals and do so with a focus on continuous improvement. We measure customer perception of our service using a Customer

PSE&G's strong customer satisfaction ratings show that our employees' efforts really do make a difference, especially in a challenging economy and in the face of severe weather events.



Perception Index (CPI) as well as transactional surveys, and the results are benchmarked against a database of approximately 100 companies. Employees receive feedback on how we can improve our service based on the results.

PSE&G performs well in customer satisfaction when compared to other utilities. In 2012, we scored in the first quartile for residential customers on 25 of 34 measures and improved our overall customer satisfaction to the highest level ever. PSE&G ranks in the top 10 companies in several areas including overall satisfaction with the company; a company that meets expectations; being an ideal utility; overall company reputation; value of the natural gas product delivered; corporate citizenship; being a company you can trust; being well managed; power quality; protecting the environment; and having knowledgeable employees who follow through on promises.

Our customers recognize the value of strong reliability – an area where we have been repeatedly recognized as both a national and regional leader. Also, PSE&G has been a leader in energy efficiency and renewable energy, providing customers with financing for solar energy installations, free home energy audits and grants for low-cost energy conservation measures.

In addition to the benefits of reliability, our customers are enjoying savings as natural gas prices have fallen. Since January 2009, PSE&G residential customers have benefited from nine bill reductions for fuel supply, for a total savings of more than 39 percent, or \$670 per customer. Also, lower natural gas prices have helped to keep electric bills stable because gas is a major fuel used to generate electricity.

Our recent survey results indicated that our small business customers were concerned with our level of service. Recognizing the unique challenges facing this customer group, we established a dedicated team of phone representatives trained specifically to better serve the needs of these customers. We will continue to support our small business customers in areas such as energy efficiency, phone and web service, and communications.

Improving Accessibility to Services

New and traditional ways to access services are helping meet our customers' changing needs. In 2009, we launched a new \$156 million customer information system that enhances service by allowing customers to access bills, account information and home energy audits online. Since its inception, online bill pay has

Customer Service Perception Results

	2007	2008	2009	2010	2011	2012
Overall satisfaction with PSE&G*	87%	87%	82%	84%	88%	90%
Satisfaction following a recent transaction with PSE&G**	8.9	8.8	8.7	8.6	8.8	8.8

*Percentage of residential customers rating their overall satisfaction with PSE&G between 6-10 on a scale of 0-10

**Average rating given by customers following a transaction with PSE&G, measured on a 1-10 scale.

increased significantly and currently about 45 percent of our customers use the online system. To provide our customers even more access to our customer service team, we are one of the few utility companies that offer customers in-person assistance through 16 urban walk-in Customer Service Centers.

WORKING WITH SUPPLIERS Supporting Small Businesses, Ensuring Quality and Integrity

We value suppliers who share our commitment to reliability, quality and integrity. We have strong relationships with our suppliers and depend on them to meet the highest standards of service.

Working with as many suppliers as we do is a complex process that requires thoughtful and meticulous management. We expect our suppliers to meet our ethical standards and have a procurement and supplier management process that conforms to the highest standards in the industry.

PSEG's management practices and Standards of Integrity are woven into everything we do, including our relationships with suppliers. When considered for a new contract of any type, suppliers go through a rigorous pre-qualification review. After

contract award, the performance of key suppliers is monitored by PSEG Procurement in concert with Corporate Health and Safety. In addition, a third-party compliance auditor verifies certain health and safety information to conform with regulatory and PSEG standards. Key suppliers are graded based on performance metrics, and incentives are included in a majority of key supplier contracts.

Supplier Spending

We are one of New Jersey's biggest supporters of local business and spend more than \$1 billion annually with New Jersey vendors. Based on a 2012 independent study of our economic impact in New Jersey, we estimate PSEG distributes this benefit annually across 1,500 vendors in the state.

Supplier Diversity

We believe it is important to build a supplier list that reflects our customer base. PSEG's Supplier Diversity Program has proactively engaged minority and women-owned business (MWBs) for more than 25 years to level the playing field and increase the range of perspectives and capabilities among our service providers.

Supplier diversity goals are tied directly to PSEG's performance indicators and are linked to PSEG's executive leadership and managers. Moving forward, PSEG intends to continue to expand our



Susan Hogan, who heads our Supplier Diversity Program, was recognized in 2012 by the New Jersey Institute of Supply Management as an Outstanding Purchasing Executive with their Crystal Chairman's Award, and the publication Diversity Plus honored PSEG's efforts in Supplier Diversity with a featured article in their Energy Circle Issue.

supplier diversity goals in appropriate increments that will take into consideration upcoming construction projects, company infrastructure developments, sustainability projects and system improvements. Our spending with MWBEs has more than doubled over the past 10 years and currently represents more than 11 percent of our total spending with our suppliers.

PSEG works with more than 200 MWBEs across a broad array of business needs, including, but not limited to: construction services; engineered equipment; paving and vegetation management; tools and hardware; office equipment; and more. Toward this effort, PSEG has developed strategies, training, communication and processes that educate, offer exposure to and understanding of its supplier diversity process and business needs. Suppliers receive regular mentoring, development, coaching, certification assistance and additional support by participating in our process.

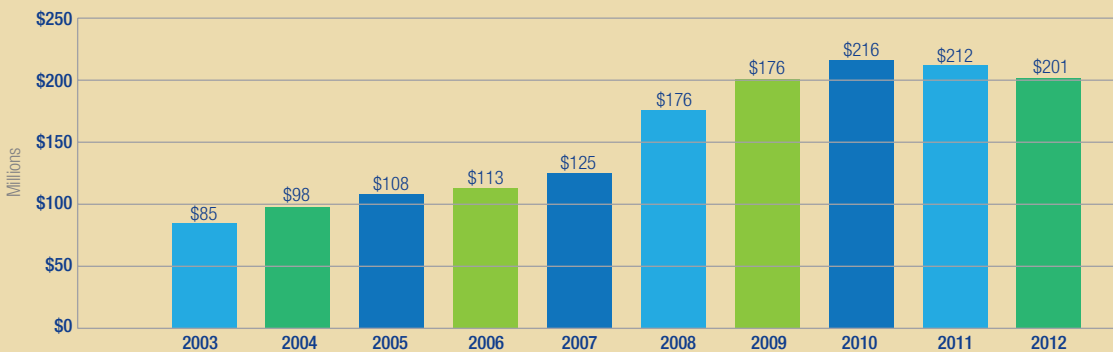
We host multiple annual minority and women-owned procurement matchmaking fairs at our Newark headquarters and at our nuclear site in Salem, New Jersey. At no fee to the suppliers, PSEG's Procurement organization brings all of its sub-groups together to interview MWBE suppliers for procurement opportunities and share information that clarifies how to do business with us.

To develop and expand PSEG's supplier diversity process to a world class level, PSEG is a corporate member or sponsor of the following supplier diversity organizations:

- New York & New Jersey Minority Supplier Development Council
- Minority Supplier Development Council PA-NJ-DE
- New Jersey's BPU Supplier Diversity Development Council
- New Jersey Association of Women Business Owners
- Women Presidents' Educational Organization
- Regional Alliance for Small Contractors
- Edison Electric Institute EEI – Supplier Diversity Group
- National Hispanic Business Group
- Hispanic Business Council of Commerce & Industry of New Jersey
- New Jersey African American Chamber of Commerce

PSEG has received many business awards for promoting supplier diversity. The company holds board-level positions on the New York and New Jersey Minority Supplier Development Council, the New Jersey BPU's Supplier Diversity Development Council, New Jersey Commerce and Industry Group and the New Jersey Association of Women Business Owners. PSEG supports and accepts

Total Spent on Women-Owned Business (MWBEs)



business ownership certification from the State of New Jersey, National Minority Supplier Development Council, Women's Business Enterprise National Council, New Jersey Transit, Port Authority of New York and New Jersey and others.

SOUND FINANCIAL PERFORMANCE Managing and Investing for Returns

Financial strength enhances our ability to sustain superb operations, deploy capital effectively and deliver value to our customers and shareholders, while also making meaningful contributions to our communities. One sign of our financial strength is our dividend. PSEG has one of the longest records of paying dividends in corporate America, extending for almost 110 years.

Financial management is especially challenging in this economic and sometimes uncertain regulatory climate. Our financial results depend on many risk factors including, but not limited to, commodity prices; regional market rules; environmental regulations; and state and federal energy regulation. We strive to manage or mitigate these risks to make disciplined investment decisions.

KEY METRICS ON OUR FINANCIAL PERFORMANCE CAN BE FOUND IN THE PSEG AT A GLANCE SECTION OF THIS REPORT AND OUR 2012 ANNUAL REPORT WHICH IS AVAILABLE ONLINE AT [HTTP://WWW.PSEG.COM](http://www.pseg.com).

SUPERSTORM SANDY: ADAPTATION AND RESILIENCE

Some events have a significance that requires re-thinking what it means to be a sustainable business. Superstorm Sandy, which struck New Jersey on October 29, 2012, was one such event. Sandy hit New Jersey hard. In our utility service area, Sandy took down 48,000 trees and thousands of wires in our distribution network; destroyed 2,400 utility poles; drove walls of water into 29 of our switching and substations; and damaged gas lines and meters. In addition, several of our generating stations were damaged. About 1.9 million of our electric customers lost power and more than 40,000 of our gas customers were impacted.

Our employees are known for rising to the occasion, and their heroic efforts were never more evident than in response to Sandy. They worked non-stop to safely bring back power and warmth to our customers. They were assisted by more than 4,000 workers who came from many other states and Canada to aid in the restoration.

Despite many challenges, we restored more customers over a two-week period than any U.S. utility had ever done before. We are extremely proud of our employees' performance and grateful to all who answered the call. However, it is clear



that despite our best-in-class reliability, large parts of our existing infrastructure are not up to the test presented by the more intense and destructive storms of recent years – Superstorm Sandy, Hurricane Irene and the October 2011 snowstorm. To be sustainable, we need not just reliability, but resiliency – the ability to mitigate impacts and respond more swiftly to storms that can cause so much damage.

Reliability is No Longer Enough

At PSEG, we have invested in our systems for more than 100 years. Yet we recognize the pressing need for a stronger, smarter and more resilient infrastructure. Reliability remains fundamental but is no longer enough now that extreme storms have become increasingly common and people are more dependent on electricity than ever before. We all want to be able to stay connected and pursue our lives without interruption – and certainly without the inconvenience, cost and hardship resulting from extended outages.

We are not a company that stands still when confronted by disruptive events. We believe the responsible thing to do is not merely to rebuild our systems as they had been before Sandy, but to modernize and fortify them to be more resilient and improve New Jersey’s ability to withstand and recover from future storms.

Making New Jersey Energy Strong

To achieve this goal, we have proposed a new initiative called “Energy Strong,” through which we would invest \$3.9 billion over 10 years in improvements to strengthen our electric and gas delivery systems and help safeguard our customers and communities. The program includes steps to protect electric switching stations and substations affected by recent storms; replace and modernize low-pressure cast iron gas mains; deploy smart grid technologies; strengthen poles and move some overhead lines underground; and protect natural gas metering stations and a liquefied natural gas station from storm-related impacts.

Our Energy Strong investments would benefit all our customers when severe weather strikes. Had these protections been in place before Sandy, the number of hours that customers were without power – a total of 162 million hours – would have been reduced by 39 percent. Hundreds of thousands of customers would never have lost power at all and many others would have had their power restored sooner.

We believe these investments can be made with minimal impact on our customers’ bills for a number of reasons. First, certain charges associated with market restructuring will come off our customers’ bills in 2014 and 2016, covering



Superstorm Sandy ravaged New Jersey, knocking out power to 1.9 million PSE&G customers. Changing weather patterns, along with an increased dependence on energy, require a re-thinking of the state’s energy infrastructure.



Making New Jersey
energy
strong

most of the costs of the Energy Strong program. Second, the availability of low-cost gas has already helped reduce bills for our residential gas customers by about 40 percent over the past five years. Third, our financial strength supports access to low-cost capital.

Moreover, labor is available. The Energy Strong program would create about 5,800 much-needed local jobs and help New Jersey's economy. It can be a prime engine for turning a tragedy into an opportunity for long-term economic growth and development.

In short, our Energy Strong program is important not only to our company, but to a sustainable future for New Jersey and for our stakeholders. It is indicative of our efforts to address new challenges and keep improving so as to better serve our customers, in alignment with the evolving needs of society.

Working in Partnership with our Stakeholders to Support Resilience

Strong partnerships have been a key to progress throughout our history, and our Energy Strong program is no exception. We have a proactive advocacy and outreach effort to educate our stakeholders about Energy Strong and to build support for the program. We are pleased by the breadth of support that this initiative is receiving from public officials, labor and business leaders and from many customers as well.

As of June 2013, over 50 local governments in New Jersey have passed resolutions supporting Energy Strong. More than 7,000 people have registered their support at a special web site – www.njenergystrong.com – established as part of our extensive outreach effort.

We embrace healthy public discussion and dialogue about our Energy Strong investment plan, and welcome the regulatory review process as well. We will continue our efforts to help clarify the issues so that an informed decision can be made.



Greening Our Energy Future

Sustainable energy strategies to promote job creation, economic growth and a healthy environment have never been more needed than they are today. Traditional power generation can have impacts on the environment, so we have chosen to be a leader in undertaking green generation initiatives that create jobs and grow the economy while protecting the environment. We have invested substantially in clean generation technologies in recent years while working hard to reduce our environmental footprint. These efforts place us in the forefront of our industry in implementing environmental solutions to meet our sustainability challenges. Environmental stewardship will remain a core component of our mission.

LEADERS IN PROVIDING GREEN ENERGY

We recognize we must create a sustainable energy future in the most cost efficient manner. We advocate for energy policies that address societal needs, while recognizing the inherent tradeoffs involved in energy investment decisions. With our sustainability focus in mind, we invest in carefully selected energy efficiency and solar projects that help meet carbon reduction goals, contribute to economic development and create jobs.

Our Approach

Environmental stewardship and sustainability require strong commitments and excellent management. Our Environmental, Health and Safety Policy (EH&S) establishes our commitment and the PSEG EH&S Program Guide outlines our management approach to environmental health and safety.

The PSEG EH&S Policy describes our commitment to conduct our business in a safe, environmentally friendly and responsible manner. We underscore our commitment to nuclear safety through our emphasis on a strong nuclear safety culture and continually strive for excellence in every part of our nuclear operations. We also require that our

employees and business processes comply with all relevant environmental, health and safety laws and regulations.

The cornerstone of our corporate-wide environmental management approach is the PSEG EH&S Program Guide. We set environmental performance goals and targets annually as well as long-term goals every few years. PSEG uses a 14-point management system based on the International Standards Organization 14001 standard and Occupational Health and Safety Assessment Series Specification (OSHAS 18001). We also use and regularly test our emergency preparedness system in case of unexpected plant, nuclear or transmission problems. A recent third-party review confirmed that PSEG is a top performer among utilities nationwide.

Our strong relationships with the public sector, renewable energy developers and policymakers help us identify and implement innovative environmental solutions. PSEG continues to embrace public-private partnerships that have contributed to New Jersey's well-being and prosperity for more than a century. These partnerships support our ability to invest in areas such as energy efficiency and solar energy, which are critical to a sustainable energy future.

Summary of Key Performance Indicators

	2009	2010	2011	2012
Direct GHG Emissions (Metric Tons CO ₂ e)	20,167,000	22,707,357	16,094,290	13,929,406
Indirect GHG Emissions (Metric Tons CO ₂ e)	998,883	1,092,473	1,219,662	1,103,174
NO _x Emissions (Metric Tons)	10,448	12,169	12,211	10,058
SO ₂ Emissions (Metric Tons)	35828	21875	14647	9,155
Mercury Emissions (Metric Tons)	0.18	0.11	0.08	0.075
Environmental Violations (Two-year rolling average)	10.0	10.5	5.0	4.5
Reportable Spills (federal level)	13	20	51	115*

*Approximately 80 federal reportable spills occurred as a result of Superstorm Sandy

ENERGY EFFICIENCY

Saving Customers Energy and Money

For New Jersey – and our nation as a whole – energy efficiency represents an enormous investment opportunity. In fact, the cost of saving a kilowatt-hour of electricity is significantly less than the cost of generating and delivering the next kilowatt-hour of electricity. We will continue to support solutions that promote investment in energy efficiency as one of the most cost effective ways to build a sustainable energy economy.

Our Approach

The customers who could benefit most from energy efficiency cost savings are often the ones least able to make the up-front financial commitment. The hurdles to such investments vary, ranging from a lack of energy expertise and awareness, limited access to capital or credit, difficulty finding technical assistance or qualified contractors to skepticism about the payback and competing priorities for investment dollars. In essence, the benefits of energy efficiency are undervalued, misunderstood and obscured by barriers both real and perceived. Public policy and well-designed programs can overcome these hurdles and unleash the potential of energy efficiency.

In the past, energy efficiency was promoted through rebates that disproportionately benefited affluent customers. In contrast, PSE&G's programs are designed to serve the broadest range of customers. For example, we target many of our energy efficiency efforts to hospitals and municipal buildings, and thus ensure the societal benefits are distributed more widely across the communities we serve in New Jersey.

Targeted Investment

PSE&G's ten energy efficiency programs target a range of stakeholders from hospitals and government entities to homeowners and small-business owners. These initiatives include:

- Hospital Efficiency Program
- Whole House Residential Efficiency Program
- Direct Install for Small Businesses Program
- Direct Install for Municipal Government/Non-Profits Program
- Residential Multifamily Housing Efficiency Program
- Retro-Commissioning Pilot Program
- Technology Demonstration Pilot Program
- Data Center Efficiency Program
- Programmable Thermostat Program
- Warehouse Lighting Pilot Program

We were approved to invest over \$300 million on our energy efficiency programs and have spent \$215 million through 2012.

Through these programs, we pay much of the up-front costs and subsidize a portion of the total cost of energy efficiency improvements for participating customers. For instance, government entities and non-profits in our Direct Install for Municipal Government/Non-Profits Program repay 20 percent of the total cost to PSE&G over two years, interest free, on their PSE&G bill. We also replace street lights with fluorescent lighting that provides immediate cost savings to local governments.

Improvements made by the end of 2012 through PSE&G's energy efficiency programs are saving more than 160,000 megawatt-hours (MWh) and 5 million therms of natural gas annually. This is about

PSEG is
investing
over

300

MILLION
DOLLARS ON
OUR ENERGY
EFFICIENCY
PROGRAMS

equal to the annual electric use for all the homes in Wayne Township, New Jersey (population: 54,000) and the annual natural gas use for all the homes in Hackensack, New Jersey (population: 43,000).

Residential Multifamily Housing Program

PSE&G's \$39 million Residential Multifamily Housing Program helps multifamily housing complexes become more energy efficient and allows renters to realize the benefits of living in an energy efficient building.

The program was designed to address market barriers and obstacles which often prevent or impede affordable multifamily housing from taking advantage of energy efficiency programs. It provides participants with incentives, up-front payments to eliminate the building owner's need to secure a loan to fund the capital investment in energy efficiency upgrades, and on-bill financing for the customer share of program costs. The program has proven to be highly successful with more than 500 buildings having over 16,000 individual apartments enrolled/active in the program.

Hospital Energy Efficiency Program

PSE&G's Hospital Efficiency Program is a \$129 million initiative that provides an investment grade

audit at no cost to the customer, then proposes various cost effective energy conservation measures to make a substantial impact on the hospital's energy efficiency. PSE&G provides up-front funding for the total cost of a project and the hospital repays a portion on its PSE&G utility bill at zero percent interest over 36 months. To date, 29 hospitals either have completed or are currently undergoing significant energy efficiency upgrades through the program. The PSE&G Hospital Efficiency Program is one of only four programs in the U.S. that specifically targets hospitals for energy efficiency improvements and the only program where the utility bears all of the up-front capital costs.

Tracking Progress

Our programs have shown that the hurdles to energy efficiency investments in urban areas and in high energy-use sectors can be overcome. By the end of 2012, PSE&G programs had completed more than 900 energy efficiency projects for government entities and non-profits and more than 600 projects for urban small businesses, audited more than 10,000 residential houses, provided seal-up services to 6,000 homes and deeper retrofits to 2,000 homes, and provided more than 28,000 programmable thermostats and 475,000 energy-efficient light bulbs for urban residents.

The 23-story Paulus Hook Tower in downtown Jersey City houses nearly 800 residents ranging from young families to senior citizens. Energy efficiency improvements made to the building through PSE&G's Residential Multifamily Housing Program will result in annual energy savings of more than 39,000 kilowatt-hours of electricity and 139,000 therms of gas.



Green Building Certification

We also pursue green building certification of several of our buildings using the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) rating system. We achieved a LEED Commercial Interiors Gold-level Certification for our Linden Generating Station, LEED Commercial Interiors Silver Certification for our Customer Service Centers in Paterson and Passaic and LEED Commercial Interiors Gold Certification for our Energy and Environmental Resource Center (EERC). We are also targeting LEED Silver Certification for our New Brunswick Customer Service Center. The LEED certification defines standards for building performance with proven air quality and energy reduction results.

CLIMATE CHANGE Climate Leadership in Policy and Practice

Climate change is an immense challenge requiring action on a broad range of fronts. We were one of the first companies in our industry to recognize the need to address climate change. Since 2007, we have used a three-pronged approach of energy efficiency, renewable energy and clean central station power to reduce our carbon footprint.

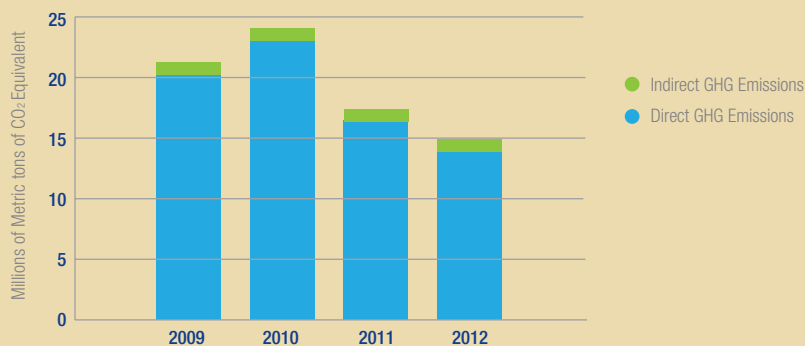
As a leader in low-carbon energy, PSEG has long advocated for federal legislation to limit and reduce greenhouse gas (GHG) emissions. Absent a comprehensive legislative solution, we have supported the steps taken by the U.S. Environmental Protection Agency (EPA) to establish a regulatory framework to reduce carbon emissions. The EPA framework to regulate carbon must establish a logical and modest standard for new and existing electric power plants and provide the industry with much needed regulatory certainty. We will continue to engage with other stakeholders and evaluate opportunities for more comprehensive solutions.

GHG Emissions Target

PSEG met its 2025 goal of a 25 percent reduction in GHG emissions (using its 2005 emissions as a baseline) in 2011 and achieved even further reductions in 2012. We currently set annual targets for absolute and relative GHG emissions. We measure the GHG emissions intensity of PSEG's direct (Scope 1) CO₂e emissions as a corporate-level key performance indicator (KPI) within our Balanced Scorecard system.

While we achieved our most recent goal, setting meaningful targets continues to be a challenge. Our recent performance reflects our efforts in developing clean energy resources

Indirect and Direct GHG Emissions



and incentivizing energy efficiency, as well as our improved nuclear performance, but we also recognize that external economic conditions including low natural gas prices have helped. We are therefore exploring other metrics that better reflect market impacts to our emission levels and lead us to a more sustainable future.

CLEAN AIR Exceeding Standards and Reducing Emissions

One of our key environmental impacts is on the quality of the air we breathe. In 2011, we began operation of a \$1.3 billion investment in emissions control technology that eliminates over 90 percent of pollutants from our coal-fired plants in New Jersey. The positive impact of this investment can be seen in the substantial reduction of emissions in 2011 compared to prior years.

We believe these investments provide a net societal return, helping to maintain the health of people in our service areas while positioning us for increased competitiveness as environmental regulations become increasingly strict. We strongly endorse efforts to implement uniform national emissions standards for coal and oil plants and support EPA's

Mercury and Air Toxics Standards (MATS), which require power plants to reduce mercury and other harmful air toxic pollutants. Furthermore, PSEG will work with EPA and industry to ensure that the CSAPR/CAIR replacement rule accomplishes the SO₂ and NO_x emission reductions necessary to achieve a level playing field. In our view, these rules provide regulatory certainty and ample time for others in our industry to proceed with investments similar to those we have made to dramatically reduce emissions.

In addition, PSEG will be retiring many of its older peaking plants by mid-2015 to reduce power plant NO_x emissions on "high electric demand days" (HEDD). The emission reductions will assist New Jersey in meeting and maintaining strict ambient air quality standards.

Energy companies can help achieve some of society's most important goals while fueling long-term growth. PSEG is demonstrating this is possible through our various investments in energy efficiency, solar, nuclear and state-of-the-art emissions controls for power stations. These efforts are producing substantial benefits for New Jersey and the wider region we serve.

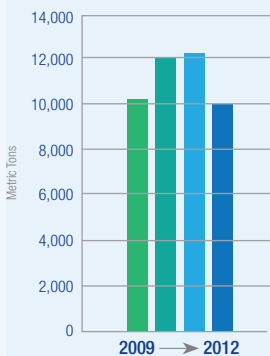
MORE ABOUT OUR EFFORTS TO BUILD AN ECONOMICALLY STRONG AND ENVIRONMENTALLY RESPONSIBLE ENERGY FUTURE IS AVAILABLE ONLINE AT: [HTTP://WWW.PSEG.COM/INFO/MEDIA/PDF/NJ_AIR_QUALITY.PDF](http://www.pseg.com/info/media/pdf/nj_air_quality.pdf)

PSEG invested more than \$1.3 billion in Back End Technology (BET) equipment to significantly reduce the emissions from the Hudson and Mercer coal plants, making them among the cleanest in the country. Pictured here is an overhead view of a section of Mercer's Back End Technology installation.

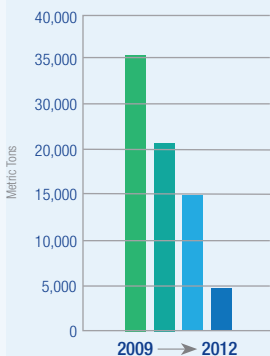
Mercury Emissions
(Metric Tons)



NO_x Emissions
(Metric Tons)



SO₂ Emissions
(Metric Tons)



RENEWABLE ENERGY

A Leader in Solar Development

Our renewable energy initiatives have helped make New Jersey one of the leading states for solar energy development – creating jobs, spurring economic activity and helping the state meet its renewable energy targets. New Jersey ranks third in solar capacity among all U.S. states and ranks first in the concentration of solar power (installations per square mile).

We are proud of our role in helping New Jersey become a leading location for solar energy development. For four consecutive years PSE&G has been among the nation's top three utilities for integrating solar into the power grid, as ranked by the Solar Electric Power Association (SEPA). During 2012, more than 140 megawatts of solar capacity were installed in our service area, according to SEPA.

Helping New Jersey meet its Renewable Energy Goals

We are aggressively helping New Jersey meet its renewable energy goals. The state's Renewable Portfolio Standard (RPS) requires load serving entities in the state to procure just over 20 percent of the electricity they sell to customers from qualifying renewable energy sources by the

2020-2021 energy year. Also included in that goal is a specific allocation for solar power totaling 4.1 percent by 2028.

PSEG is helping to meet the RPS target by directly developing solar projects and providing financing for solar projects. PSE&G's solar investments create a demand for technology that will transform the way we generate electricity and create well paid green jobs in New Jersey.

Our Approach

Our approach to solar development includes direct ownership of large-scale projects and pole-attached systems through our Solar 4 All program, and a Solar Loan program targeted to businesses and home owners that need financing for their projects.

Solar 4 All™

Solar 4 All™ is PSE&G's flagship solar energy development program. The \$456 million program utilizes a two-track approach to providing 80 megawatts (MW) of grid connected solar energy by developing large-scale centralized projects and building the world's first and largest pole-attached solar project.



The first track of Solar 4 All involved the installation of a total of 40 MW of solar units on utility poles in the more than 300 towns and cities in PSE&G's electric service territory. Like all Solar 4 All projects, pole-attached solar generates electricity fed directly into the grid for resale and earns Solar Renewable Energy Certificates (SRECs) that offset the cost of the program. To date, the program has installed more than 170,000 solar units on poles throughout New Jersey. We have also helped to support jobs in the state by procuring the specialized panels from PetraSolar, a Plainfield, NJ-based firm that pioneered the technology.

The second track involves the construction of large, grid-connected projects on utility owned property and other host sites. We have installed solar systems at our sub-stations, training facilities and other field locations, at a number of schools, and on landfills and other remediated property.

Developing more solar farms on landfills and brownfields is a major focus of PSE&G's ongoing efforts to support New Jersey's renewable energy goals. So far, our efforts have returned 40 acres of remediated brownfield sites to productive use by installing over 40,000 solar panels capable of generating more than 10 megawatts of solar power.

Through 2012, PSE&G installed 74 megawatts and spent \$437 million in implementing the Solar 4 All program. There are 23 large-scale solar installations in service in the centralized solar portion of the program, with total capacity of 39 MW and 35 pole-attached MW. The Solar 4 All program will eventually provide power for an estimated 13,000 average New Jersey homes and eliminate 1.2 million tons of CO2 emissions throughout the lives of the projects.

Solar Loan

The Solar Loan Program is another component of PSE&G's solar development strategy. As of December 31, 2012, this program made \$209 million of financing available that has helped homeowners and businesses develop 878 installations totaling 67 MW of solar capacity. These loans help remove the financial hurdles that prevent many businesses and residents from owning solar power. The loans generally finance up to 50 percent of the total cost of the solar installation and can be repaid using SRECs, which are generated by the solar installation.

PSE&G's Solar Programs Extended

Citing the desire to maintain the state's leadership in solar energy, to create jobs, and to direct solar



N.J. Gov. Chris Christie and PSEG Chairman Ralph Izzo (2nd and 3rd from left, respectively) join labor leaders and workers at the groundbreaking of the PSE&G Hackensack Solar Farm. The project is one of many that PSE&G is undertaking to turn landfills and brownfields green, while creating jobs.

development away from open space and farmland, the New Jersey Board of Public Utilities recently approved the extension of our two solar programs, allowing PSE&G to invest an additional \$446 million in New Jersey's solar market.

The extension of the Solar 4 All program will permit PSE&G to spend \$247 million on 42 MW of solar farms atop landfills and brownfields and another 3 MW for smaller projects. PSE&G also received approval to invest as much as \$199 million on 97.5 MW of additional solar loans for residential and business customers.

Investing in Solar Energy beyond New Jersey

We continue to invest beyond New Jersey to provide clean, emissions-free solar energy where there are supportive public policies and attractive opportunities. In October 2012, our PSEG Solar Source subsidiary began commercial operation of a new 25 MW solar farm in Queen Creek, Arizona. And in the spring of 2013, we brought online the largest solar facility in Delaware – our new 15 MW Milford solar farm. With these additional new projects producing clean energy, Solar Source has 69 MW of PV solar in operation. Projects like these testify to the strong partnerships that have made

solar energy a growing part of America's energy mix, to the benefit of the nation's energy security, economy and the environment. PSEG Solar Source now has a presence in five states.

NUCLEAR POWER

Safe, Reliable, Low-Carbon Energy

Nuclear power continues to hold several advantages for helping to meet the country's future energy needs. Nuclear generation emits no carbon or other pollutants associated with fossil fueled plants, while providing tremendous economic and job benefits for the region.

The Fukushima Daiichi incident following the devastating 2011 earthquake and tsunami in Japan has raised worldwide concerns about the future of nuclear power. After the incident, nuclear plant operators in the U.S. conducted a thorough review of the potential impact an earthquake and other natural disasters could have on their plants. The scrutiny comes at a time when interest in nuclear power has renewed and global construction of nuclear reactors is rising after a decades-long decline. Projected energy demand and the threat of climate change are among the factors



PSE&G's pole mounted solar effort, the largest project of its type in the world, harnesses the power of the sun while preserving open space.

accounting for this shift. However, numerous uncertainties remain about the future of nuclear energy, including the competitive price of natural gas, shortages of trained personnel and high construction costs.

We believe a systematic approach to nuclear energy management ensures public safety, and the success of our application to relicense two facilities is further endorsement of our management expertise. We also recognize the importance of educating the public about nuclear energy and have been recognized for our community outreach efforts. More than 600 stakeholders, representing over 30 different groups, toured our nuclear plants in 2012.

Nuclear Fleet

Our nuclear power generating fleet consists of the Salem and Hope Creek nuclear generating stations in Lower Alloways Creek, New Jersey, and part ownership of the Peach Bottom nuclear generating station in Delta, Pennsylvania. PSEG has taken several steps to ensure that nuclear power will be part of New Jersey's future. First, we received 20-year license extensions to the Hope Creek unit and both Salem units, ensuring that those plants can continue to operate well into the 21st century. We have increased our existing nuclear capacity through

various plant improvements in recent years, and these efforts continue.

We are also in the process of obtaining an early site permit, the first step needed for the construction of a new reactor, for a site north of our Hope Creek plant. With access to available transmission, proximity to energy users and available land, our South Jersey site is one of the best locations for a new nuclear unit in the nation. If an early site permit is granted, it would be valid for 20 years, allowing PSEG Nuclear to conduct a thorough assessment before deciding whether to apply for a combined construction and operating license.

ADDITIONAL INFORMATION ABOUT OUR NUCLEAR POWER FLEET IS AVAILABLE ONLINE AT: [HTTP://WWW.PSEG.COM/FAMILY/POWER/NUCLEAR/INDEX.JSP](http://www.pseg.com/family/power/nuclear/index.jsp)

Emergency Preparedness

PSEG Nuclear maintains a strong emergency response plan. As part of this plan, we work closely with the states of New Jersey and Delaware to protect the health and safety of the public. The Nuclear Regulatory Commission (NRC) assesses the capabilities of the plan by requiring us to perform a full-scale exercise that includes the participation of government agencies at least once every two years. A recent exercise was performed successfully in May 2013. We perform these exercises in order to

PSEG's Bergen and Linden generating stations in New Jersey are models of our water reduction efforts with the use of reclaimed water, which has already been used and partially treated. Our Linden plant relies almost entirely on reclaimed water and supplements the minimally required volume with city water only in times of absolute need. Our Bergen plant began using a system this year that completely eliminates the need for city water. As a result, PSEG has reduced its impact on the Hackensack River watershed, a historically troubled ecosystem that is now showing strong signs of recovery with the return of native birds, fish and mammals to the Meadowlands tidal estuary.

maintain the skills of our emergency responders and conduct additional drills quarterly in between these two-year exercises.

WATER

Stewardship of a Precious Resource

Water Management and Use

Stewardship of water resources remains a priority for PSEG in the areas where we operate. None of our plants are located in a water-stressed area, with most being located on non-potable estuarine waters. However, New Jersey is also one of the most populated and developed areas of the United States and is beginning to experience water resource constraints on a localized basis. In addition, extreme weather events have led to impacts related to flooding.

PSEG's operations interact with water as a resource in a variety of ways. PSEG's power plants use water to drive steam turbines, for cooling in boilers and to reduce air emissions. As discussed in the section on air quality, PSEG has installed technologies that reduce emission of NOx and SO2. However, many of these technologies rely on the injection of water to achieve this positive environmental benefit. As a result, overall water use for these facilities has

increased. The largest volume of water is linked to non-contact cooling water systems. Several different systems are in use ranging from once-through systems to wet cooling towers and a wet/dry hybrid cooling tower. Each design has different attributes and water resource issues.

Once-through systems withdraw high volumes of water with relatively low water consumption rates but they also have impacts to local aquatic habitats. PSEG has addressed these impacts in several ways, including the installation of state of the art technologies and the restoration of marsh habitats (see further discussion under Biodiversity below). Cooling towers withdraw significantly less water but with a relatively higher consumption rate. To offset this PSEG has at two locations chosen to use an available alternate water source, "Reclaimed Wastewater Effluent," to limit reliance on potable water supplies.

Meeting water quality standards continues to be an issue we manage at our plants daily. In addition to discharges related to the generation of electricity, PSEG's locations are also subject to precipitation events that require the management of stormwater. PSEG has designed and installed systems to treat industrial wastewater at its facilities, reduce the concentration of pollutants in the discharge



and reduce the potential for stormwater to carry pollutants from its facilities.

Guidelines and Verification

PSEG guidelines call for 100 percent of our plants to ensure that they maintain the quality and quantity of water on both the intake and discharge sides of their operations. We use best available technology to safely remove and return fish to rivers during water intake at our facilities. We also monitor pH and temperature of the water returned to rivers and we are in compliance with state environmental quality permits. We treat all effluents on-site before discharge and both our measured and reported water data are externally verified in several ways by federal and state regulatory agencies.

BIODIVERSITY

Restoring New Jersey's Natural Spaces

Providing safe, reliable and efficient energy to meet the needs of our customers requires maintenance of lines that pass through local ecosystems. We work closely with experts, including the New Jersey Audubon Society and The Nature Conservancy, to integrate biodiversity considerations and mitigate ecosystem impacts from design through project construction and maintenance. PSE&G is currently working with New Jersey Audubon to evaluate practices for the management of vegetation along its 1,100 miles of transmission rights of way. Information resulting from this effort will be used to develop sustainable maintenance practices that will balance the safety and reliability needs of the utility system with the need to maintain diverse habitats for migratory and sensitive species in New Jersey.

PSEG works with local conservation organizations such as the Hackensack Riverkeeper to support the maintenance of osprey platforms and facilitate



increasing populations of this endangered species. Several of PSEG's facilities are home to active platforms including our Hudson generating station in Jersey City. PSEG is also a partner with a broad group of stakeholders in the Abbott Marshlands Stewardship Council. This important resource area is located in Mercer County adjacent to PSEG's Mercer generating station and also has several transmission lines crossing over it. Through this collaboration PSEG works with other stakeholders to protect and preserve the marsh habitat and educate the public on marsh ecology and benefits.

Environmental Impact Assessment

The cornerstone of our approach to maintaining biodiversity is an environmental impact assessment process for our projects. The process includes three steps: project planning, permitting and compliance. We subject our new facilities and transmission development projects to an impact assessment, which includes an evaluation of biodiversity impacts, using inventory maps created by the New Jersey Geographic Information System. In addition, we file our Environmental

Impact Statements (EIS) and Environmental Assessments (EA) with the appropriate regulatory agencies. Our EIS and EA reports are publicly available through those agencies and we post updates to project websites for many of our larger projects.

As a result, while advancing the development of projects to maintain and improve the reliability of our energy systems, we have worked closely with regulators and environmental stakeholders to mitigate the environmental impacts of those projects. In addition, PSEG has sought out and partnered with others to identify practices that will lead to improved habitat diversity throughout the geographic area of our operations.



An important component of PSEG's commitment to environmental stewardship is to respect and protect wildlife while continuing to maintain safe and reliable operations. Senior permitting specialist David Grossmueller works to keep habitats safe for all animals in PSEG's service territory.

PSEG has restored more than 20,000 acres of salt marsh near our Salem and Hope Creek nuclear facilities. It is the largest privately funded wetlands restoration and improvement program in the United States and has reversed much of the ecological damage to valuable tidal marshes caused by salt hay farming over the past 200 years and by invasive non-native plants. The natural vegetation vital to the local food chain has been brought back, cleaning the water, supporting marine life and buffering the land from flooding.



Putting People First

PSEG is a company with strong ethical values and a deep commitment to its employees and communities. We understand that our success ultimately depends on our ongoing ability to attract, develop and retain a highly skilled, diverse and engaged workforce. Indeed, our people are the key to achieving operational excellence in providing safe, reliable, economic and greener energy. Their role is just as essential in helping to sustain PSEG's long and active tradition of corporate citizenship and leadership. We are proud to encourage and support their efforts.

PEOPLE STRATEGY

Winning in the Race for Talent

Each year we review our people strategy to ensure we are engaging and motivating employees. Our goal is to promote an environment where employees develop and utilize skills, feel comfortable sharing their ideas and concerns, and directly support the achievement of key business objectives. We believe these efforts contribute to a high-performance culture.

Employee engagement is an important part of our journey to improve as a company. Our engagement initiatives focus on issues such as comfort in speaking up and the performance appraisal process, to ensure we move forward effectively as one team. We want to build a culture where everyone not only contributes but feels valued and appreciated, and has a range of opportunities for growth and development.

We identify and manage numerous risks and opportunities through our people strategy. Part of the reality of our business is the challenge of maintaining employee and public safety, good relations with our labor unions and an engaged workforce.

BUSINESS ETHICS AND HUMAN RIGHTS

Standards and Values Guide the Company

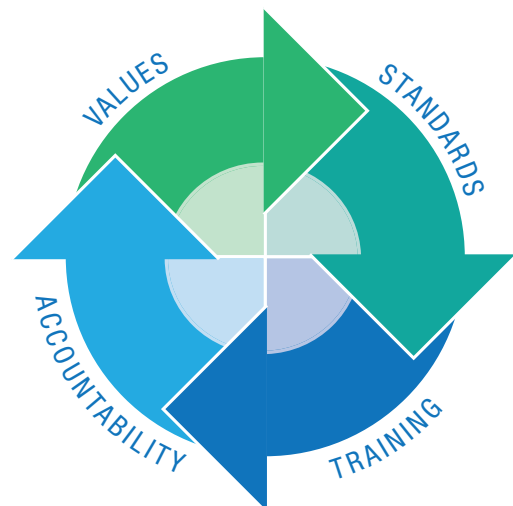
A good name is more than a source of pride: Our reputation as a highly ethical company gives us credibility in the marketplace, in the communities where we work and among current and potential employees. Our Standards of Integrity and PSEG values form the foundation of our ethics program.

Standards of Integrity

PSEG is committed to conducting operations in accordance with the highest ethical standards and in compliance with the law. These Standards of Integrity (“Standards”) and the PSEG values embody that commitment. Our core values – Accountability, Continuous Improvement, Customer Focus, Diversity, Ethics and Integrity, Respect, and Safety – guide our conduct wherever we operate. We require every employee and contractor to uphold our values and standards to work with PSEG.

The PSEG Standards of Integrity, reviewed and approved by the PSEG Board of Directors, is a specific policy commitment that describes the company’s expectation of employee and contractor conduct in the workplace. Our Standards of Integrity set common expectations for interaction with investors, customers, co-workers, competitors, vendors, government officials, the media and others. Our entire staff of management, administrative, supervisory and technical associates must complete training on the Standards of Integrity and results are reported to the Audit Committee of the Board of Directors annually. We ensure accountability by defining responsibility, reporting breaches, tracking results and responding to issues.

THE FULL STANDARDS OF INTEGRITY ARE ONLINE AT: [HTTP://PSEG.COM/FAMILY/ABOUT/INTEGRITY/PDF/STANDARDS.PDF](http://PSEG.COM/FAMILY/ABOUT/INTEGRITY/PDF/STANDARDS.PDF)



PSEG HAS
EXPERIENCED A

49%

decrease
in OSHA
cases in
the last
10 years

EMPLOYEE HEALTH AND SAFETY

Empowering Employee Health and Safety

A safe and healthy workforce is a high-performing workforce. We take numerous measures to ensure employees and contractors have the proper knowledge, training and protective equipment to maintain their personal health and safety. PSEG's business requires managing sophisticated energy production and distribution operations involving commodities which are inherently hazardous. We control the risks associated with those hazards through the successful implementation of engineering controls, work processes and continuous improvement goals by a highly trained and skilled workforce.

Our Approach

PSEG's commitment to employee health and safety is our foremost priority and is supported by our employees' exemplary efforts over many years. Our health and safety culture reflects strong and continuing employee involvement, teamwork and pride. At PSEG we believe that safety excellence enables operational excellence. Our culture is supported by policies, practices, processes and management systems that enable employee involvement, continuous learning, and disciplined risk

assessment, prioritization and control. We ensure the strength of our processes and management systems and their implementation through self-assessments, third-party audits and benchmarking activities within and outside our industry.

Our health and safety strategy and management system illustrate our approach to safety throughout the corporation. The twelve components of our health and safety system provide the structure for promoting a culture built on trust, care, knowledge and communication.

In 2011, an independent third-party audit team's review of PSEG's EHS management systems concluded that the system's design and overall performance placed PSEG as a top performer among its peers. We are in the process of completing action plans to address the recommendations from that review.

THE FULL PSEG ENVIRONMENT, HEALTH AND SAFETY POLICY OUTLINING OUR RESPONSIBILITY IS AVAILABLE AT: [HTTP://WWW.PSEG.COM/INFO/ENVIRONMENT/HEALTH.JSP](http://www.pseg.com/info/environment/health.jsp)

Moving toward Target Zero

PSEG has been internationally recognized as a leading health and safety company. We emphasize the need for continuous improvement to achieve our ultimate goal of Target Zero – where no one gets hurt. We have dramatically improved our

Creating a Safety Culture

	2009	2010	2011	2012
OSHA recordable case incidence rate	1.54	1.24	1.51	1.25
Lost Time Cases	54	26	58	53
OSHA recordable cases	171	135	160	133
Fatalities	0	0	0	0

safety performance over the past decade with OSHA rates lower than at any time in our history, nearly eight consecutive years of zero fatalities and with only one fatality in the past sixteen years. Building on our health and safety culture, we aim to realize our vision of Target Zero through a strong commitment to continuous improvement and employee involvement.

For example, our corporate Health and Safety Council is actively engaged in benchmarking nationally. The Council has also strengthened our Prevention through Design program to further eliminate, reduce or control occupational safety and health hazards and risks.

EMPLOYEE WELFARE

Taking Care of our Employees

People select companies that share their values. We find that job candidates are drawn to us because of our reputation and stability along with our clean energy initiatives, environmental stewardship and community role. PSEG has provided opportunities for our employees to grow with us for more than 100 years, and we will continue to foster a workplace environment that contributes to this success. Our people remain the foundation of our business, and it is our

responsibility to ensure we look after them. Employees who are members of labor unions covered under collective bargaining agreements comprise nearly two-thirds of our workforce. We recently renewed the collective bargaining agreements with four of our unions – representing over 5,000 employees – through 2017. We are proud of our strong union-management relations and will continue to work collaboratively with our unions.

Compensation and Benefits

PSEG understands that taking great care of our customers starts with making sure we take great care of our employees. We use third-party compensation surveys and perform individual benchmarking as necessary to ensure competitive levels of compensation for our employees. Each employee's salary and incentive compensation is linked to their individual performance as well as overall corporate financial performance and business area performance.

Our comprehensive benefits package empowers employees to be their best. We benchmark our industry peers to ensure we are within five percent of the group average and adjust as the market changes. The wide range of employee services, retirement, health and other benefits are designed to help employees enhance their work-life balance

The Safety and Human Performance Center gives PSEG Nuclear employees a hands-on learning experience. The Center provides a simulated work environment where employees walk through situations that challenge them to think about the safe way to perform their jobs. Learning stations promote proper use of personal protective equipment, safety signage, chemicals and controlled materials, electrical safety, cranes and rigging, compressed gas cylinders and more.



and suit their diverse lifestyles. Highlights of benefits include:

Compensation Linked to Employee Engagement – “Comfort Speaking Up”:

Throughout 2012 we have made progress in employee engagement, but there remains room for improvement. To help address this, for 2013, 10 percent of incentive compensation for all non-union employees will be linked to a shared goal around fostering a culture where employees truly feel comfortable speaking up to share their ideas, concerns and ethical issues, as well as make our culture more open and inclusive. In addition to this focus on employee engagement, our incentive compensation program continues to provide award opportunities to employees for meeting and exceeding both operating and financial performance goals.

Employee Assistance Program (EAP):

Employees working through a personal problem that could affect their well-being can call the EAP hotline 24 hours a day for confidential counseling and referrals. Counselors provide assessment, short-term counseling referrals and treatment monitoring.

Carebridge: This service is available to help employees who are caring for aging parents,

children with injuries or disabilities, or family members with substance abuse problems. PSEG’s Carebridge program provides employees with referrals to professional assistance that supports a family member in need.

Bright Horizons Child Care Program: This service offers priority access for back-up, full-time and part-time child care to company employees. In addition, employees are provided with 20 visits per year, subject to a \$15 co-pay, at Bright Horizons Child Care facilities nationwide for back-up child care.

MORE INFORMATION ON CAREERS WITH PSEG AND OUR BENEFITS IS AVAILABLE ON THE FOLLOWING WEBSITES:

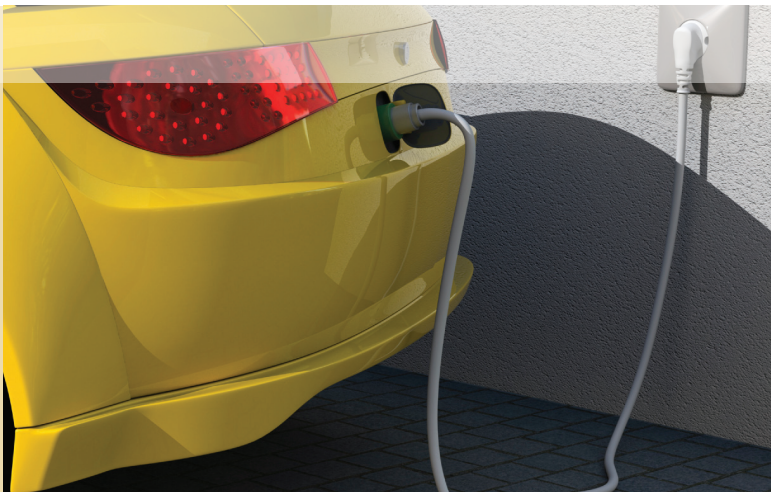
PSEG CAREERS: [HTTP://WWW.PSEG.COM/INFO/CAREERS/](http://www.pseg.com/info/careers/)

PSEG BENEFITS: [HTTP://WWW.PSEG.COM/INFO/CAREERS/BENEFITS.JSP](http://www.pseg.com/info/careers/benefits.jsp)

WELLNESS AND LIFESTYLE

PSEG provides additional services beyond traditional benefits to support and encourage employees to lead a balanced and healthy lifestyle.

Fitness and Health: We run an on-site fitness center at two of our largest sites and offer fitness reimbursement at our other sites. We maintain several lifestyle management programs that help employees learn about and manage their blood pressure, cholesterol, stress, nutrition, and weight.



In 2013, PSEG launched an Employee Electric Car Incentive Pilot Program, where employees who commute in an electric car may receive no-cost charging and parking at three company locations (guaranteed for three years). In July, PSEG opened the largest electric car charging facility in New Jersey as part of this program.

Shots and Screenings: Each year we offer flu shots free of charge to thousands of our employees who choose to participate. We also offer cardiovascular screenings annually.

Disease Management: Our disease management programs help employees dealing with diabetes or coronary disease benefit from additional support in managing their health.

A Corporate Wellness Council, consisting of various union and management personnel, has played a significant role in promoting wellness and wellness-related programs. These resources are available to all our full-time employees.

TALENT MANAGEMENT Mapping Out the Path to Employee Success

A high-performance culture rewards personal growth, input from our employees and professional development. PSEG is committed to nurturing a strong culture through effective employee support. We provide strong development and training programs for our employees.

We also recognize the challenge of preparing our workforce for a transition with the retirement of

baby boomers. Like others in our industry, we have an aging workforce. More than 30 percent of our employees will be retirement-eligible over the next five years. This can be especially difficult to manage since finding employees with the skills necessary to replace these career veterans is not always easy, particularly in areas like PSEG Nuclear where it can take years of on- and off-the-job training and development to qualify for certain positions.

The PSEG Supervisory and Leadership Academies are an important part of our workforce development efforts, and we will continue to develop succession plans and additional programs to support the growth of our employees. We also continue to strengthen our internal hiring, training process and recruitment process to develop new talent while managing anticipated attrition.

Career Development

PSEG provides comprehensive approaches and tools for employee career development. All non-union employees set development goals with their managers, participate in a performance appraisal process and have access to a variety of tools and resources to improve their skills and track their progress.

Highlights of initiatives that facilitate employees' continued growth and development include:

The EAP
hotline
is open

24

HOURS A DAY FOR
CONFIDENTIAL
COUNSELING AND
REFERRALS

Training: Our Training & Development Center in Edison, New Jersey, provides employees with technical training needed to succeed and grow as a skilled tradesperson in the utility industry.

Leadership Coaching: Last year, all VPs and Presidents across the company participated in a 360-degree feedback process and, working with an external executive coach, created a development plan aimed at making them even stronger leaders.

Leadership Academy: The PSEG Leadership Academy is a week-long immersion program for top-performing managers. It provides intensive training on leadership, decision-making and problem solving by engaging executives and their peers across the company.

A FULL DESCRIPTION OF PROGRAMS IS AVAILABLE ONLINE AT: [HTTP://WWW.PSEG.COM/INFO/CAREERS/DEVELOPMENT.JSP](http://www.pseg.com/info/careers/development.jsp)

The PSEG intranet, myPSEG.com, provides employees with a wide range of helpful information on their salary and benefits, retirement plans and services. We maintain an electronic catalogue of policies, practices, procedures, and operational excellence models so employees know exactly how to excel. A stream of relevant information is communicated through myPSEG.com, daily Outlook online emails, and PSEG Outlook, our employee magazine.

DIVERSITY AND INCLUSION

Strengthening our Company with Diverse Experience

Diversity is not only a core value of PSEG, but an indispensable component of our vision. We believe in a culture that values and promotes equal opportunity in our workforce. Our strategy has a comprehensive focus on our workplace and workforce.

Workplace

A workplace that respects team members is the first step in our diversity strategy. We strive to build a culture that is inclusive through awareness, team member support and decision making, and engagement of underrepresented employees. The following workplace programs help us meet our diversity goals:

Manager Training: Creating an atmosphere of candor and respect for high-performing teams begins with managers. We provide managers with coaching and resources to set standards for respect, train their employees on diversity, and communicate with employees regarding their concerns.

Career Support: We post jobs internally and encourage internal referrals and applicants. We offer support for internal applicants with resume-writing and interview skill-building.

PSEG
has



EMPLOYEE RESOURCE
GROUPS THAT ENCOURAGE
EMPLOYEES TO SHARE
THEIR DIVERSE INTERESTS

Employee Resource Groups: Employee Resource Groups encourage employees to share their diverse interests, talents and learning to advance career goals. They also support our workforce and marketplace goals by helping us to build relationships with other organizations to source talent and suppliers. The PSEG Foundation donates up to \$2,500 annually to charities aligned with our Employee Resource Groups to further support and reinforce the community dimension of their endeavors.

The current Employee Resource Groups are:

- Adelante
- The American Association of Blacks in Energy
- Gay & Lesbian Alliances at PSEG
- The North American Young Generation in Nuclear
- The Young Professionals of PSEG
- PSEG Vets
- PSEG Vets@Nuclear
- Minority Interchange
- The Women's Network
- Women in Nuclear

Workforce

Attracting a diverse and high-performing workforce is step two in our diversity strategy. We partner with a variety of organizations to position PSEG as

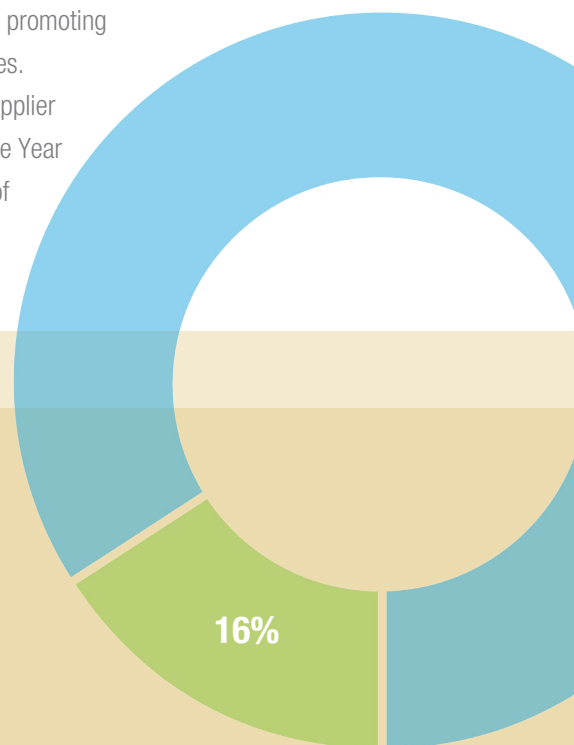
an employer of choice and attract top talent. We are especially proud of our relationships with the military, supporting our efforts to recruit members of our armed forces returning from tours of duty. We design specific outreach, hiring and policies to meet the needs of members of the military and their families. One policy allows some members of the Reserve Forces, who are activated for a tour of duty, to return to their jobs at PSEG afterwards. For the second year in a row, we were ranked in the top 100 military-friendly companies by GI Jobs Magazine.

Achievements

Our diversity efforts have received external recognition, including a top score in the Human Rights Campaign Corporate Equality Index in prior years. We were named by GI Jobs magazine as a "Military Friendly Employer" the last three years and received Readers Choice from Equal Opportunity Magazine as among Top 50 Employers. Our programs are consistent with industry best practices for top performing companies according to Diversity, Inc. We have also been recognized by organizations dedicated to certifying and promoting Minority and Women Business Enterprises. We have won the NY and NJ Minority Supplier Development Council's Corporation of the Year Award three times and the Coordinator of the Year Award three times as well.

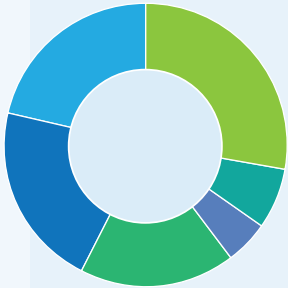
We expect our employees to know and uphold our values. In 2011, we completed an 18-month effort to train our employee base in diversity and inclusion. Diversity and inclusion training gives employees the knowledge and access to resources so they understand our standards, can voice concerns and resolve conflicts.

**2011 - 2012
Percentage of Women in
the PSEG workforce**



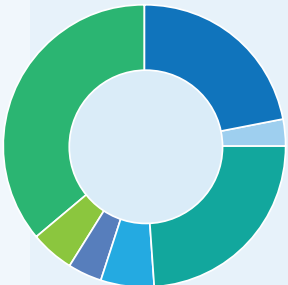
2012 Allocation of Foundation Contributions

(by Priority Area)



- Education **33%**
- Environment **8%**
- Safety **6%**
- Health & Human Services **21%**
- Other strategic **25%**
- Other non strategic **25%**

(plus Corporate Contributions)



- Civic & Community **22%**
- Culture & the Arts **3%**
- Education **24%**
- Environment **6%**
- Safety **4%**
- Health & Human Services **5%**
- Other strategic **36%**

London Benchmarking Group (LBG)

In 2011, PSEG joined London Benchmarking Group (LBG), the international standard for measuring and assessing the value and impact of community investment to both business and society. More than 300 companies around the world use the LBG framework to measure, manage and report the value and the achievements of the contributions they make.



EMPLOYEE ENGAGEMENT Aligning Passion, Experience and Skills

Continuing to engage employees is vital to winning the race for talent. We implement several programs guided by our employee engagement strategy and continue to seek ways to win the hearts and minds of our employees.

Employee Engagement Strategy

In 2012, 97 percent of PSEG's non-union employees completed an employee engagement survey. Approximately 300 managers across PSEG received individual survey results for their business areas and then worked with their teams to create specific action plans targeting improving employee engagement across the company.

Winning Hearts and Minds

Employee engagement is critically important in the short and long term. Our challenge is to create a workplace environment where employees feel increasingly engaged and empowered to be their best – building satisfying careers and growing with us over many years. We must continue to measure employee engagement and satisfaction, and focus on continuous improvement in taking care of our employees so that they stick with us and take care of our customers.

Employee Spotlights

One of the elements of employee engagement that we are most proud of is our regular spotlight on employee efforts and accomplishments in our monthly PSEG Outlook newspaper. Throughout the newspaper, we feature employees going the extra mile, examples of ways in which PSEG is a good place to work, and unsung heroes in the workplace.

PSEG FOUNDATION Investing in Safety, Community and Education

PSEG has a longstanding commitment to the communities we serve. In 2012, The PSEG Foundation and Corporate Social Responsibility department provided more than \$9.8 million in financial support to non-profit organizations that share our dedication to a sustainable future and that are involved in many efforts that make a difference for people in the communities we serve.

Our community support strategy continues to evolve, with a focus on three areas: community and the environment, education and safety. Specifically, we have a strong commitment to the environment and to a higher quality of life in the communities where we do business. We are investing in economic vitality. We are expanding the PSEG Foundation's work in STEM (science, technology, engineering and math) education, with our efforts especially geared to the needs of underrepresented and disadvantaged communities.

While safety has always been our foremost priority, we are heightening this focus even further to ensure that resources are in place to protect employees, customers and communities in time of crisis; creating safe and vibrant communities across our utility service territory; educating customers on energy use, fraud awareness and personal safety; and providing safety education about electricity and natural gas to keep customers safe.

In addition to the three primary giving areas, our Corporate Social Responsibility platform supports a strong employee engagement program through which employees and their families participate in community activities by volunteering, and also includes volunteer grant programs, matching gift programs, and special events.

Our giving strategy will begin offering fewer, but larger grants, with an eye on maximizing our direct impact and achieving measurable results. Our strategy is aligned with our business goals and the PSEG Foundation's giving areas, as well as our employee engagement program. This reflects our continuing commitment to promote a high quality of life in New Jersey and everywhere we do business.

Strengthening Safety Systems and Building Resilience within our Communities

During Hurricane Sandy, PSEG employees served as first responders. We are beginning to formalize that role both externally and internally, focusing our efforts on better disaster preparedness, coordination with state and nationwide groups as well as through social media and education. Our grants will go to support energy education not only during disasters, but also on a day to day basis. We will strengthen education on fire and burn response to support not only the community, but also our employees. In 2012 the Foundation donated \$368,000 to safety-related initiatives.

Investing in the Economic Vitality and Environmental Quality of our Communities

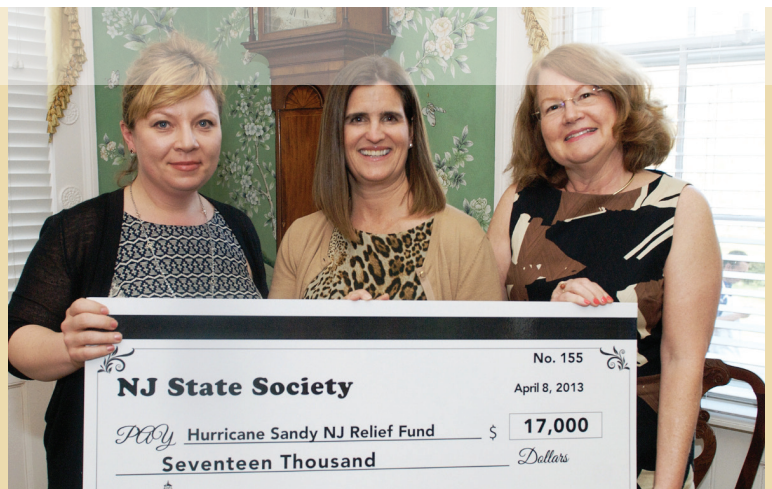
PSEG has long invested in efforts that have improved the quality of life while helping protect the environment. Our community environment portfolio comprises a range of initiatives aligned with key

environmental issues, including climate change, community greening, resource management, sustainable municipalities and environmental education. In 2012, the PSEG Foundation donated \$501,000 to environmental programs that met our criteria. PSEG also donates to select energy efficiency and capital campaigns that support LEED certification efforts. In 2012, the PSEG Foundation donated \$566,000 to community and economic development projects to advance these goals.

Sparking Curiosity and Nurturing a Passion for Science, Technology, Engineering and Math

PSEG supports many educational initiatives with a view to preparing the workforce of the future and expanding educational opportunities. Our education portfolio focuses on improving learning and educational outcomes for students in subject areas of particular importance to PSEG. The Foundation's education funding priorities are workforce development for K-12 or higher education, **Science, Technology, Engineering and Math** (STEM) programs and certain youth programs providing education to underserved populations. In 2012, the PSEG Foundation donated \$1,393,000 to educational programs.

In her volunteer role as president of the New Jersey State Society (NJSS), Donise Cameron-Dukes, manager-federal affairs at PSEG, helped raise \$17,000 to aid victims of Superstorm Sandy. Cameron-Dukes (left) is featured alongside New Jersey First Lady Mary Pat Christie and Nancy Blades Fatemi, executive director of NJSS.



COMMUNITY ENGAGEMENT

Partnering with Employees in the Community

Employees engaged in their community strengthen our relationships with customers and community leaders. We support employee volunteering, volunteer grants and employee matching programs in the community. In 2012, PSEG employees volunteered 25,874 hours of service to their communities, and their efforts garnered over \$93,000 in volunteer grants. In addition, our employees contribute valuable skills to help non-profits meet environmental and societal goals.

Volunteer Grant Programs

PSEG recognizes and rewards many of our most committed volunteers through three programs that offer grants to non-profit organizations where our employees contribute time and talent: Dollars for Doers, Recognizing Excellence in Volunteerism, and Support for Sports. Through the three programs we donated more than \$138,000 to organizations on behalf of our employees and recognized more than a hundred PSEG employees for their contributions to the community.

Power of Giving Campaign

The Power of Giving campaign is an annual program that in 2012 matched employee donations to qualified

non-profit organizations up to \$100 and qualified educational institutions up to \$5,000. Last year, employees donated just under \$715,000 that we matched with close to \$653,500. PSEG employees donated almost \$17,000 specifically to Superstorm Sandy relief and created an Employee Crisis Fund to which they donated \$12,000. All of those funds were matched by PSEG dollar for dollar. In 2013 the Power of Giving program will provide an expanded match up to \$2,500 in charitable contributions for participating employees, while continuing to match \$5,000 for education. The Employee Crisis Fund has continued to grow, due to our employees' strong support. Proudly, we remain a company of people who care.

Sustainable Jersey Small Grants Program

Funded by the PSEG Foundation, the Sustainable Jersey Small Grants program will support 32 projects such as electric vehicles charging stations, composting centers and community gardens. New Jersey is the first state in the nation to have a comprehensive sustainability program for communities linking certification with financial incentives and providing technical support and training – with the goal of making communities more livable, environmentally friendly and prosperous.

GUIDELINES FOR THE PSEG FOUNDATION'S GIVING ARE AVAILABLE ONLINE AT: [HTTP://WWW.PSEG.COM/INFO/COMMUNITY/NONPROFIT/FOUNDATION.JSP](http://www.pseg.com/info/community/nonprofit/foundation.jsp)

The third annual Employee Crisis Fund softball tournament drew hundreds of PSEG employees, families and friends who raised approximately \$5,000 for the Fund, which provides support and financial assistance to employees in times of need.



Forward-Looking Statement

Readers are cautioned that the statements contained in this communication about us and our subsidiaries' future performance, including, without limitation, 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.

Although we believe that our expectations are based 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 what may actually occur. 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). 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. Forward looking statements made in this communication only apply as of this 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.

Please [click here](#) to read our complete Forward Looking Statement.

