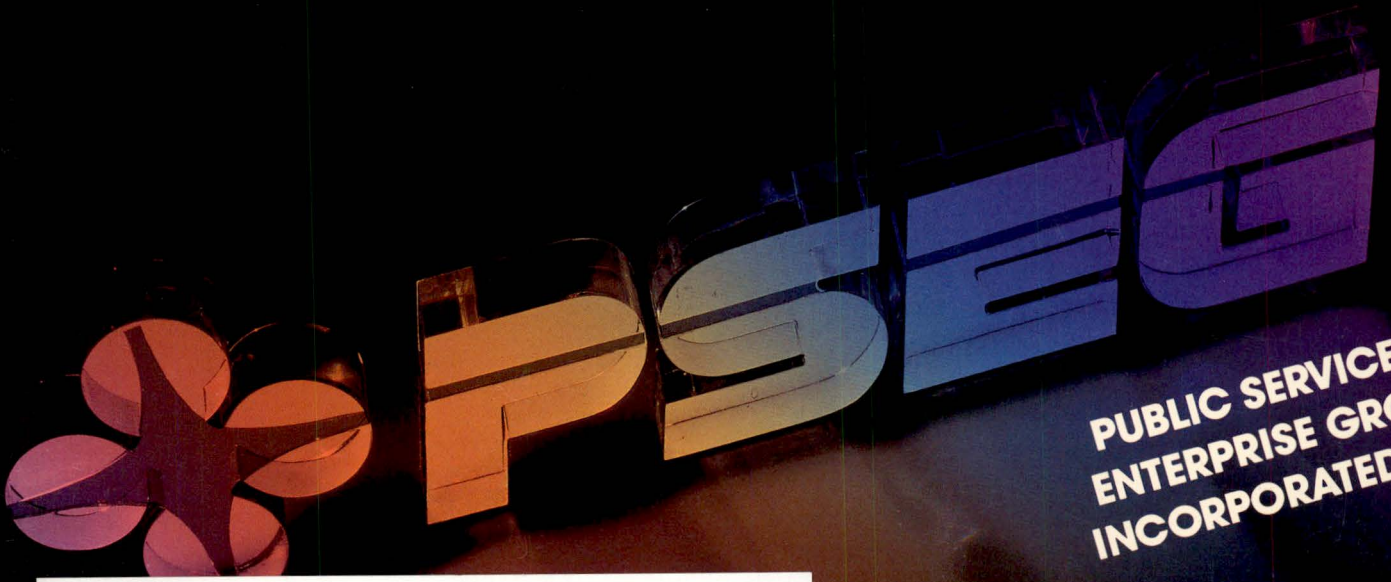


1986
ANNUAL REPORT



PUBLIC SERVICE
ENTERPRISE GROUP
INCORPORATED

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Dividend Reinvestment Plan

Enterprise has a Dividend Reinvestment and Stock Purchase Plan under which all common and PSE&G preferred stockholders may reinvest dividends or make direct cash purchases to obtain additional Enterprise common stock. All brokerage and other fees are absorbed by Enterprise. Call the toll free number to obtain an authorization card.

Stock Trading Symbol: PEG

Annual Meeting

Please note that the Annual Meeting of Stockholders of Public Service Enterprise Group Incorporated will be held in Newark Symphony Hall, 1020 Broad Street, Newark, N.J. Tuesday, April 21, 1987 at 2:00 p.m. A summary of the meeting will be sent to all stockholders of record at a later date.

FINANCIAL HIGHLIGHTS

(Thousands of Dollars where applicable)	1986*	1985*	% Increase (Decrease)
Total Operating Revenues	\$ 4,498,416	\$ 4,428,341	2
Total Operating Expenses	\$ 3,821,132	\$ 3,790,572	1
Net Income	\$ 378,463	\$ 399,632	(5)
Common Stock			
Shares Outstanding — Average (Thousands)	133,140	122,344	9
Shares Outstanding — Year-end (Thousands)	134,882	131,699	2
Earnings Per Average Share	\$ 2.84	\$ 3.27	(13)
Dividends Paid Per Share	\$ 2.93	\$ 2.81	4
Book Value Per Share — Year-end	\$26.89	\$26.81	
Market Price Per Share — Year-end	40¼	31½	27
Return on Average Common Equity	10.56%	12.27%	
Gross Additions to Utility Plant	\$ 1,019,552	\$ 1,220,089	(16)
Total Utility Plant	\$11,437,196	\$10,842,182	5

* Reflects the adoption of SFAS 90 and the consolidation of wholly-owned subsidiaries.

See Organization and Summary of Significant Accounting Policies and Note 1 of Notes to Consolidated Financial Statements.

ENTERPRISE PROFILE

Public Service Enterprise Group Incorporated (Enterprise) became the parent holding company of Public Service Electric and Gas Company (PSE&G) on May 1, 1986 as the result of the corporate restructuring of PSE&G. It was formed with the approval of holders of common stock and \$1.40 dividend preference common stock at PSE&G's annual meeting on April 15, 1986.

The new corporate structure allows Enterprise to diversify into non-regulated businesses in a manner that affords the rewards and risks of non-utility ventures to the common stockholders of Enterprise. This structure is also designed to protect PSE&G's customers from such risks.

Enterprise's principal subsidiary is PSE&G, and its primary purpose is to provide the utility's customers safe, dependable, and competitively priced electric and gas energy.

Other subsidiaries are Community Energy Alternatives Incorporated (CEA), an investor in and developer of cogeneration and small-power projects; Public Service Resources Corporation (PSRC), an investment subsidiary, and Energy Development Corporation (EDC), a gas and oil exploration and production company.

E. James Ferland was elected president of Enterprise and PSE&G, effective June 1, 1986, and chairman of the board, effective July 1, 1986. He succeeded Harold W. Sonn, who had held both posts and who retired on June 30. Mr. Ferland had been president and chief operating officer of Northeast Utilities in Connecticut.



E. James Ferland

Hope Creek and the rate case

The largest construction project in PSE&G's 83-year history was concluded officially in December when the 1067-megawatt Hope Creek station joined the Pennsylvania-New Jersey-Maryland Interconnection.

In completing the project, PSE&G recorded an international fuel-loading record of 12 days, set a national record of 245 days for the startup of a boiling water reactor, and managed 30% fewer test-related shutdowns than occurred at similar plants being readied for commercial operation.

These are remarkable accomplishments at a time when many companies have found it necessary to walk away from uncompleted nuclear stations or have not been able to secure the required permits or licenses to build and operate their plants.

With the addition of Hope Creek to our system, nuclear power will account for about 43% of PSE&G's electric generation in 1987. We would need 27 million barrels of oil to produce an equivalent amount of electric energy. Our nuclear capability provides balance to our fuel mix and supports the country's pursuit of energy independence.

PSE&G's share of the construction cost of Hope Creek through February 6, 1987, was \$4.276 billion. A spending cap of \$3.795 billion was established in a 1982 cost containment agreement and called for certain penalties for any excess costs.

On February 6, 1987, the BPU rendered an oral decision to conclude the extremely complex, widely publicized case that covered several key issues: the inclusion of Hope Creek costs in electric base rates, the reasonableness of construction costs for the plant and resulting penalties for overruns, nuclear performance standards and the revision of the energy adjustment charge in response to lower prices for oil and other fuels.

The BPU's decision resulted in a net reduction in electric rates of \$353.4 million. This decision reflected, of course, the disallowance of Hope Creek costs, which has resulted in reduced earnings for 1986.

We remain extremely disappointed with all aspects of the decision. We found the amount of and the reason for the Hope Creek disallowance particularly discouraging. During extensive hearings held in the final months of 1986, we demonstrated that all costs were prudently incurred. We emphasized, for example, that several independent audits of Hope Creek's construction management showed that the plant compared well with other nuclear projects in the United States.

Energy for the future

A responsible utility's reliability depends on good planning, and PSE&G is developing a

comprehensive program to meet its obligation to provide energy at the lowest cost possible, with no more than reasonable risk on shareholders.

We can always count on uncertainty in the future, given the unpredictability of legislative and regulatory actions and economic and social conditions. We must be sensitive, therefore, to trends, and be prepared to cope with them.

While we have reduced our dependence on oil as a fuel for electric generation—down from 38% a decade ago to about 9% in 1986—we are concerned about an increase nationally toward a renewed reliance on oil, particularly imported oil. We should not be misled by the decline in oil and gas costs over the last two years. It would be a mistake to become overly dependent on oil and gas as long-term sources of fuel for our electric generating stations.

With this in mind, we intend to make the best use of our present generating capacity by improving system load factors and minimizing increases in peak loads.

We have begun a thorough examination of life extension possibilities for our older generating plants. We are upgrading aging portions of electric and gas transmission and distribution systems and extending modern, efficient service to growing regions of New Jersey.

We are continuing to develop and promote cogeneration, load management and conservation programs, thereby reducing the need for future generating capacity, which will benefit all our customers. We expect to spend at least \$100 million through 1990 on a variety of activities to help customers save both energy and money.

It is crucial to stay on top of emerging sources of energy. At the moment, certain coal-burning technologies appear promising for the future and could prove important if accelerated load growth prompts the need for some additional generating capacity before the year 2000.

Customer satisfaction

Even as we explore new opportunities, we remain committed to the heart of our business—electric and gas service. This is especially important in an environment which is increasingly characterized by deregulation and competition and is providing more choices to customers.

Preserving and expanding our customer base depends, to a great degree, on holding the bottom line of the monthly bill. We are taking aim on this in several ways. We are reinforcing with our employees the importance of carrying out our operations efficiently. We are setting realistic goals to improve productivity and reduce costs, and, in doing so, we are stressing accountability.

TO OUR SHAREHOLDERS

By most measures, 1986 was a very successful year for Public Service Enterprise Group. However, the February, 1987 decision in which the New Jersey Board of Public Utilities (BPU) disallowed \$431.5 million of Public Service Electric and Gas Company's (PSE&G) costs for the construction of the Hope Creek Generating Station certainly tempered our view of the year and our outlook for the immediate future.

The disallowance of Hope Creek costs was charged against 1986 earnings. This had the effect of significantly reducing 1986 reported earnings per share and will continue to suppress twelve-month earnings per share through November, 1987. The write-off of the disallowance and other accounting adjustments, under a new rule of the Financial Accounting Standards Board, had the effect of reducing earnings per share by \$1.38.

In addition, because of the overall negative effect of the rate order, the credit ratings on PSE&G's debt and preferred stock were lowered by one rating agency, and a second agency announced it was reviewing such securities for possible downgrading.

Despite these developments, Enterprise remains in a satisfactory financial condition. Our current common stock dividend is secure although our ability to provide future dividend growth will be hampered as a result of the disallowance and other unfavorable elements of the February, 1987 rate decision. We are clearly disappointed with this prospect, since our 1986 operating results were so good and our accomplishments during the year so meaningful.

Despite the rate decision, and its effect on earnings, 1986 was a very successful year in most respects:

- Construction of Hope Creek was completed and the unit was declared ready for commercial operation, according to a schedule established more than four years ago.
- Our operating income reached an unprecedented level, our dividend was increased for the 11th consecutive year, and our common stock rose to an all-time high.

- The formation of Enterprise as a holding company gave the management of PSE&G the flexibility to diversify into non-utility businesses when the associated risks and rewards offer opportunities to enhance financial strength.

- Our aggressive purchasing activities allowed us to obtain about 40% of our total gas supply from the low-cost spot market, and contributed to a reduction in gas rates for PSE&G's customers of \$180 million.

- The redemption of high-cost securities and the issuance of lower-interest debt will mean savings of more than \$87 million in the years ahead.

These and other achievements were especially significant because they occurred during a year in which our business environment continued to change dramatically. Cogenerators and small power producers are creating competition for electric utilities. And, the production and delivery of natural gas have become largely deregulated.

These trends make several facts clear to us: We must be innovative and assertive in finding the best ways to control our costs and market our services. We must enhance the public understanding of the challenges which confront us. And we must have the support and cooperation of regulators, legislators, and other government and political leaders to best meet our obligations to our customers and shareholders.

Financial performance

Our operating revenues climbed modestly—less than 2%—in 1986, but our operating income rose more than 6%. Electric sales improved, especially in the growing commercial markets in New Jersey, and this contributed favorably to our 1986 results.

The earnings of \$2.84 per share of common stock, which reflected the write-off of the Hope Creek disallowance, resulted in a decrease of 13.1% from restated earnings per share of \$3.27 in 1985.

We have set a goal of achieving 10% of total net income by 1991 from our non-regulated subsidiaries. Two of them, Public Service Resources Corporation (PSRC) and Community Energy Alternatives Incorporated (CEA), completed 1986—their first full year of operation—in good health. PSRC made investments totaling more than \$130 million, while CEA committed up to \$33 million to four cogeneration or small power projects.

In December, Energy Development Corporation (EDC), a gas and oil exploration and production subsidiary of PSE&G, became Enterprise's fourth subsidiary. EDC was removed from the utility's gas rate base under a settlement of the gas base rate case. As a result, PSE&G's board of directors declared a dividend of EDC stock to Enterprise, making it a subsidiary. EDC had assets of \$170 million at year's end.

We intend to reduce forced outages at both our nuclear and fossil generating stations. We will continue decreasing our uncollectible customer accounts, which have declined nearly 50% since 1984. We will not let up in our search for the lowest-cost, spot market gas. We will consider innovative pricing of electricity and gas to keep us competitive in the energy marketplace.

Anticipating and responding to the needs of customers will remain fundamental to our future success. We will work closely with consumer advisory panels to gather ideas to make our service better, answer inquiries swiftly and clearly, and provide assistance in cases of need or hardship.

Social responsibilities

Enterprise is doing business in perhaps the most dynamic region of the United States, and we recognize our role in contributing regularly to the well-being of the communities we serve.

Through a variety of ongoing programs and activities, we will be aggressive in preserving the environment, promoting the benefits of our cities, assuring affirmative action, and encouraging employees to volunteer their time and skills to help others.

Enterprise will face many tests as the turn of the century approaches. But, because of the steps we took in 1986, we will be able to welcome the challenges as opportunities to help us satisfy our customers and provide a reasonable return to our shareholders.



E. James Ferland
Chairman of the Board,
President and Chief Executive Officer

February 17, 1987

Earnings in 1986 are reduced

Enterprise concluded 1986 in a satisfactory financial condition despite the negative effects on earnings of adopting Statement No. 90 of the Financial Accounting Standards Board

(SFAS 90) and the related effects of the BPU's disallowance of \$431.5 million of Hope Creek's cost in its February 6, 1987 electric rate decision. The effect of the direct disallowance reduced 1986 earnings by \$283.9 million or \$2.13 per share.

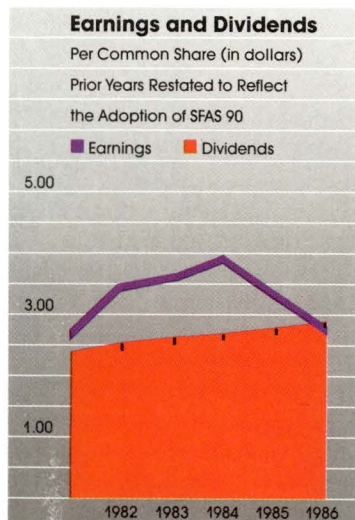
The adoption of SFAS 90 also resulted in a restatement of prior years' earnings for abandonments, principally Atlantic Generating Station

and a second unit at Hope Creek, on which no return is being earned on unamortized balances. This had the net effect of increasing 1986 earnings by 75 cents per share.

The overall effect of adopting SFAS 90 resulted in a charge to 1986 earnings, after taxes, of \$183.8 million, or \$1.38 per share. Consolidated earnings available for common stock were \$378.5 million, or \$2.84 per share, based on 133.1 million average shares outstanding.

By comparison, 1985's restated earnings were \$399.6 million, or \$3.27 per share, when there were 10.8 million fewer average shares outstanding.

The 1986 results were also favorably affected by better overall sales to PSE&G's electric and gas customers, reduced maintenance costs and greater allowance for funds used during construction (AFDC) credits associated with the construction of the Hope Creek station. AFDC is a cost accounting procedure required by regulatory authorities to show the cost of financing a construction project in the capital cost of the plant. These credits for 1986 reflect the final stages of construction of Hope Creek.



Overall revenues for 1986 were \$4.5 billion, up 1.6% from 1985 revenues of \$4.4 billion. Of the 1986 total, electric revenues accounted for \$3.2 billion, while gas revenues amounted to \$1.3 billion. Operating income for the year was \$677.3 million, up \$39.5 million from the 1985 amount.

Electric sales for the year rose 3.0%, when compared with sales for 1985. Sales in the commercial market, which were up 6.0%, remained the brightest sources of revenues as New Jersey—and PSE&G—continued to enjoy a building boom in certain areas of the state ranging from the Hudson River waterfront to the Route 1 corridor in Princeton.

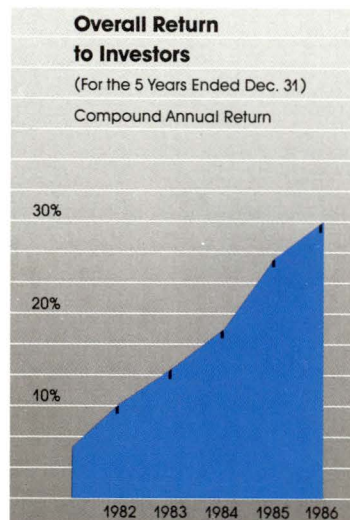
Benefitting from a sharp rise in house heating in the month of November because of particularly cold weather, PSE&G managed to record a modest 0.2% increase in gas sales for the year. In general, however, gas sales were adversely affected by fuel switching among large industrial customers who took advantage of the lowest oil prices in years.

Dividend is raised for 11th consecutive year

The quarterly dividend on common stock was increased from 71 cents to 74 cents per share, raising the annual indicated rate from \$2.84 to \$2.96.

This marked the 11th year in a row in which the common stock dividend was raised.

Overall in 1986, dividends paid totaled \$2.93 per common share, compared with \$2.81 in 1985.



Common stock price reaches a new high

Enterprise common stock closed 1986 at 40¼. The high for the year, achieved in August, was

48¼, an all-time market price record. In January, PSE&G's common stock had recorded the year's low price of 30¼.

Based on reinvested dividends and common stock price appreciation over the last five years, the total return to stockholders over that period was 30% annually.

Lower rates are approved for electric customers

As a result of the BPU's decision on February 6, 1987, PSE&G's electric customers received a net rate decrease of \$353.4 million or nearly 12%. The monthly bill of a customer using 500 kilowatthours declined from \$54.12 to \$50.41 under a winter rate schedule, and from \$58.72 to \$50.41 under a

summer schedule.

The reduction stemmed from the BPU's authorization of an annual increase of \$421.5 million in

additional revenues, which was offset by a \$697.7 million decrease in the levelized energy adjustment clause over a 10½-month period and a reduction in base rates of \$77.2 million to cover the first year's impact of the Tax Reform Act of 1986.

In its decision, the BPU also allowed a return on common equity of 13% and an overall rate of return of 10.65%.

The BPU's ruling came after more than a year's consideration of PSE&G's request to increase rates. PSE&G's final position in the proceeding sought \$725 million in additional revenues, to be offset by a \$503 million reduction in the adjustment charge, for a net increase of \$222 million.

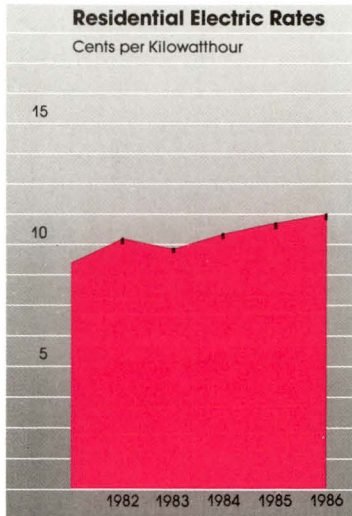
The amount of PSE&G's proposed increase was based principally on the reflection of Hope Creek construction costs in the rate base, while the proposed reduction in the adjustment charge stemmed from considerably lower prices for oil and other fuels in the last two years and better performance by the utility's nuclear units.

PSE&G's share of Hope Creek's cost was \$4.276 billion, including \$970 million of AFDC.

The treatment of Hope Creek in base rates became the central issue of the case before the BPU. Hearings were conducted over a period of several months to determine the reasonableness of expenditures incurred during the construction of Hope Creek.

In 1982, the cost containment agreement referred to earlier was approved by PSE&G, the Public Advocate and other parties, setting the targeted cost of Hope Creek at \$3.795 billion. The agreement required certain penalties against earnings for expenditures in excess of the targeted cost, and this also was an issue in the rate case.

During the hearings, PSE&G's witnesses testified that all costs incurred for the construction of the plant were prudent, including those above the targeted cost. PSE&G also emphasized that the first priority was to get Hope Creek operating as quickly as possible without sacrificing quality. They noted that PSE&G accomplished this by meeting a commercial operation target of December, 1986, which was established under the cost containment agreement.



Another issue in the rate case involved adoption of performance standards for PSE&G's nuclear plants—Hope Creek and the two units of the Salem Generating Station as well as the two Peach Bottom units operated by Philadelphia Electric Company.

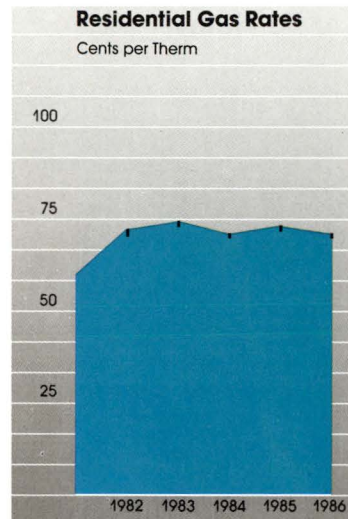
In its decision, the BPU set 70% as the targeted annual aggregate capacity factor for the units. These performance standards call for a financial penalty when the units operate below a 60% capacity factor and an award when they operate above 80%.

Natural gas rates are also reduced

PSE&G's gas customers received rate reductions totaling \$180 million as a result of lower costs for

gas supplies, particularly on the spot market, in 1986 and the expectation that the downward trend will continue through 1987.

The decrease in rates, commencing October 31, came on two fronts: a \$150 million reduction in the gas adjustment charge on customers' bills for an 11-month period, and a \$30 million annual decrease in gas base rates. Together, the reductions meant that



a residential customer, using gas for heating, would see his monthly charge for 200 therms decline from \$136.11 to \$116.82.

Gas costs have dropped steadily in recent years. The latest changes in rates bring gas costs for customers to their lowest point since 1981.

The \$30 million reduction in gas revenues resulted primarily from a BPU-approved agreement of the major parties in the rate proceeding to remove Energy Development Corporation (EDC) from the gas rate base. As a result, PSE&G's board of directors declared a dividend of the EDC stock to Enterprise and EDC became a subsidiary of the holding company.

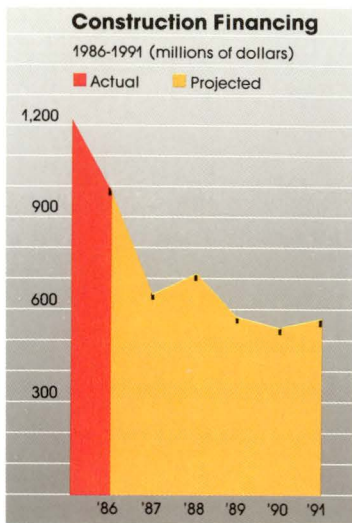
Savings realized through redemptions

In 1986, PSE&G responded to declining interest rates. It redeemed three mortgage bond issues totaling \$307 million principal amount with interest rates of 12% or higher and two preferred stock issues totaling \$69 million in par value with dividend rates of 13.44% and 12.25%. Also, the company issued \$550 million of lower-interest debt.

By taking advantage of favorable economic opportunities, PSE&G has realized savings of more

than \$87 million in future interest costs. In addition, its embedded cost of long-term debt declined to 8.8%, from 9.2% in 1985.

PSE&G may redeem additional high-cost security issues in 1987, which would result in further savings on interest and dividend costs.



While there were no public offerings of common stock in 1986, Enterprise and PSE&G raised \$103 million from the sale of common stock through its dividend reinvestment and stock purchase plan and employee benefits plans.

Construction budget declines in 1986

Construction expenditures, including AFDC and payments for nuclear fuel, totaled \$1.0

billion, compared with \$1.2 billion in 1985.

With the completion of Hope Creek, PSE&G's construction program will now be smaller, focusing primarily on the upgrading of other generating stations and both electric and gas transmission and distribution systems. Over the next three years, the estimated annual construction budget is \$650 million.

During the last several years of Hope Creek's construction, internal cash sources provided about half of PSE&G's total capital requirements. Starting in 1987 and continuing into the next decade, PSE&G anticipates it should meet nearly all its capital requirements with internally generated funds.

Audit describes PSE&G as well-managed

Shortly before Enterprise was formed, a management audit conducted by the consulting firm Temple, Barker, and Sloan, concluded that PSE&G was a very well-managed utility with no major deficiencies affecting cost or quality of services.

The audit involved an in-depth examination of activities—financial and operational—over a 10-month period, beginning in April, 1985. It had been mandated by a 1982 state law which requires utilities in New Jersey to undergo a review every three to six years. The BPU authorized PSE&G's review in 1984.

In its final report, the auditing firm said, "PSE&G would rank among the best of the utilities with which we have had experience." The firm made a total of 178 recommendations involving management and operations, many of which were implemented by year's end.

Stockholder communications strengthened

Stockholder Services representatives received 69,605 telephone inquiries in 1986, many of them over two toll-free telephone numbers: (800) 242-0813 in New Jersey and (800) 526-8050 outside New Jersey.

In late 1986, an updated Guide to Stockholders Services, bearing the Enterprise imprint, was produced. It featured a description of the dividend reinvestment plan, which underwent modifications at the start of the year.

At year's end, 72,366 or 33.2% of Enterprise's 217,961 common stockholders participated in the dividend reinvestment plan. Under the plan, common stock can be purchased without commissions through reinvested dividends or cash contributions. Authorization forms to join the plan can be obtained by calling Enterprise on the toll-free numbers.



PUBLIC SERVICE ELECTRIC AND GAS COMPANY

Public Service Electric and Gas Company (PSE&G) is the largest utility in New Jersey and one of the largest combined electric and gas utilities in the United States. It serves 2 million customers—5.5 million people—living and working in an area covering some 2,600 square miles. PSE&G was able to meet the demands of customers through the dedicated efforts of more than 13,000 employees.

PSE&G's activities in 1986, outlined on the following pages, demonstrated in various ways its commitment to efficient operations, financial integrity, customer service and satisfaction, solid planning, good communications and corporate responsibility.

Production —

Electric peak demand record is established

With temperatures soaring to 100 degrees in some areas of its service territory, PSE&G's electric peak demand reached a record-breaking 7,735 megawatts on July 7. The installed capacity at the time was 9,007 megawatts, giving the utility a reserve margin of slightly more than 16%. The mark surpassed the previous all-time high of 7,721 megawatts set on August 15, 1985.

The generally solid performance of PSE&G's nuclear, coal, oil and gas turbine generating units and electric transmission system enabled the utility to meet customers' demands during the summer of 1986.

Electric output for the year, which includes energy produced, purchased, and interchanged, was 3.3% higher than the amount recorded during 1985, increasing to 36.03 million megawatthours from 34.9 million megawatthours.

Output from the PSE&G system helped the

Pennsylvania-New Jersey-Maryland (PJM) power pool meet a record peak demand of 37,680 megawatts, also set on July 7. The previous PJM record was 37,110 megawatts, established on August 15, 1985.

- **Electricity was generated during the year with a diverse mix of fuels.** In 1986, electric output by fuel source was nuclear—31%, coal—26%, natural gas—6%, oil—9%, and purchased and interchanged—28%.

- **Power purchases provided savings in 1986.**

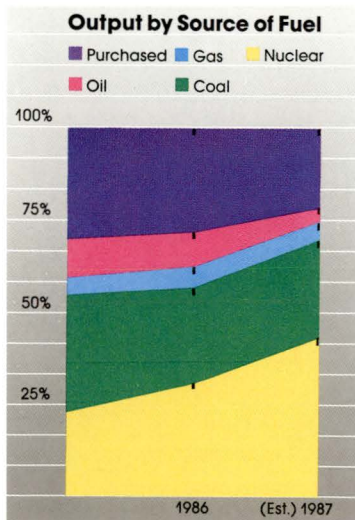
By buying advantageously priced electricity from other companies, particularly mid-western utilities with coal-fired generating stations, PSE&G realized savings of \$48 million in overall production costs for the year. Energy purchased totaled 10.3 million megawatthours.

- **The addition of the Hope Creek Generating Station gave PSE&G an ample reserve margin.** At year's end, the installed capacity had increased to 10,032 megawatts. The table below shows PSE&G's anticipated annual reserve for the next decade.

Electric Generation Capacity Forecast

Year	Planning Peak Load	Installed Capacity	Percent Reserve
1987	7830	10063	29
1988	7950	10147	28
1989	8070	10347	28
1990	8140	10617	30
1991	8220	10652	30
1992	8280	10672	29
1993	8330	10692	28
1994	8380	10712	28
1995	8420	10732	27
1996	8510	10742	26

- **PSE&G began work in 1986 to upgrade its energy dispatching operations.** A \$15 million renovation of the utility's electric system operations center in Newark will involve installation of the latest computer and telecommunications technology. The improvements, scheduled for completion in 1989, will expand the center's ability to monitor, forecast and respond to problems within the utility's system, perform various power system security-related functions, and exchange data with the PJM.



NUCLEAR:

Hope Creek has a banner year



Rigorous, record-setting testing of the Hope Creek Generating Station was completed on December 20 when the unit was declared ready for commercial operation. At that time, the 1067-megawatt unit was released for dispatch to the PJM power pool for

continuous and reliable operation.

The completion of Hope Creek marked the conclusion of nearly two decades of PSE&G's involvement in a nuclear construction program, which also involved the building of the two units of the Salem Generating Station. PSE&G owns 95% of Hope Creek and the Atlantic City Electric Company owns the other 5%.

The 245 days between the loading of fuel in April and the end of testing in December was the fastest startup period for a boiling water reactor in the United States. A combination of good planning and execution—without sacrifice of quality—accounted for the record.

The all-time mark for startup followed the pace for initial fuel loading of the unit, which took only 12 days, an international record. The project encompassed the loading of 764 bundles of fuel and the testing of 185 control rods that govern the reactor's power level.

A major milestone in the Hope Creek project came on July 21 when the unit was granted a full-power operating license by the Nuclear Regulatory Commission (NRC). A low-level operating license, permitting fuel loading and testing up to 5% of reactor power, had been approved three months earlier.

- **Salem 1's annual refueling and maintenance outage lasted 46 days.** The duration of the outage, completed in May, represented the best mark to date achieved by either unit at the station. Salem 2's annual outage lasted 81 days, concluding in December.

- **Emergency drills were conducted for both the Hope Creek and Salem stations.** The drills were held to test the ability of PSE&G and state, county, and local officials to respond to an accident at either plant. The exercises—Salem's in September and Hope Creek's in November—were monitored by the NRC and the Federal Emergency Management Agency.

- **Nuclear security forces received high marks in a surprise inspection.** The overall security at the site of the Salem and Hope Creek stations scored highly in all phases of testing during an unannounced three-day evaluation by the NRC in May.

- **PSE&G became a member of the National Academy of Nuclear Training in 1986.** This highly regarded industry accomplishment stemmed from approval by the Institute of Nuclear Power Operations (INPO) of all 10 training programs at PSE&G's nuclear training center. INPO is an industry organization dedicated to the safe operation of nuclear plants.

FOSSIL:

Life extension is set for older fossil stations



With the completion of its nuclear construction program, PSE&G began focusing in 1986 on ways to extend the operating lives of its fossil generating stations. Collectively, these units, which use oil, coal, and natural gas to produce electricity, have an average age of 30 years.

In the immediate years ahead, the life extension program will be an integral part of PSE&G's strategy to meet customer demand reliably for the balance of the century, without having to engage in the more costly construction of new generating units.

Under the program in 1987, PSE&G will gather and analyze complex engineering data necessary to move ahead with life extension activities at its various fossil stations.

- **An aggressive program to control PSE&G's production costs netted savings of more than \$20 million in operating and maintenance expenses.** The savings were realized by reducing the services of outside contractors and using PSE&G personnel more efficiently, and, after careful evaluation, by scaling down some major projects.

- **One project involving the upgrade of pumps saved PSE&G \$5 million.** By rebuilding the high-speed boiler pumps at a central maintenance shop, PSE&G was able to avoid high outside contractor costs.

- **In 1986, PSE&G opened a new production maintenance training center.** The facility is located in Sayreville, Middlesex County, and will provide

The control room of the Hope Creek Generating Station uses the industry's most sophisticated systems to assure safety and efficiency. Hope Creek was declared ready for commercial operation on December 20.



Turbine rotors are inspected and repaired and blades replaced by workers at PSE&G's Central Maintenance Shop. Work of this kind will help extend the lives of fossil generating units to delay the need—through the 1990's—of constructing new generating stations.



Working with the Electric Power Research Institute, PSE&G is demonstrating, at Deans Switching Station, a state-of-the-art computer system that provides a variety of control and protection functions.



Newport City is one of many developments either planned or under construction along New Jersey's "Gold Coast"—an 18-mile stretch along the Hudson River waterfront facing New York City. Approximately \$20 billion is presently earmarked for construction, making it one of the nation's most dynamic growth areas.

training to PSE&G employees involved in the maintenance and inspection of large turbine generators. A training feature of the new center is a turbine generator once used at the Burlington Generating Station.

Gas sendout holds steady

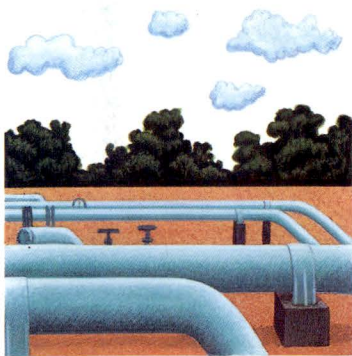
The increased use of natural gas in PSE&G's residential and commercial markets offset a decline in the industrial sector and kept the sendout in 1986 at nearly the same level recorded in 1985. The 1986 sendout was 2.21 billion therms, while the 1985 sendout was 2.22 billion therms.

Frigid temperatures on January 14 resulted in a maximum daily sendout for the year of 14,871,000 therms.

- **The oil gas facilities at PSE&G's Central Gas Plant were retired in 1986 as natural gas supplies improved.** The aged facilities, located in Edison, Middlesex County, were no longer required to produce supplementary gas. An additional 1.26 million therms daily of pipeline gas and firm storage service economically replaced the 352,000 therms a day of manufactured gas capacity provided by the plant.

Fuel Supply —

Aggressive buying reduces costs



The ever-changing energy marketplace of the 1980s has produced an increased supply of natural gas, and PSE&G has taken advantage of its abundance for the benefit of its customers.

PSE&G moved aggressively in 1986 to purchase lower-cost natural gas on the spot market,

and take advantage of negotiated flexibility in pipeline contracts. The results were savings of \$69 million in gas costs.

PSE&G obtained approximately 90 billion cubic feet—almost 40% of the total gas supply—on the spot market. It passed along the benefits of these rapid moves in the natural gas marketplace to customers through significant rate reductions.

These efforts drew praise from Barbara A. Curran, President of the Board of Public Utilities, who lauded the utility for "pursuing these spot market purchases with such vigor...and succeeding in bringing the benefits of the current gas glut to the small residential and commercial customer."

The benefits were realized without sacrificing long-term contracts that may be important in the uncertain future.

- **Increased spot market purchases at more favorable prices reduced coal cost by about \$2.1 million.** The mix of spot market and contract purchases provided more flexibility in responding to lower prices while assuring supply.

- **Increased spot market buying cut fuel oil costs \$950,000.** This, together with new contract pricing and leasing temporary off-site storage, enabled PSE&G to take maximum advantage of the substantial decline in oil prices by mid-year.

- **Prices paid for uranium were lower than the industry average.** PSE&G obtained the fuel needed for its nuclear stations from sources in the United States and Canada at an average price of \$19.58 a pound. Although Canadian supplies were less costly, half of PSE&G's purchases in 1986 were made domestically to provide protection against a potential embargo on foreign producers. The threat of an embargo stems from both federal court and legislative action on behalf of domestic producers affected by the lower-cost Canadian uranium.

Transmission and Distribution —

New Jersey's "Gold Coast" boosts business

PSE&G remained at the heart of the bustling development along the Hudson River waterfront—New Jersey's Gold Coast—as work unfolded to provide electric and gas service to such highly publicized, multi-million-dollar projects as Lincoln Harbor, Newport City, Liberty State Park, and Port Liberte. Activities ranged from the installation of gas distribution and service lines to scores of condominiums, shopping malls, restaurants, and office buildings, to the construction of 230,000-volt underground transmission circuits to provide electricity to three new substations needed to serve the burgeoning area.

PSE&G's commitment to quality electric and gas service took on a new dimension with the announcement that construction of a customer operations training center will begin in 1987. The facility will be located on 13 acres in Edison, near the New Jersey Turnpike. It will house state-of-the-art equipment and provide skills, technical, and supervisory training for some 7,000 employees who work in the Electric and Gas Transmission and Distribution Departments as well as the Customer and Marketing Services Department.

Reinforcing its determination to develop favorable contact between electric and gas service personnel and residential, commercial, and industrial customers, PSE&G took the additional step of establishing a program to improve employees' interpersonal skills. Its importance was driven home by the fact that gas service employees alone handled more than 2.3 million calls in 1986.

**ELECTRIC:
PSE&G serves a most famous customer**



Growth in many areas of PSE&G's electric service territory, especially residential sections in southern communities, accounted for a noteworthy upsurge in the number of new electric customers in 1986. More than 24,000 new meters were installed, up 32% from the 1985 figure,

which was the greatest gain since 1965.

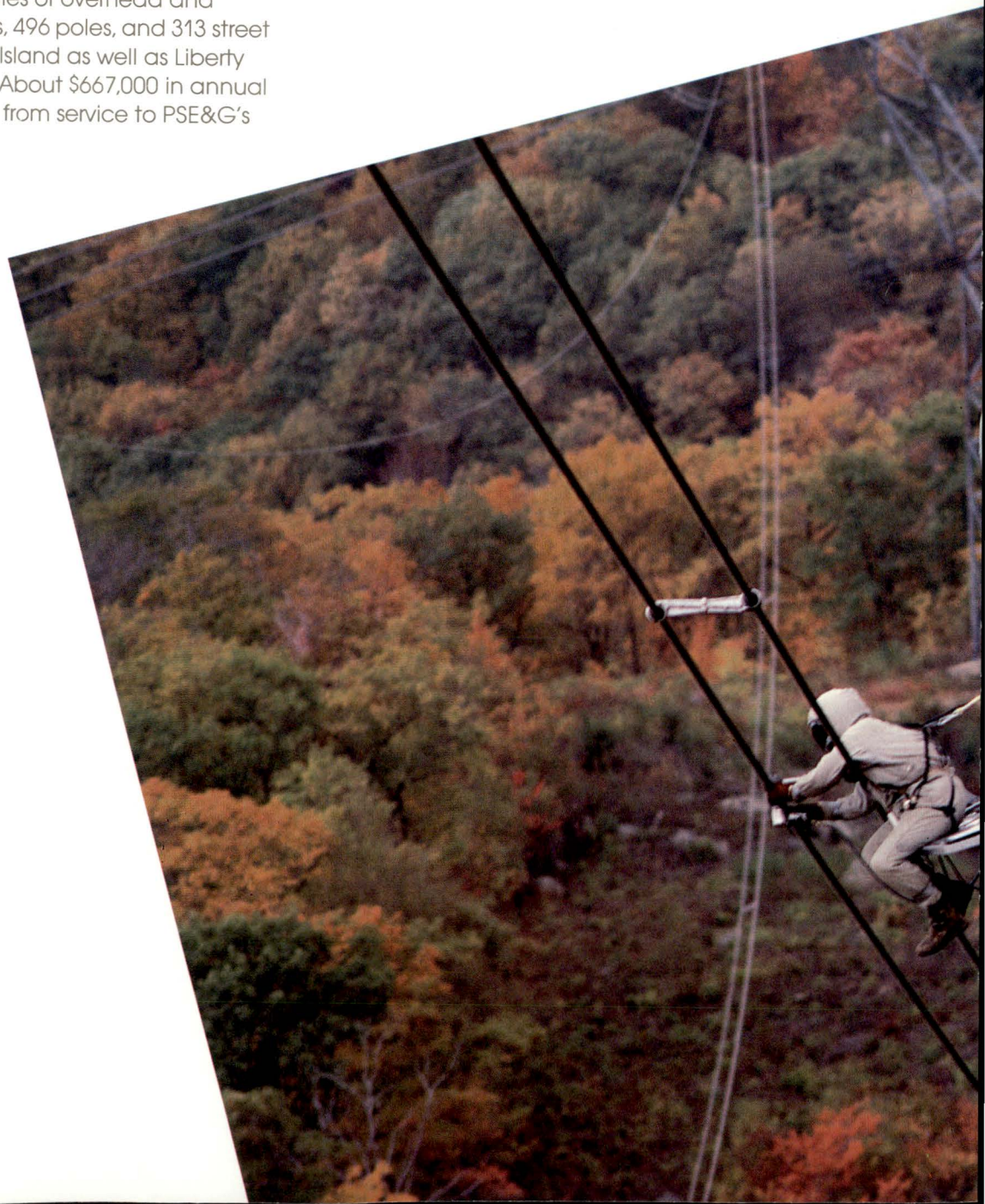
PSE&G was particularly proud in 1986 to help the Statue of Liberty shine brightly during her centennial celebration on July 4. The utility directed the installation of 17.5 miles of overhead and underground power lines, 496 poles, and 313 street lights to brighten Liberty Island as well as Liberty State Park in Jersey City. About \$667,000 in annual revenues will be realized from service to PSE&G's most famous customer.

- Use of helicopters in the replacement of equipment on 500,000-volt power lines saved \$200,000.

A Florida-based company, which has perfected an airborne technique to service equipment on energized high-voltage overhead transmission lines, was hired to replace spacers along 37 miles of lines in the western section of PSE&G's service territory. Spacers keep power lines from hitting each other, and the technique to replace them saved time, manpower, and money.

- Five obsolete substations were replaced in 1986. The substations, each at least 50 years old, were taken out of service because of increased maintenance costs and diminishing availability of parts.

- A storm-tracking system was expanded to South Jersey. Computerized lightning-detection



and weather-radar equipment was installed in 1986 at the electric transmission and distribution headquarters in Camden. This doubles the monitoring network to help PSE&G brace for oncoming, potentially damaging storms. In 1985, similar equipment had been installed in Newark.

- **Electrical capacitors containing polychlorinated biphenyl (PCB) insulating material were removed from PSE&G's system in 1986.** The program focused on elimination of publicly located capacitors. Started in September 1981, it involved

the removal of approximately 4,700 groups of PCB-containing capacitors, their disposal in an environmentally safe manner and their replacement with environmentally acceptable equipment. This comprehensive replacement program was completed almost two years ahead of the October 1, 1988 deadline for removal established by the U.S. Environmental Protection Agency.

PSE&G is one of the first utilities in the country to use helicopters to replace spacers on 500,000-volt energized transmission lines. Spacers keep conductors apart to prevent damage. Both time and money are saved by using the aircraft.



GAS:

Service is improved at a record pace



There was good news, too, on the gas side of PSE&G's business. The addition of new mains and services occurred at a record pace in 1986 with the installation of more than 3.3 million feet of pipe. Some 440,000 feet of mains and 700,000 feet of services were replaced,

and, about 30,000 new meters were installed.

- **Construction of a centralized gas service dispatching center approached completion in 1986.** When operational in 1987, the facility in Harding Township, Morris County, will enable consolidation of 13 dispatch offices now scattered throughout PSE&G's service territory. As a result of a new computerized communications system, work orders will be transmitted to personnel through mini-terminals in service vans. This will reduce the time it takes PSE&G to respond to calls from customers reporting problems ranging from gas odors to faulty furnaces.

- **Replacement of two large mains was accomplished during the year.** More than 1,400 feet of 42-inch main was replaced in downtown Newark in connection with the construction of the Legal and Communications Center. In Jersey City, 900 feet of pipe, also measuring 42 inches, were replaced near PSE&G's new West End Meter and Regulating Station. These were the largest diameter pipes installed in the gas distribution system in three decades.

Engineering and Construction — Construction continues at Merrill Creek

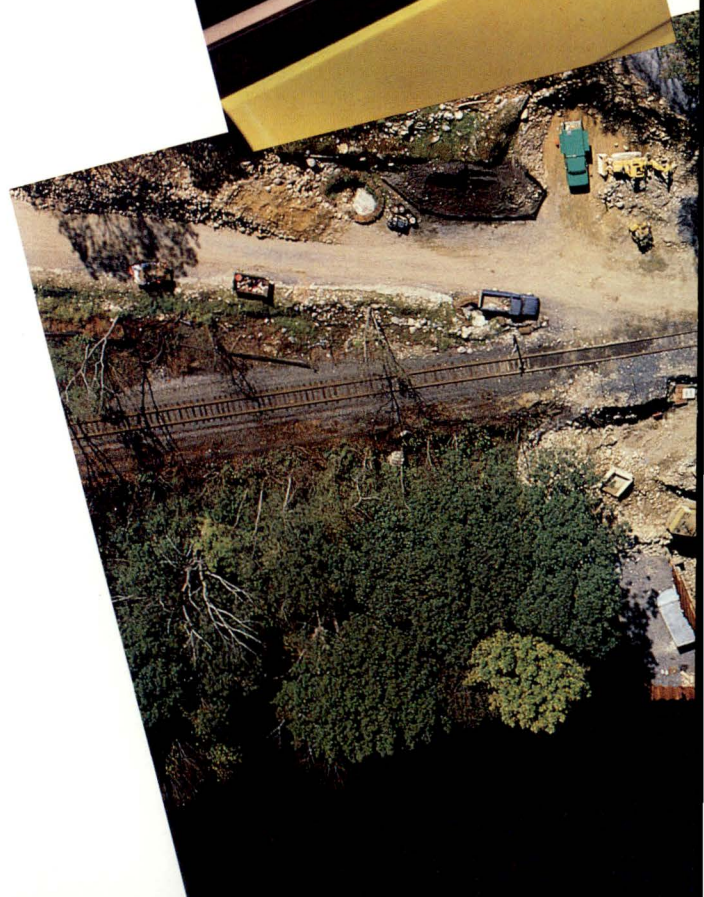
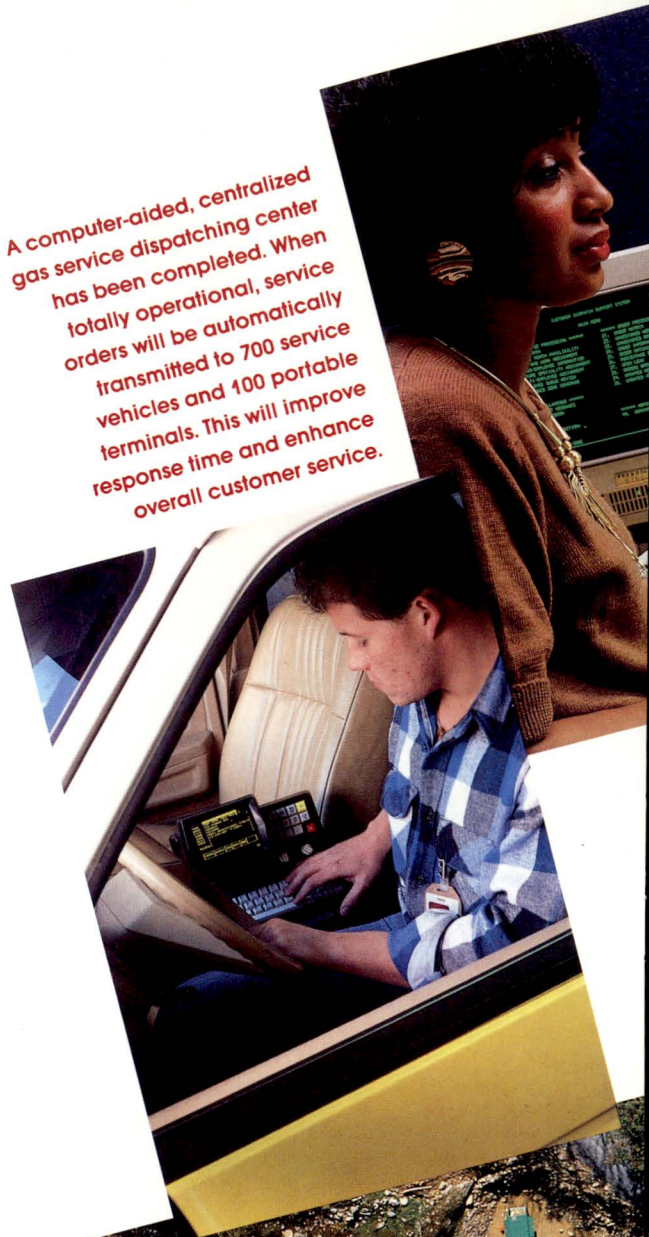


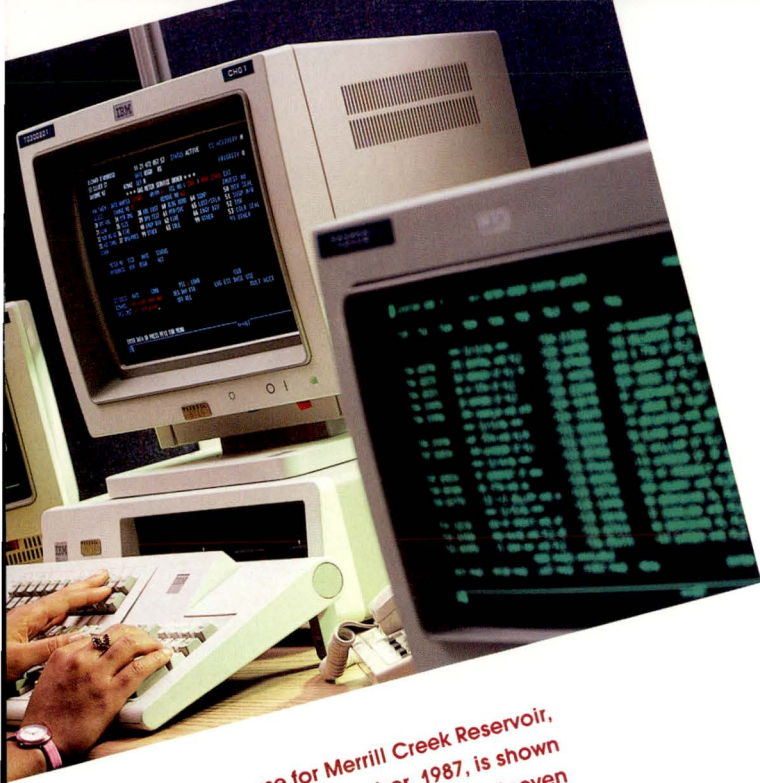
Progress was made at the Merrill Creek Reservoir project in Harmony Township, Warren County, despite environmental problems encountered during the year.

The reservoir is a project of seven utilities in New Jersey and Pennsylvania which maintain generating stations on

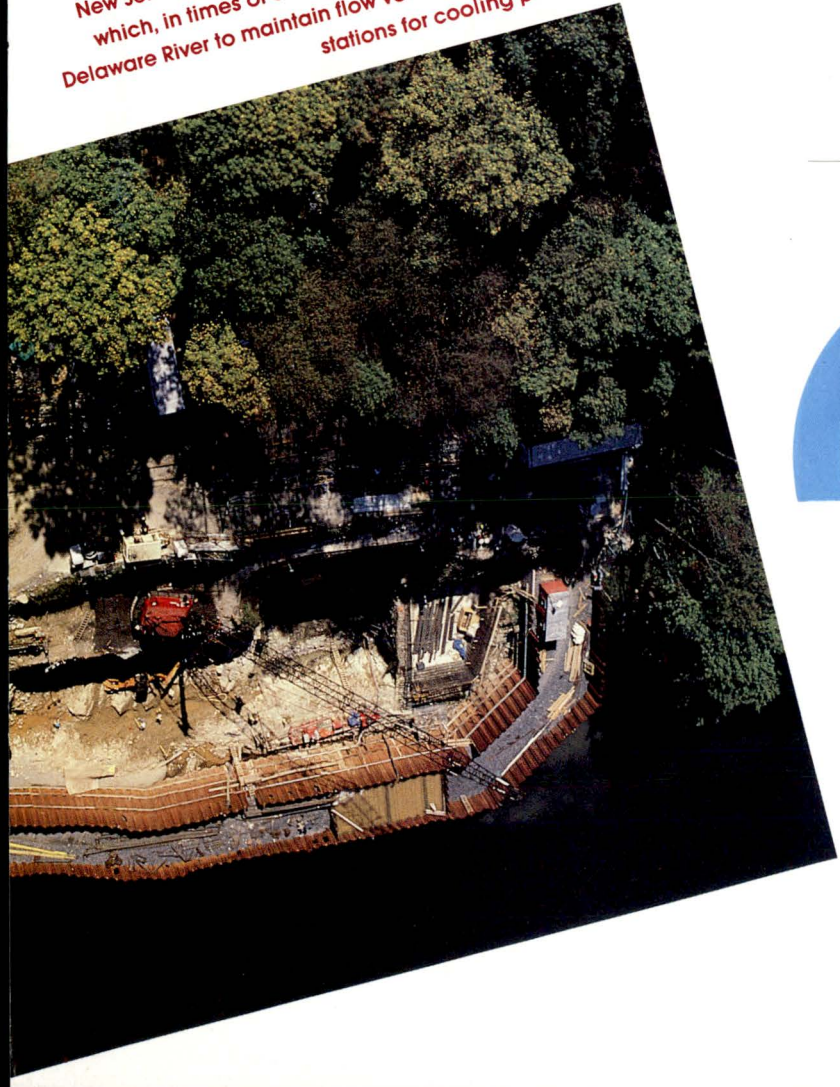
the Delaware River. The stations draw river water for cooling purposes. When completed, the reservoir will help assure acceptable water flow volumes in the river during low-flow periods. The project was mandated by the Delaware River

A computer-aided, centralized gas service dispatching center has been completed. When totally operational, service orders will be automatically transmitted to 700 service vehicles and 100 portable terminals. This will improve response time and enhance overall customer service.





The pump house for Merrill Creek Reservoir, scheduled for completion by November, 1987, is shown under construction. The reservoir is a project of seven "neighboring" utilities which have generating facilities along the Delaware River and is located in western New Jersey. It will contain 15 billion gallons of water which, in times of drought, will be released into the Delaware River to maintain flow volume needed by the stations for cooling purposes.



Basin Commission, and work was begun in 1985.

Construction is being managed by PSE&G, which is a 16.2% owner of the facility. In mid-1986, work was delayed for nearly six weeks to take certain steps at the site to control soil erosion and sedimentation. The action was in response to an order by the Warren County Soil Conservation Service. Later in the year, naturally occurring asbestos was found at the site. Remediation measures were instituted to contain the veins of the mineral that were uncovered during construction. At year's end, the project was 45% completed.

Work at Merrill Creek is being carried out under a project management system used successfully during the construction of the Hope Creek station. The system, which emphasizes efficient coordination among participants in a project, will be extended to other construction activities in 1987.

- During 1986, fiber optic technology was introduced in the monitoring of large electric equipment. The technology incorporates fiber optic probes and video processing, to observe generators and transformers. It helped avert a costly generator failure in 1986 by providing an early warning of an impending problem.

- A microcomputer-based control system was installed at the Deans Switching Station in 1986. Installation of the system at the facility in South Brunswick, Middlesex County, is an industry first. It will improve operating economy and power system reliability and security.

Customer and Marketing Services — Collection challenges are met with care



Using innovative programs and a motivated workforce, PSE&G's Customer and Marketing Services Department substantially reduced the number of unpaid customer bills.

The net write-off of uncollectible accounts declined, as a result of the effort, to \$21.7 million, down 21% from the 1985 amount of \$27.6 million. This improvement reflects the benefits of increased collection activities—along with a better economy—which have brought write-offs down from an all-time high of \$40.2 million in 1984.

The challenging job of encouraging customers to avoid late or unpaid bills was made easier, in large measure, by the department's close work with consumer advisory panels, which offered a variety of ideas for improving customer service and relations. For example, PSE&G now provides Spanish-speaking interpreters at walk-in customer

service centers.

Additional employee training emphasized the importance of quality service and concern for the people served by PSE&G. Employee recognition activities were also expanded.

- **Customers received newly designed bills in 1986.** By modernizing its computerized billing system, PSE&G's electric and gas customers began receiving two-page monthly bills that provide more detailed information about their energy usage, including a comparison of consumption in the most recent three months with the same period a year earlier.

- **A program was instituted to enable customers to phone in their own meter readings.** Under the program, customers who cannot be at home for regular meter readings can dial a special local number and give the readings themselves.

- **Another new program gave PSE&G the ability to contact hard-to-reach customers.** Using tele-marketing recording equipment and techniques, customers can now be informed off-hours about the need for meter readings in their homes or about the prompt payment of bills.

- **An automatic meter reading project was also launched during the year.** In conjunction with a local water company, PSE&G began testing the feasibility of reading meters through a direct telephone link. The pilot project involved 100 gas customers in Bergen County.

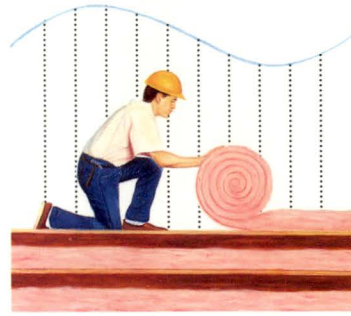
- **Efforts to curb energy theft were expanded.** PSE&G opened an office in Lawrence Township to conduct investigations of energy theft cases in the southern half of its service territory. The utility also worked with the New Jersey Division of Criminal Justice in an investigation leading to the indictment of three men on meter tampering charges. The case involved 93 commercial establishments, and the customers have been rebilled for a total of \$2.6 million.

- **Gas conversions mounted despite the lowest oil prices in years.** Nearly 11,000 homeowners switched from oil to natural gas for heating purposes in 1986. In addition, gas heating was installed in about 20,000 new homes, nearly 3,000 more than in 1985.

- **Heat pump installations increased by nearly 50%.** Units were installed in 4,246 new dwellings in 1986, shattering the 1985 record of 2,884. Space heating was also installed in more than 60% of industrial and commercial construction, for 69,747 kilowatts in new load.

- **Dusk-to-dawn lighting sales continued at a brisk pace.** During the year, 9,758 units of high-pressure sodium and other vapor lighting were installed in PSE&G's territory, down slightly from the record 10,637 units sold in 1985.

Conservation and Load Management — PSE&G and its customers team up for efficiency



PSE&G, with the cooperation of both large and small customers, maintained its leadership role in 1986 in finding innovative ways to save energy and produce and distribute it more efficiently.

Residential customers—homeowners and renters—took advantage of a wide variety of conservation programs geared specifically to their needs.

A focal point for communicating information about activities and programs was the Energy Conservation Center located in the PSE&G headquarters in Newark. The conservation experts who staff the center responded to approximately 200,000 telephone inquiries last year. The conservation message also was taken on the road to customers via the "Conservation on Wheels" mobile exhibit.

One of PSE&G's programs—weatherization workshops for low-income customers—received the U.S. Department of Energy's National Award for Energy Innovation. The workshops provided information about low-cost energy-saving measures and were sponsored by Community Action Program agencies, churches, and civic groups. More than 13,000 persons participated in the workshops during the year.

- **PSE&G launched an incentive program for thermal energy storage at new and existing buildings.** Financial incentives to customers will be based on the amount of peak demand load shifted to off-peak through development of systems that store "coolness" during the night for use during daytime hours. The program's aim is to help PSE&G avoid construction of new generating facilities.

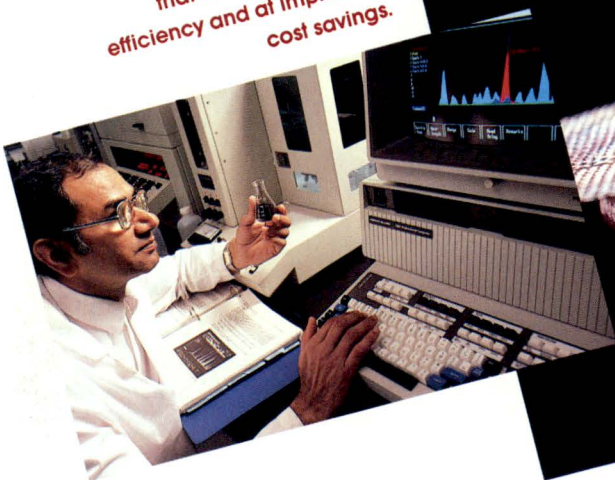
- **PSE&G increased conservation efforts in the commercial sector.** New programs for commercial customers included the commercial and apartment building energy use survey, a commercial cash rebate program, and multiple-family dwelling loans for installing conservation measures.

Many employees contribute their personal time to worthwhile causes. Tom Buoye, Supervisor of Collections in Customer and Marketing Services, and his wife, Mary Ellen, accepted the challenge of helping a youngster who is afflicted with cerebral palsy. Through the efforts of Tom and Mary Ellen, extensive medical care has been initiated which will, hopefully, enable Michael Mullan, 10, to walk some day soon.

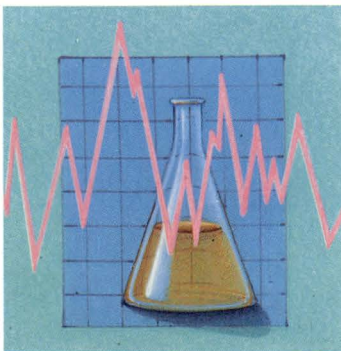


Energy conservation receives tremendous support through promotional literature, advertising, a center staffed by energy conservation specialists, a mobile van with "how-to" exhibits, conservation workshops and numerous other activities.

Extensive coal analysis by PSE&G's Fuel Research Laboratory determines basic characteristics and burning quality. The database established then permits purchases of coal that burns with greater efficiency and at impressive cost savings.



Planning and Research — New technologies are explored



Planning and research are where the present and the future come together. Throughout the year, PSE&G explored new and emerging technologies, to chart the best course to meet the challenges of growth.

PSE&G's fuel research laboratory, located at the Harrison Gas Plant,

has been analyzing coal being burned at generating stations to develop a database of acceptable characteristics. This database is then used to identify lower-cost coal which meets PSE&G's specifications and which helps foster more competitive pricing.

PSE&G also helped launch a research effort to determine if the burning of coal and other fossil fuels at generating stations is contributing to acid rain in New Jersey. PSE&G is joining Jersey Central Power & Light Co. and Atlantic City Electric Co. in funding the three-year study that will focus on the Pine Barrens area of the state.

- In 1986, PSE&G continued its pioneering role in bringing robotics into utility operations. A mobile, submersible robot device was used, for example, to clean construction debris from the spent fuel pool at the Hope Creek Generating Station. In the future, a robot will allow PSE&G to perform work in the pool without exposing workers to radiation from spent fuel eventually placed in it.

- PSE&G's Battery Energy Storage Test (BEST) facility completed various studies of advanced systems. Results of the testing on lead acid and zinc chloride batteries indicated that the systems could play a role in helping meet future needs of

electric customers. Testing is continuing on lead acid batteries. The facility is in Hillsborough, Somerset County, and, to date, much of the work there has been funded by the U.S. Department of Energy and the Electric Power Research Institute. Both have announced, however, that certain funds will no longer be provided for the facility and PSE&G will scale back operations accordingly.

- **During the year, a customer-based fuel cell test was conducted by PSE&G.** In the program, sponsored by the Gas Research Institute and the U.S. Department of Energy, PSE&G installed, operated and maintained two 40-kilowatt fuel cells at customer locations. The testing indicated that fuel cells can operate successfully in a customer environment.

Information Systems — High-tech communications improve operations



PSE&G, like other progressive companies, is becoming more dependent on the ability to gather, manage, analyze, and move vast amounts of information quickly, reliably, and efficiently. Through its Information Systems Department, PSE&G made strides in 1986 to satisfy the demands of the In-

formation Age for the benefit of customers, shareholders and employees.

A new stockholder inquiry and accounting system completed its first full year of operation. The system enhanced the processing of and access to shareholder information. It also incorpo-

rated new accounting procedures to meet the requirements of the changing business and regulatory environment.

The heart of this and other new systems is computing power, and, during the year, PSE&G continued to install state-of-the-art mainframe computers, completing the replacement of equipment in service nearly 20 years. The modern computers now being operated include the up-to-date features offered by the major data processing equipment manufacturers.

In the area of telecommunications, PSE&G signed a 10-year lease with New Jersey Bell to extend fiber-optic communications capacity received from LightNet to Artificial Island, the site of Salem and Hope Creek.

The Nuclear Department was provided telecommunications improvements, including a new emergency response callout procedure and upgraded telephone service. The emergency procedure incorporates electronic beepers, a computerized electronic mail system and the nuclear emergency telecommunications system that will enable PSE&G to notify individuals and receive acknowledgement of instructions. The procedure was unveiled during the 1986 emergency drill at Salem station and earned praise from the NRC.

- **Addition of personal computers improved productivity.** A total of 250 personal computers was installed throughout PSE&G in 1986. The estimated productivity savings through use of the equipment exceeds \$7 million.

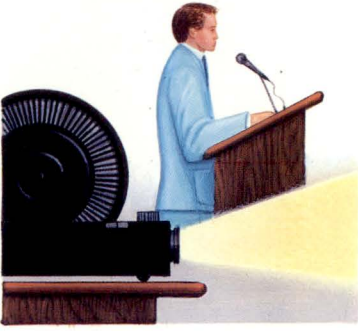
- **Also in 1986, a program was started to determine long-term needs for computer equipment and services.** The new system will allow the Information Systems Department to better serve other departments through improved communications and planning.



Glass fibers in a single cable have been installed to link a high-capacity "information backbone" to five PSE&G locations. This system will provide the fastest, most powerful means available today to send and receive information. Initially, it will support voice and data transmission between PSE&G's headquarters in Newark and the Salem and Hope Creek Generating Stations.

Public Affairs:

Company takes an active role in the community



New Jersey is dynamic and diverse, and no large company can make its way there without maintaining a strong and active presence.

PSE&G did not let up in its search for ways to meet its obligations as a good corporate neighbor in the cities and

towns which it serves and in which its employees live, work, and play. During 1986, a program called EPIC—Employee Participation in the Community—guided more than 60 employees into volunteer programs ranging from scouting to tutoring. An aggressive United Way program elicited record pledges from 11,804 employees—a 20% jump over the number who were contributing at the start of the campaign. In addition, 367 employees participated in TeamWalk, raising more than \$81,000 for the March of Dimes, a 16% jump from the 1985 mark.

PSE&G also supported programs aimed at introducing minority youngsters to the utility business. Employees served as mentors for student interns selected for their academic achievements and leadership potential under a program called INROADS. Four employees honored under the national Black Achievers program provided year-long career counseling for selected high school students.

- **Shorebirds on the Delaware Bay received new protection during the year under a mitigation program.** PSE&G and the states of New Jersey and Delaware developed the program to help preserve more than one million birds—some 20 species in all—which use an area south of Artificial Island for feeding and resting during annual migration. PSE&G's involvement began with the widening of an access road to Artificial Island. In issuing permits, state and federal regulators required the utility's participation in a mitigation project to replace seven acres of wetlands disrupted by the construction.

- **A news conference, featuring Governor Thomas Kean, focused on area development.** PSE&G sponsored the conference in which New Jersey's governor unveiled an advertising program to promote the economic development of the state.

- **PSE&G's site location activities increased during the year.** Area development representatives assisted more than 600 clients in search of new business sites. This figure is twice the number of clients assisted in 1985, an indication of a stronger economy in New Jersey. Direct aid to 22 major





PSE&G provided funds for the acquisition and establishment of the first shorebird preserve in the western hemisphere. It consists of eight miles of natural beach along the Delaware River. More than one million birds migrate up to 4,000 miles from South America each spring and land here to feed on the eggs of horseshoe crabs before flying another 3,000 miles to their Arctic nesting ground.



A "Warm Up To Hats" project was carried out by PSE&G in partnership with RSVP (Retired Senior Volunteer Programs) members. Wool hats were distributed to low-income, older adults to help keep them warm.

firms will account for approximately four million square feet of new business space.

- **"Dreams of Distant Shores" won five prestigious awards, including a 1986 Emmy.** The documentary film produced by PSE&G's Advertising Department traced the struggles and triumphs of the nation's immigrants. The film was shown nationwide by the Statue of Liberty-Ellis Island Foundation and overseas through the sponsorship of the United States Information Agency.

- **Another film promoted the understanding of nuclear power.** William Shatner of "Star Trek" fame appeared in the production, which featured computerized special effects. The film was made for continuous presentation at The Second Sun, PSE&G's energy information center located at the site of the Salem and Hope Creek stations.

- **An energy assembly program reached 38,500 students.** PSE&G and other electric utilities in New Jersey sponsored a theater presentation for youngsters in kindergarten through sixth grade. It provided entertaining information about electricity sources, generation, and safety.

- **Energy education conferences attracted 250 teachers.** As a member of the New Jersey Energy Education Council, PSE&G helped organize three sessions for elementary and junior high school teachers to outline creative ways to teach youngsters about energy.

Human Resources —

PSE&G recognizes a topflight workforce



While PSE&G has billions of dollars invested in the technology and facilities necessary for doing business, it continued to recognize that its most valuable asset is its employees.

In 1986, PSE&G embarked on a number of new programs designed to allow employees to

be more productive and to improve the environment in which they work.

A corporate-wide program stressed health consciousness among employees through a stop-smoking promotion, colorectal and oral cancer testing, and blood pressure screening. For its efforts, PSE&G earned an award from the American Cancer Society.

Programs were initiated to reduce levels of management, broaden areas of responsibility, and eliminate duplication of effort in both staff and line organizations. In order to insure the optimum continuity in operations, a management

succession planning process was extended to lower levels in the organization.

During the year, two employees demonstrated the benefits of working smarter with suggestions that will save PSE&G more than \$100,000 a year. The suggestions resulted in the highest-ever Suggestion Plan awards. Joseph Conrey of the Nuclear Department received a \$13,800 award for his suggestion to change the type of pump in Salem Generating Station's circulating water system. Norberto LaGuardia of the Customer and Marketing Services Department received \$13,000 for an idea involving check handling procedures at the customer payment processing center in Woodbridge.

- **One program introduced in 1986 improved orientation for new employees.** The Program, called PEOPLE, stresses the benefits and opportunities available in PSE&G for employees who demonstrate consistently high levels of performance and productivity.

- **On-site drug screening of nuclear contractor employees was initiated during the year.** The program supported PSE&G's comprehensive internal drug screening program in the continuing effort to insure a drug-free work environment.

- **Mortgage refinancing for relocated employees meant considerable savings.** Employees receiving mortgage interest differential payment under the corporate relocation policy were encouraged to refinance their mortgages to gain benefit through lower mortgage interest payments. As a result, PSE&G will also realize savings of more than \$237,000 a year.

1986: Transition

In addition to the election of **E. James Ferland** as chairman of the board, president and chief executive officer of Enterprise and PSE&G, the following occurred:

- **Verdell L. Roundtree**, a director of PSE&G since 1983 and a director of Enterprise, died on August 26. The board of directors and management deeply regret the loss of this distinguished and able director.

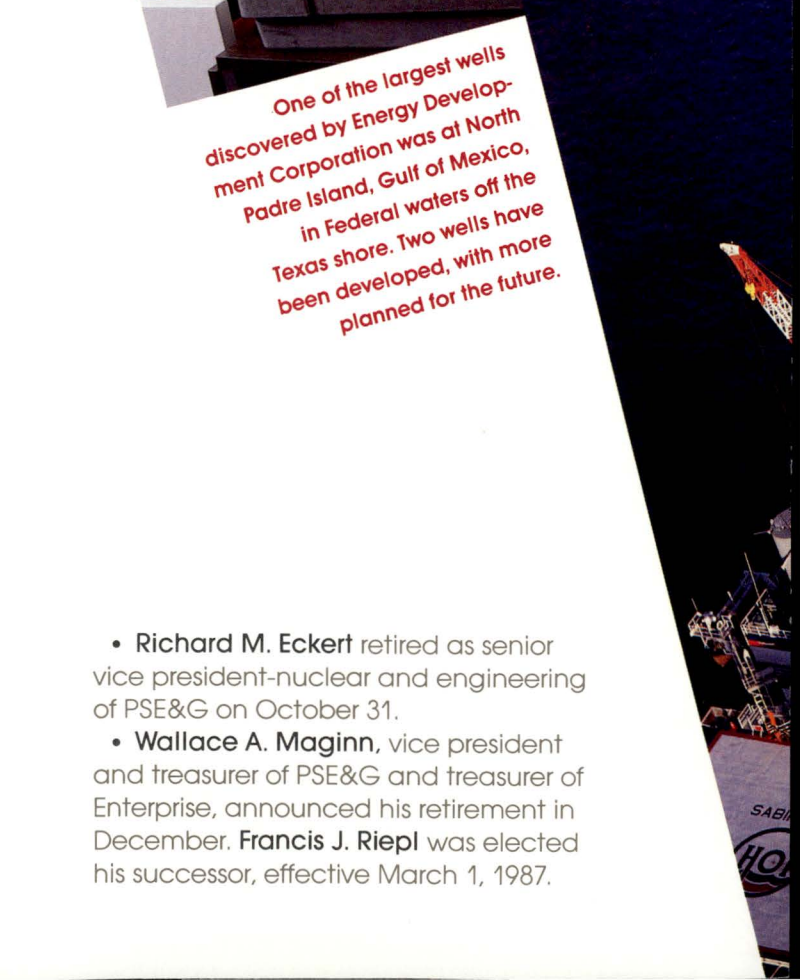
- **Everett L. Morris**, a vice president of Enterprise, was elected to its board of directors, effective June 1. In addition, he was elected senior executive vice president and a director of PSE&G, also effective June 1.

- **Thomas J. Martin** retired as vice president-engineering and construction of PSE&G, and **Pierre R.H. Landrieu** was elected his successor, effective March 8.

- **Robert H. Franklin** retired as vice president-public relations of PSE&G, and **John H. Maddocks** was elected vice president-public affairs, effective June 1.



Two record-breaking suggestion awards were granted in 1986. Norberto LaGuardia (left), shown with Louis Rizzi, Vice President, Customer and Marketing Services, won \$13,000 for a suggestion on how to reduce the number of customer payment checks requiring special handling.



One of the largest wells discovered by Energy Development Corporation was at North Padre Island, Gulf of Mexico, in Federal waters off the Texas shore. Two wells have been developed, with more planned for the future.

- **Richard M. Eckert** retired as senior vice president-nuclear and engineering of PSE&G on October 31.

- **Wallace A. Maginn**, vice president and treasurer of PSE&G and treasurer of Enterprise, announced his retirement in December. **Francis J. Riepl** was elected his successor, effective March 1, 1987.



ENERGY DEVELOPMENT CORPORATION

Joseph Conrey holds an oversized check for \$13,800 for a problem-solving suggestion concerning the use of submersible, heavy-duty pumps at the Salem Generating Station.

EDC becomes Enterprise subsidiary

Energy Development Corporation (EDC) became the fourth subsidiary of Enterprise under action by PSE&G's board of directors on December 16. The change resulted from the removal of costs of EDC and its wholly owned subsidiary, Gasdel Pipeline System Incorporated, from PSE&G's customer rates, stemming from settlement of the gas base rate case in 1986.

EDC was created as a subsidiary of PSE&G during the natural gas shortages of the 1970s, and it successfully supplemented the utility's gas supplies over the years. In 1986 it accounted for 7% of PSE&G's supplies.

In the agreement between the major parties in PSE&G's gas rate proceeding, approved by the BPU on October 30, 1986, the investment in EDC was removed from rate base. As a result, EDC wrote down the carrying value of its assets under the full cost method of accounting to the present value of estimated future net revenues. The after-tax effect of the write-down made in December was \$70.5 million.

In the BPU-approved agreement, PSE&G was allowed to defer the loss on its investment in EDC, generated by the rate base disallowance, and to seek recovery of such loss, over a period of not less than 10 years in its next base rate case. As a result, PSE&G has deferred \$58.8 million of the after-tax loss anticipated to be recovered subsequent to the next base rate increase.

Excluding the adjustment of the carrying value, EDC's earnings were \$4.3 million on revenues of \$70.3 million, down 55% and 25%, respectively, from 1985 results. The lower earnings, for the most part, were attributable to lower oil and natural gas prices.

- During 1986, EDC participated in the drilling of 35 wells, 51% of which were productive. The number of wells drilled represented a 22% reduction, when compared to the 1985 number. EDC's reduced drilling activity reflected a continued downturn in the oil and gas industry as a result of lower prices caused, for the most part, by excess production capacity.





COMMUNITY ENERGY ALTERNATIVES INCORPORATED

Agreements are reached on four projects

In its first full year of operation, Community Energy Alternatives Incorporated (CEA) concluded agreements to participate in four non-regulated energy projects having a combined generating capacity of 227 megawatts and a total asset value of \$285 million. CEA's aggregate equity investment is expected to be about \$21 million for an interest equal to about 70 megawatts.

CEA is also exploring opportunities involving the development of 600 megawatts of non-regulated cogeneration and small power projects throughout the country, including New Jersey.

At year's end, CEA's major activity involved a 35% equity partnership in a \$120 million cogeneration project in Bayonne, New Jersey. The 165-megawatt gas turbine facility, scheduled for operation in 1988, will provide steam to local industry and electricity to Jersey Central Power & Light Company under a 20-year transmission service contract with PSE&G. More than 12 billion cubic feet of natural gas will be provided annually by PSE&G. CEA will invest \$10.5 million in the project.

- **During the year, CEA invested in a wood-fired project.** CEA formed a partnership with Harbert International of Alabama and a group of local developers to build and operate a 17-megawatt wood-fired electric generating plant in New Hampshire. Its operation is planned for 1987.

- **Investment was also made in a hydro plant.** CEA acquired a 16% limited partnership interest in a 15-megawatt hydroelectric project on the Kennebec River in Maine.

- **CEA became a limited partner in a solar project.** It invested \$5.5 million in the SEGS III 30-megawatt solar electric generating project in the Mohave Desert in southern California.



PUBLIC SERVICE RESOURCES CORPORATION

Investment subsidiary seizes opportunities

Public Service Resources Corporation (PSRC) also completed its first full year of operation in 1986. It reviewed a number of investment opportunities and selected only those which offered the prospect of a favorable return with a minimum of risk. It contributed \$3.0 million to the net income of Enterprise.

During the year, PSRC invested in the SEGS III solar electric generating project, in which CEA decided to participate, and it also invested in a similar project called SEGS IV. In addition, PSRC participated in a tax benefit transfer with the Metropolitan Transit Authority of New York.

- **PSRC also became a limited partner in two venture capital funds.** One fund invests in advanced technology companies in the Middle Atlantic states, including New Jersey, and the other in selected real estate in major metropolitan areas.

- **Investments totaling \$64 million were made in mutual funds and stocks.** They included investments in both the common and preferred stock of utilities and the preferred stock of banks and other corporations. Corporate stock owners benefit by paying lower federal taxes on dividends.

Everett L. Morris (left) and Frederick W. Schneider — officers of CEA and PSRC — discuss investment details with Eileen Moran, Vice President-Investments, PSRC. CEA's investments are centered on non-regulated energy projects, while PSRC invests in various projects that offer reasonable returns.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Following are the significant factors affecting the financial condition of Enterprise and its subsidiaries as reflected in their consolidated results of operations. This discussion refers to the consolidated financial statements and related notes of Enterprise and should be read in conjunction with such statements and significant accounting policies.

For a discussion of the Decision of the Board of Public Utilities of the State of New Jersey (BPU) in PSE&G's base rate case made on February 6, 1987, and the effect of Statement of Financial Accounting Standards No. 90, Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs (SFAS 90), see Notes 1 and 2 of Notes to Consolidated Financial Statements.

Earnings and Dividends

Enterprise concluded 1986 in a satisfactory financial position, despite the adjustment to earnings resulting from the implementation of SFAS 90 which included the effects of Hope Creek 1 costs disallowed by the BPU and prior plant abandonments. The net effect of the application of SFAS 90 (see Notes 1 and 2 of Notes to Consolidated Financial Statements) was to reduce 1986 net income by \$183.8 million, or \$1.38 per share. Earnings per share of Common Stock were \$2.84 for 1986, a decrease of 43¢ or 13.1% from 1985. Excluding the effect of the application of SFAS 90, earnings were \$4.22 for 1986 and \$3.96 for 1985, an increase of 26¢ or 6.6%.

The increase is principally the result of PSE&G's higher electric sales, explained below, greater AFDC due to the construction of Hope Creek, and reduced maintenance costs. The increase was tempered by the effect of a greater number of shares outstanding, PSE&G's increased operating expenses (excluding fuel costs)—principally higher labor costs, taxes and depreciation—as well as increased interest charges.

Common Stock dividends paid have increased for the last three years, rising to \$2.93 from \$2.81 in 1985 and \$2.70 in 1984. The current Common Stock dividend is secure although Enterprise's ability to provide future dividend growth will be hampered as a result of the Hope Creek 1 disallowance and other unfavorable elements of the February 6, 1987 rate decision.

Revenues and Sales

Electric

Revenues increased 5.2% in 1986 primarily due to greater sales and recoveries of energy costs. In 1985, electric revenues increased 6.5% due to higher rates and improved sales.

Electric energy costs follow amounts recovered through revenues, as permitted by rate orders, and therefore have no direct effect on earnings.

The components of the above changes are highlighted in the table below:

(Millions of Dollars)	Increase or (Decrease)	
	1986 vs. 1985	1985 vs. 1984
Changes in base rates	\$	\$ 58
Recoveries of energy costs	62	56
Kilowatthour sales	94	73
Other operating revenues	(1)	(3)
	\$155	\$184

1986—Electric kilowatthour sales increased 3.0%.

Growth in Residential and Commercial sales accounted for the increase. Temperature humidity index hours during the height of the air-conditioning season, June to August, were up 6.0% over 1985, in addition to a 1.3% increase in average customers. The ongoing weakness in the nation's manufacturing sector adversely affected Industrial sales. A record 60-minute net peak load of 7,735 megawatts was established on July 7, 1986.

1985—Electric kilowatthour sales increased 2.3%. Residential sales were relatively flat, improving slightly over 1984. Both the Residential and Commercial sales categories reflect the impact of the overall cooler, less humid summer weather experienced compared to 1984. Temperature humidity index hours dropped 5.7% from 1984. Sales lost in the Commercial category due to the cooler weather conditions were more than offset by the ongoing growth in this service oriented category. The lackluster performance of New Jersey's manufacturing sector throughout 1985 depressed sales in the Industrial category. On August 15, 1985 records were set for a 60-minute net peak load of 7,721 megawatts and the maximum day's output of 149,457 megawatthours.

Gas

Revenues declined 5.9% in 1986. The reduction in revenues is attributable to decreases in base rates authorized by the BPU which became effective October 31, 1986. In addition, lower gas Raw Materials Adjustment Charge (RMAC) rates were in effect during 1986. Lower oil prices adversely impacted parity priced sales. In 1985, gas revenues increased 2.1% principally due to the impact of the March 1984 rate increase. This increase was negatively impacted by a one-time refund to customers of \$13.2 million and a reduction in the RMAC charge, both approved by the BPU during the latter part of 1985.

Gas fuel costs follow amounts recovered through revenues, as permitted by rate orders, and therefore have no direct effect on earnings.

The components of the above changes are highlighted in the table below:

(Millions of Dollars)	Increase or (Decrease)	
	1986 vs. 1985	1985 vs. 1984
Changes in base rates	\$ (8)	\$20
Recoveries of gas costs (A)	(101)	10
Therm sales	25	(2)
Other operating revenues		1
	\$ (84)	\$29

A. Includes the effect of \$13.2 million refund to customers in 1985 and \$42.9 million in 1984.

1986—Gas therm sales were virtually unchanged from 1985. Residential sales registered significant growth, as the average number of gas heating customers rose 4.9%, despite the negative influence of the 1.4% decline in heating degree days. Commercial sales reflect strong growth in that sector of New Jersey's economy. Industrial sales reflect the ongoing weakness in the nation's manufacturing sector of the economy. Lower oil prices continued to negatively impact Commercial and Industrial sales.

1985—Overall gas heating sales remained relatively flat

when compared to 1984. Heating degree days increased only .4%. Since early 1985, switching of certain dual-fuel Commercial and Industrial customers from gas to lower priced oil has depressed sales in these categories. Industrial sales have also been affected by the ongoing slow-down in New Jersey's manufacturing activity.

Energy Costs

Electric energy costs and gas fuel costs are adjusted to match amounts recovered through revenues and have no direct effect on earnings. However, the carrying of under-recovered energy costs ultimately increases financing costs.

A record total of 36.033 million megawatthours was generated, purchased and interchanged, a 3% increase over 1985. Higher generation due to the improved performance of Peach Bottom Station, generation from Hope Creek Station and energy purchased from the Pennsylvania-New Jersey-Maryland Interconnection (PJM) accounted for the increase.

As a member of the PJM and as a party to several agreements which provide for the purchase of available power from neighboring utilities, PSE&G is able to optimize its mix of internal and external sources using the lowest cost energy available at any given time.

Total electric energy costs increased 7% in 1986 after an increase of 11% in 1985, as described below:

(Millions of Dollars)	Increase or (Decrease)	
	1986 vs. 1985	1985 vs. 1984
Change in prices paid for fuel and power purchases	\$(261)	\$(167)
Kilowatthour output	31	21
Adjustment of actual costs to match recoveries through revenues (A)	318	225
Replacement energy costs for which recovery was disallowed by the BPU	(21)	14
	\$ 67	\$ 93

A. Reflects over (under) recovered energy costs, which in the years 1986, 1985 and 1984 amounted to \$346 million, \$28 million and \$(197) million, respectively.

Gas costs decreased 9% in 1986 and decreased less than 1% in 1985. Contributing factors are shown below:

(Millions of Dollars)	Increase or (Decrease)	
	1986 vs. 1985	1985 vs. 1984
Change in prices paid for gas supplies	\$(105)	\$ (4)
Surcharge related to non-production gas costs	24	9
Refunds from pipeline suppliers	9	(10)
Therm sendout	(3)	(12)
Adjustment of actual costs to match recoveries through revenues (A)	9	16
	\$ (66)	\$ (1)

A. Reflects over (under) recovered gas costs which in the years 1986, 1985 and 1984 amounted to \$1 million, \$(8) million and \$(24) million, respectively. The underrecovery of \$8 million in 1985 reflects gas fuel cost refunds to customers of \$11 million.

(See Note 5 of Notes to Consolidated Financial Statements.)

Liquidity and Capital Resources

Enterprise's liquidity is affected principally by the construction programs of its subsidiaries and, to a lesser degree, by other capital requirements such as PSE&G's maturing debt, reacquisition of securities and sinking fund requirements. The capital resources available to meet these requirements are funds from internal generation and external financing. Internally generated funds depend upon economic conditions and the adequacy of timely rate relief to PSE&G, as to which no assurance can be given. Access to the long-term and short-term capital and credit markets is necessary for obtaining funds externally.

With the completion of Hope Creek, PSE&G's construction costs will be lower, focusing primarily on the upgrading of other generating stations and electric and gas transmission and distribution systems. Therefore, excluding refinancings and related expenditures, Enterprise expects to meet nearly all of its capital requirements in 1987 with internally generated funds.

Construction Program

Enterprise maintains a continuous construction program, through its subsidiaries (principally PSE&G) which includes payments for nuclear fuel. This program is periodically revised as a result of changes in economic conditions, and depends on the ability of Enterprise's subsidiaries to finance construction costs and for PSE&G to obtain timely rate relief. Changes in plans and forecasts, price changes, cost escalation under construction contracts, and requirements of regulatory authorities may also result in revisions of the construction program.

Construction expenditures of \$1.0 billion in 1986 and \$1.2 billion in 1985 include AFDC of \$241 million and \$196 million, respectively. Construction expenditures are estimated at \$3.1 billion for the five years ending in 1991 and include AFDC of about \$209 million.

These estimates are based on certain expected completion dates and include anticipated escalation due to inflation of approximately 4%. Therefore, construction delays or inordinate inflation levels could cause significant increases in these amounts. PSE&G expects that, with adequate rate relief, as to which no assurance can be given, it will be able to generate internally nearly all of its construction expenditure requirements for the next five years.

Long-Term Financing

Enterprise raised more than \$668 million in 1986 principally through sales of \$103 million of Common Stock and \$550 million of PSE&G's First and Refunding Mortgage Bonds. During 1986 three First and Refunding Mortgage Bond issues for \$307.3 million and two Preferred Stock issues for \$69.3 million were redeemed.

In addition to periodic sinking fund redemptions, a \$60 million mortgage bond issue will mature in 1987. Three mortgage bond issues aggregating \$160 million and one debenture bond issue of \$35 million will also mature by the end of 1991.

Also, PSE&G has requested or received regulatory authority to redeem certain higher cost securities through future financings of approximately \$160 million of various First and Refunding Mortgage Bonds and \$160 million of various Preferred Stock series during 1987 and approximately \$296 million of various First and Refunding Mortgage Bonds during 1988.

At December 31, 1986 book value per share amounted to \$26.89 compared to \$26.81 at December 31, 1985. The market value of common shares expressed as a percentage of book value was 149.7% and 118.0% at year-end 1986 and 1985, respectively.

Under the terms of PSE&G's Mortgage and Restated Certificate of Incorporation, at December 31, 1986 PSE&G could issue an additional \$3.178 billion principal amount of Mortgage Bonds at a rate of 8.63% or \$3.750 billion of Preferred Stock at a rate of 7.25%.

In February 1986, PSE&G, by an additional amendment, extended its Credit Agreement with 12 domestic banks to May 1, 1987 for the issuance of revolving loans up to an aggregate of \$200 million to be outstanding at any time.

The agreement permits PSE&G to convert the outstanding balance at the end of the period to three-year term loans. Also, PSE&G has the right, with the consent of the banks, to extend the agreement on a year-to-year basis.

In the foreign markets Enterprise lists its Common Stock on the London Stock Exchange, London, England and PSE&G's 9¾% Series S First and Refunding Mortgage Bonds are listed on the Luxembourg Stock Exchange.

On October 31, 1986 PSRC entered into a Credit Agreement that provides for revolving credit loans up to \$25 million. PSRC may terminate the commitment, in whole or in part, without penalty or premium. Under the agreement, any borrowings outstanding at October 31, 1989 are convertible, at PSRC's option, into three-year term loans. PSRC is required to pay a commitment fee on any unused portion. At December 31, 1986, \$25 million of borrowings was outstanding under the agreement.

Short-Term Financing

For interim financing PSE&G is authorized by the BPU to have up to a total of \$300 million of short-term obligations outstanding at any given time. This availability of short-term financing provides PSE&G flexibility in the issuance of long-term securities. PSE&G's average daily short-term debt during 1986 was \$98 million—\$26 million above last year's average. At year-end PSE&G had \$139 million of short-term debt outstanding.

PSE&G has a \$75 million revolving credit agreement, that expires in January 1988, with 16 foreign banks, under which the Banks have agreed to make revolving loans for one month, three months or six months at a rate based upon the London Interbank Offered Rate for deposits in United States dollars. These agreements provide PSE&G with an intermediate-term source of funds.

On November 1, 1986, EDC entered into a Credit Agreement that provides for revolving credit loans up to \$100 million. EDC may terminate the commitment, in whole or in part, without penalty or premium. Under the agreement, EDC has the option, on September 30, 1987, to extend the maturity date of the agreement to October 31, 1991. EDC is required to pay a commitment fee on any unused portion. At December 31, 1986, \$100 million of borrowings was outstanding under the agreement.

Cash Position

Enterprise's cash position increased \$13 million since year-end 1985. The components of the increase are:

(Millions of Dollars)	Increase or (Decrease)
Cash and Temporary Cash Investments (A)	\$ 185
Working Funds	(5)
Pollution Control Escrow Funds	(30)
Bank Loans	(105)
Commercial Paper	(32)
	\$ 13

A. Temporary Cash Investments consist primarily of U.S. Treasury Notes.

Customer Accounts Receivable

At December 31, 1986, customer accounts receivable approximated \$352 million, excluding unbilled revenues of \$170 million. Net write-off of uncollectible accounts in 1986 was down 21% to approximately \$22 million, a decrease of \$6 million from last year. Net write-off per \$100 of revenues was down 16 cents to 48 cents compared to 1985, the result of improved collection procedures and continued improvements in the economy. The level of PSE&G's rates and a BPU requirement prohibiting the termination of electric and gas service during winter months to financially

needy customers have an impact upon the level of receivables, uncollectible accounts and net write-off thereof.

Long-Term Investments

Long-Term Investments increased \$124 million primarily as the result of the activity of PSRC. The increase is made up of the following:

(Millions of Dollars)	Increase or (Decrease)
Marketable Securities	\$ 64
Limited Partnerships	34
Lease Agreements	25
Other	1
	\$124

Effect of Inflation

The effect of inflation on Enterprise, as indicated by the Average Consumer Price Index (CPI-U), has moderated since 1981. The increases in the CPI-U in 1982, 1983, 1984, 1985 and 1986 were 6.1%, 3.2%, 4.3%, 3.6% and 1.9%, respectively.

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Effective May 1, 1986, Enterprise became the owner of all of the outstanding Common Stock of PSE&G as a result of a corporate restructuring of PSE&G pursuant to a Plan and Agreement of Merger. In the merger and restructuring, each share of outstanding Common Stock of PSE&G was converted on a share-for-share basis into Common Stock of Enterprise and each share of \$1.40 Dividend Preference Common Stock of PSE&G was either converted into one-half a share of Common Stock of Enterprise or exchanged for \$18 cash, at the option of the holder. The restructuring did not result in any change in PSE&G's Preferred Stock or debt securities.

Enterprise is entitled to an exemption from regulation by the Securities and Exchange Commission as a registered holding company under the Public Utility Holding Company Act of 1935, except for Section 9(a)(2) thereof, and is not subject to regulation by the BPU or the Federal Energy Regulatory Commission (FERC).

Consolidation Policy and Accounting Principles

The consolidated financial statements include the accounts of Enterprise and its subsidiaries, PSE&G, CEA, PSRC, and EDC. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain restatements have been made of previously reported unconsolidated amounts in order to conform to the 1986 presentation. Such restatements had no effect on net income.

The accounting and rates of Enterprise's wholly-owned subsidiary, PSE&G, are subject in certain respects to the requirements of the BPU and FERC and, as a result, maintains its accounts with their prescribed Uniform Systems of Accounts, which are the same. As a result, the applications of generally accepted accounting principles (GAAP) by Enterprise differ in certain respects from applications of other non-regulated businesses.

Utility Plant and Related Depreciation and Amortization—PSE&G

Additions to utility plant and replacements of units of property are capitalized at cost. The cost of maintenance, repairs and replacements of minor items of property is charged to appropriate expense accounts. At the time units of depreciable properties are retired or otherwise disposed of, the original cost less net salvage value is charged to accumulated depreciation.

For financial reporting purposes, depreciation is computed under the straight-line method. Depreciation is based on estimated average remaining lives of the several classes of depreciable property. These estimates are reviewed on a regular basis and necessary adjustments are made as approved by the BPU. Depreciation provisions stated in percentages of original cost of depreciable property were 3.54% in 1986, 3.52% in 1985, and 3.53% in 1984.

Depreciation applicable to nuclear plant includes estimated costs of decommissioning except for Hope Creek. To ensure that adequate money is available to meet decommissioning costs for the Hope Creek Generating Station, the BPU in its Decision of February 6, 1987 provided

rates for the recovery of such costs and directed that PSE&G establish an escrow fund by means of external funding.

Amortization of leasehold improvements and capital lease assets is based on the term of the lease.

Amortization of Nuclear Fuel

Nuclear energy burnup costs are charged to fuel expense on the basis of the number of units of thermal energy produced as they relate to total thermal units expected to be produced over the life of the fuel. The rate calculated for fuel used at all nuclear units includes a provision of one mill per kilowatthour of nuclear generation for spent fuel disposal costs.

Gas and Oil Accounting

Energy Development Corporation follows the full-cost method of accounting. Under this method, all exploration and development costs, both for successful and unsuccessful wells, are capitalized and amortized on the units-of-production basis. (See Note 5—Deferred Items—Gas and Oil Exploration Plant Write-Down.)

Long-Term Investments

Enterprise, through its investment subsidiary, PSRC, has invested in marketable securities, which are valued at the lower of cost or market, as well as various leveraged leases and limited partnerships. In accordance with GAAP, Enterprise records a valuation loss on its investments in marketable securities, whenever indicated.

Revenues and Fuel Costs

Revenues are recorded based on services rendered to customers during each accounting period. PSE&G records unbilled revenues representing the estimated amount customers will be billed for services rendered from the time meters were last read to the end of the respective accounting period.

PSE&G projects the costs of fuel for electric generation, purchased and interchanged power, gas purchased and materials for gas produced for twelve-month periods.

Adjustment clauses in PSE&G's rate structure allow the recovery of fuel costs over those included in PSE&G's base rates through levelized monthly charges. Any under or over-recoveries, along with interest in the case of an over-recovery, are deferred and included in operations in the period in which they are reflected in rates.

Income Taxes

Enterprise and its subsidiaries file a consolidated Federal income tax return and income taxes are allocated, for reporting purposes, to Enterprise and its subsidiaries based on taxable income or loss of each.

Deferred income taxes are provided for differences between book and taxable income. For PSE&G the deferred income taxes are limited to the extent permitted for rate-making purposes.

Investment tax credits are deferred and amortized over the useful lives of the related property including nuclear fuel.

Allowance for Funds Used During Construction

Allowance for funds used during construction (AFDC) is a cost accounting procedure whereby the cost of financing construction (interest and equity costs) is transferred from the income statement to construction work in progress (CWIP) in the balance sheet. The rate of 8½% used for calculating AFDC was within the limits set by FERC.

As a result of BPU rate orders, PSE&G has been allowed to include a portion of CWIP in rate base on which a current return is permitted to be recovered through operating revenues. The amounts of CWIP included in rate base have remained at \$550 million since the end of 1984. No AFDC has been accrued on the amounts of CWIP which were

included in rate base. However, based upon the BPU's Decision of February 6, 1987, PSE&G is no longer allowed to recover a current return on amounts of CWIP through operating revenues.

Pension Plan

Enterprise's subsidiaries participate in a non-contributory trustee pension plan covering substantially all employees completing one year of service. The policy is to fund pension costs accrued. Contributions include current service costs and amounts required to fund prior service costs over a 35-year period beginning January 1, 1967.

FINANCIAL STATEMENT RESPONSIBILITY

Management of Enterprise is responsible for the preparation, integrity and objectivity of the consolidated financial statements and related notes of Enterprise. The consolidated financial statements and related notes are prepared in accordance with generally accepted accounting principles applied on a consistent basis and reflect estimates based upon the judgement of management where appropriate. Management believes that the consolidated financial statements and related notes present fairly and consistently Enterprise's financial position and results of operations. Information in other parts of this Annual Report is consistent with these consolidated financial statements and related notes.

Enterprise maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded properly. The system is designed to permit preparation of consolidated financial statements and related notes in accordance with generally accepted accounting principles. The concept of reasonable assurance recognizes that the costs of a system of internal controls should not exceed the related benefits.

Management believes the effectiveness of this system

is enhanced by a program of continuous and selective training of employees. In addition, management has communicated to all employees its policies on business conduct, assets and internal control.

The Internal Auditing Department conducts audits and appraisals of accounting and other operations and evaluates the effectiveness of cost and other controls.

The firm of Deloitte Haskins & Sells, independent certified public accountants, is engaged to examine Enterprise's consolidated financial statements and related notes and issue an opinion thereon. Their examination is conducted in accordance with generally accepted auditing standards and includes a review of internal accounting controls and tests of transactions.

The Board of Directors carries out its responsibility of financial overview through the Audit Committee, currently consisting of five directors who are not employees of Enterprise. The Audit Committee meets periodically with management as well as with representatives of the internal auditors and the independent certified public accountants. The Committee reviews the work of each to ensure that their respective responsibilities are being carried out, and discusses related matters. Both audit groups have full and free access to the Audit Committee.

CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Dollars) For the Years Ended December 31,	1986	1985	1984
Operating Revenues			
Electric	\$3,156,010	\$3,000,564	\$2,816,241
Gas	1,324,690	1,408,490	1,379,883
Other	17,716	19,287	11,248
Total Operating Revenues	4,498,416	4,428,341	4,207,372
Operating Expenses			
Operation			
Fuel for Electric Generation and Interchanged Power — net	1,033,371	965,966	872,805
Gas Purchased and Materials for Gas Produced	692,224	757,976	758,627
Other	607,301	567,698	545,737
Maintenance	254,256	291,940	270,359
Depreciation and Amortization	272,150	268,179	246,715
Amortization of Property Abandonments and Write-Down (note 5)	71,232	55,263	58,975
Taxes			
Federal Income Taxes (note 3)	270,783	273,119	263,270
New Jersey Gross Receipts Taxes	563,518	557,270	529,654
Other	56,297	53,161	51,930
Total Operating Expenses	3,821,132	3,790,572	3,598,072
Operating Income	677,284	637,769	609,300
Other Income			
Allowance for Funds Used During Construction — Equity	164,121	127,412	104,803
Miscellaneous — net	10,840	458	2,674
Total Other Income	174,961	127,870	107,477
Application of SFAS 90 (note 1)			
Disallowed Plant Costs and Abandonments—net	295,244	109,717	5,016
Related Income Taxes	(111,418)	(24,799)	(2,172)
Net Effect of SFAS 90	183,826	84,918	2,844
Income Before Interest Charges	668,419	680,721	713,933
Interest Charges (note 9)			
Long-Term Debt	297,249	276,480	257,194
Short-Term Debt	6,362	5,788	5,428
Other	12,169	7,278	18,115
Total Interest Charges	315,780	289,546	280,737
Allowance for Funds Used During Construction — Debt	(77,196)	(68,459)	(53,989)
Net Interest Charges	238,584	221,087	226,748
Preferred Stock Dividend Requirements of PSE&G	51,372	60,002	60,221
Net Income	\$ 378,463	\$ 399,632	\$ 426,964
Shares of Common Stock Outstanding			
End of Year	134,882,375	131,698,517	112,563,068
Average for Year	133,139,529	122,344,270	108,913,276
Earnings per Average Share of Common Stock	\$2.84	\$3.27	\$3.92
Dividends Paid Per Share of Common Stock	\$2.93	\$2.81	\$2.70

Prior years restated to reflect the adoption of SFAS 90 and the consolidation of wholly-owned subsidiaries.
See Organization and Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Thousands of Dollars) For the Years Ended December 31,	1986	1985	1984
Funds Provided			
Net Income	\$ 378,463	\$ 399,632	\$ 426,964
Add (Deduct) Items not affecting Working Capital			
Depreciation and Amortization	391,978	375,154	335,393
Recovery (Deferral) of Electric Energy and Gas Fuel Costs—net	350,882	43,422	(211,337)
Disallowed Plant Costs and Abandonments (note 1)	350,571	151,009	35,346
Amortization of Discounts on Disallowances (note 1)	(55,327)	(41,292)	(30,330)
Provision for Deferred Income Taxes—net (note 3)			
Depreciation and Amortization	62,511	42,334	79,462
Property Abandonments (note 5)	(7,946)	364	2,220
Gas and Oil Exploration Plant Write-Down (note 5)	53,287		
Deferred Electric Energy and Gas Fuel Costs	(161,405)	(19,720)	96,931
Other	35,943	(4,544)	(14,031)
Investment Tax Credits—net	13,205	132,398	94,996
Allowance for Funds Used During Construction (AFDC)	(241,317)	(195,871)	(158,792)
Other	4,417	(9,042)	5,724
Total Funds from Operations	1,175,262	873,844	662,546
Net Funds from Financings			
Common Stock	103,330	499,905	213,492
Long-Term Debt	564,894	199,118	426,110
Increase in Capital Lease Obligations		548	5,910
Total Funds from Financings	668,224	699,571	645,512
Total Funds Provided	\$1,843,486	\$1,573,415	\$1,308,058
Funds Applied			
Additions to Utility Plant, excluding AFDC	\$ 778,248	\$1,024,244	\$ 808,573
Additions to Gas and Oil Exploration Plant, excluding AFDC	21,781	47,392	52,891
Cash Dividends on Common Stock	390,289	346,803	295,078
Long-Term Investments	136,290	4,230	
Reductions of Long-Term Debt and Capital Lease Obligations	423,129	207,355	7,054
Reductions of Preferred Stock		72,750	
Property Abandonments, Write-Down and Deferrals (note 5)			
Reduction in Property Values	(134,452)	(37,108)	(69,313)
Deferrals	134,452	37,108	69,313
Miscellaneous	8,479	17,848	37,341
Total Funds Applied	1,758,216	1,720,622	1,200,937
Changes in Working Capital — Increase (Decrease)			
Short-Term Debt	(77,769)	(47,811)	18,885
Cash and Equivalents	149,943	(86,738)	120,230
Accounts Receivable and Unbilled Revenues	(25,905)	66,261	(41,691)
Fuel	(20,090)	(52,137)	54,444
Other Current Assets	13,664	28,320	4,024
Accounts Payable and Other Accrued Liabilities	49,417	(27,087)	(33,221)
Accrued Taxes	(3,990)	(28,015)	(15,550)
Net Increase (Decrease) in Working Capital	85,270	(147,207)	107,121
Total Funds Applied and Changes in Working Capital	\$1,843,486	\$1,573,415	\$1,308,058

Prior years restated to reflect the adoption of SFAS 90 and the consolidation of wholly-owned subsidiaries.
See Organization and Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

Assets	1986	1985
(Thousands of Dollars) December 31,		
Utility Plant — Original cost		
Electric Plant	\$ 5,449,135	\$ 5,268,113
Gas Plant	1,396,543	1,290,330
Common Plant	281,751	264,106
Nuclear Fuel	128,906	120,888
Utility Plant in Service	7,256,335	6,943,437
Less Accumulated Depreciation and Amortization	2,692,759	2,502,594
Net Utility Plant in Service	4,563,576	4,440,843
Construction Work in Progress	4,153,988	3,862,633
Plant Held for Future Use	26,873	36,112
Net Utility Plant	8,744,437	8,339,588
Other Plant and Long-Term Investments		
Gas and Oil Exploration Plant, net of accumulated depreciation — 1986, \$183,286; 1985, \$158,100	159,040	308,351
Other Plant, net of accumulated depreciation — 1986, \$1,362; 1985, \$943	26,224	17,136
Long-Term Investments	133,180	9,508
Total Other Plant and Long-Term Investments	318,444	334,995
Current Assets		
Cash and Temporary Cash Investments (note 4)	206,008	20,909
Working Funds	21,876	26,566
Pollution Control Escrow Funds		30,466
Accounts Receivable, net of allowance for doubtful accounts — 1986, \$33,101; 1985, \$20,733	407,737	392,807
Unbilled Revenues	169,581	210,416
Fuel, at average cost	203,979	224,069
Materials and Supplies, at average cost	80,197	75,551
Prepayments	30,875	21,857
Total Current Assets	1,120,253	1,002,641
Deferred Debits (note 5)		
Property Abandonments (note 1)	227,033	269,601
Gas and Oil Exploration Plant Write-Down	112,044	
Underrecovered Electric Energy and Gas Fuel Costs — net		264,039
Unamortized Debt Expense	49,102	23,426
Other	6,509	
Total Deferred Debits	394,688	557,066
Total	\$10,577,822	\$10,234,290

Prior year restated to reflect the adoption of SFAS 90 and the consolidation of wholly-owned subsidiaries.
See Organization and Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Capitalization and Liabilities

(Thousands of Dollars) December 31,

1986

1985

Capitalization (see statements, pages 36-38)

Common Equity		
Common Stock	\$ 2,632,662	\$ 2,535,687
Retained Earnings	993,836	1,013,285
Total Common Equity	3,626,498	3,548,972
Subsidiaries' Securities		
Preferred Stock Without Mandatory Redemption	554,994	554,994
Preferred Stock With Mandatory Redemption	65,000	65,000
Long-Term Debt	3,336,120	3,164,641
Capital Lease Obligations (note 9)	56,409	58,337
Total Capitalization	7,639,021	7,391,944

Current Liabilities

Preferred Stock to be redeemed within one year		72,750
Long-Term Debt and Capital Lease Obligations due within one year	71,418	57,895
Bank Loans (note 6)	104,996	
Commercial Paper (note 6)	139,000	107,000
Accounts Payable	215,386	272,324
New Jersey Gross Receipts Taxes Accrued	544,678	545,802
Deferred Income Taxes on Unbilled Revenues (note 3)	78,007	96,791
Other Taxes Accrued	49,253	25,355
Interest Accrued	94,602	84,101
Gas Purchases Accrued	75,058	87,669
Other	84,500	74,869
Total Current Liabilities	1,456,898	1,424,556

Deferred Credits

Accumulated Deferred Income Taxes (note 3)		
Depreciation and Amortization	685,483	635,868
Property Abandonments (note 5)	99,846	107,792
Gas and Oil Exploration Plant Write-Down (note 5)	53,287	
Deferred Electric Energy and Gas Fuel Costs — net	(39,947)	121,458
Unamortized Debt Expense	19,548	7,791
Other	(2,924)	(27,110)
Overrecovered Electric Energy and Gas Fuel Costs — net (note 5)	86,843	
Accumulated Deferred Investment Tax Credits (note 3)	565,868	551,779
Other	13,899	20,212
Total Deferred Credits	1,481,903	1,417,790

Commitments and Contingent Liabilities (note 8)

Total	\$10,577,822	\$10,234,290
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CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Thousands of Dollars) For the Years Ended December 31,	1986	1985	1984
Balance January 1 , as previously reported	\$	\$	\$ 963,617
Cumulative effect of retroactively applying SFAS 90 (note 1)			(131,802)
Balance January 1	1,013,285	963,573	831,815
Add Net Income	378,463	399,632	426,964
Total	1,391,748	1,363,205	1,258,779
Deduct			
Cash Dividends on Common Stock (A)	390,289	346,803	295,078
Capital Stock Expenses	7,623	3,117	128
Total Deductions	397,912	349,920	295,206
Balance December 31	\$ 993,836	\$1,013,285	\$ 963,573

A. The ability of Enterprise to declare and pay dividends is contingent upon its prior receipt of dividend payments from its subsidiaries. PSE&G, Enterprise's principal subsidiary, has restrictions on the payment of dividends which are contained in its Charter, certain of the indentures supplemental to its Mortgage, and certain debenture bond indentures. However, none of these restrictions presently limits the payment of dividends out of current earnings. The amount of PSE&G restricted retained earnings at December 31, 1986 was \$10,000,000.

Prior years restated to reflect the adoption of SFAS 90 and the consolidation of wholly-owned subsidiaries.
See Organization and Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

INDEPENDENT ACCOUNTANTS' OPINION

Deloitte Haskins+Sells

Certified Public Accountants
Gateway One
Newark, New Jersey 07102

To the Stockholders and Board of Directors of Public Service Enterprise Group Incorporated:

We have examined the consolidated balance sheets and consolidated statements of capital stock and long-term debt of Public Service Enterprise Group Incorporated and its subsidiaries as of December 31, 1986 and 1985 and the related consolidated statements of income, retained earnings, and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of the companies at December 31, 1986 and 1985 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the change, with which we concur, in the method of accounting for abandonments and disallowances of plant costs as described in Note 1 to the consolidated financial statements.

Deloitte Haskins + Sells

February 17, 1987

CONSOLIDATED STATEMENTS OF CAPITAL STOCK

December 31,	Outstanding Shares (note A)	Current Redemption Price Per Share	Certain Refundings Restricted Prior to	1986 (Thousands of Dollars)	1985
Nonparticipating Cumulative Preferred Stock of PSE&G (note B)					
With Mandatory Redemption					
\$100 par value — Series					
12.25%		\$		\$	\$ 22,750
13.44%					50,000
12.80%	350,000	112.80	10/1/87	35,000	35,000
11.62%	300,000	111.62	9/1/88	30,000	30,000
Less amount to be redeemed within one year					72,750
PSE&G Preferred Stock with Mandatory Redemption				\$ 65,000	\$ 65,000
Without Mandatory Redemption					
\$25 par value — Series					
9.75%	1,600,000	\$ 25.75		\$ 40,000	\$ 40,000
8.70%	2,000,000	26.50		50,000	50,000
\$100 par value — Series					
4.08%	250,000	103.00		25,000	25,000
4.18%	249,942	103.00		24,994	24,994
4.30%	250,000	102.75		25,000	25,000
5.05%	250,000	103.00		25,000	25,000
5.28%	250,000	103.00		25,000	25,000
6.80%	250,000	102.00		25,000	25,000
9.62%	350,000	102.00		35,000	35,000
7.40%	500,000	101.00		50,000	50,000
7.52%	500,000	101.00		50,000	50,000
8.08%	150,000	101.00		15,000	15,000
7.80%	750,000	101.00		75,000	75,000
7.70%	600,000	100.79		60,000	60,000
8.16%	300,000	106.86		30,000	30,000
PSE&G Preferred Stock without Mandatory Redemption (no changes in 1985 and 1984)				\$ 554,994	\$ 554,994
Enterprise Dividend Preference Common Stock and Common Stock					
\$1.40 Dividend Preference Common Stock (no par) (note C)					
Common Stock (no par) — authorized 150,000,000 shares (note D); issued and outstanding				\$2,632,662	\$2,535,687
at December 31, 1986, 134,882,375 shares and at December 31, 1985, 131,698,517 shares					
(3,183,858 shares issued for \$103,488,000 in 1986; 19,135,449 shares issued for \$503,022,000					
in 1985; and 9,705,079 shares issued for \$213,583,000 in 1984)					

Notes:

A. In addition, there are 1,472,558 shares of \$100 par value and 6,400,000 shares of \$25 par value Cumulative Preferred Stock which are authorized and unissued, and which upon issuance may or may not provide for mandatory sinking fund redemption.

B. If dividends upon any shares of Preferred Stock are in arrears in an amount equal to the annual dividend thereon, voting rights for the election of a majority of the Board of Directors become operative and continue until all accumulated and unpaid dividends thereon have been paid, whereupon all such voting rights cease, subject to being again revived from time to time.

PSE&G is required to purchase or redeem a specified minimum number of shares of Cumulative Preferred Stock with mandatory redemption annually commencing on the effective dates shown below. Such redemptions are cumulative. PSE&G may annually redeem, at its option, an aggregate of up to twice the number of shares shown for each such series. All such redemptions are at a redemption price of \$100 per share. A redemption of shares of any series also requires payment of all accumulated and unpaid dividends to the date fixed for redemption.

Preferred Stock without mandatory redemption is subject to redemption solely at the option of PSE&G upon payment of the applicable redemption price plus accumulated and unpaid dividends to the date fixed for redemption.

The 1985 statement reflects the redemption in 1986 of all shares of the Preferred Stock of the 12.25% Series and the 13.44% Series. As a result the annual dividend requirement and the embedded dividend cost were \$7,966,000 and 12.37%, respectively, for Preferred Stock with mandatory redemption. The annual dividend requirement and embedded dividend cost for Preferred Stock without mandatory redemption were \$40,629,000 and 7.38%, respectively.

PSE&G has requested or received regulatory approval to redeem the 12.80%, 9.75%, 8.70% and 9.62% Series of Preferred Stock.

C. In 1985 there were 1,343,999 shares outstanding, 982,152 of these shares were converted on a 2 for 1 basis into Enterprise Common Stock as part of the corporate restructuring whereby Enterprise became the parent holding company of PSE&G on May 1, 1986. The remaining 361,847 shares were repurchased at a cost of \$6,513,000.

D. Includes 3,659,045 shares of Common Stock reserved for possible issuance under Enterprise's Dividend Reinvestment and Stock Purchase Plan, and PSE&G's Employee Stock Purchase Plan, Thrift and Tax-Deferred Savings Plan and Payroll-Based Employee Stock Ownership Plan.

See Organization and Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Series	Minimum Shares Redeemable Annually	Effective Date of Mandatory Redemption	Aggregate Number of Shares Purchased and Redeemed During the Years		
			1986	1985	1984
12.25%	17,500	2/1/80	227,500	17,500	17,500
13.44%	25,000	3/31/87	500,000		
12.80%	17,500	9/30/88			
11.62%	15,000	9/30/89			

CONSOLIDATED STATEMENTS OF LONG-TERM DEBT

(Thousands of Dollars) December 31,		1986	1985
First and Refunding Mortgage Bonds of PSE&G (note A)			
Series	Maturity Date		
4¾%	November 1, 1986	\$	\$ 50,000
4¾%	September 1, 1987	60,000	60,000
4¾%	August 1, 1988	60,000	60,000
5½%	June 1, 1989	50,000	50,000
4¾%	September 1, 1990	50,000	50,000
4¾%	August 1, 1992	40,000	40,000
4¾%	June 1, 1993	40,000	40,000
4¾%	September 1, 1994	60,000	60,000
4¾%	September 1, 1995	60,000	60,000
6¼%	June 1, 1997	75,000	75,000
7 %	June 1, 1998	75,000	75,000
7¾%	April 1, 1999	75,000	75,000
9½%	March 1, 2000	98,000	98,000
8¾%	A May 15, 2001	69,300	69,300
7¾%	B November 15, 2001	80,000	80,000
7½%	C April 1, 2002	125,000	125,000
8½%	D March 1, 2004	90,000	90,000
12 %	E October 1, 2004	8,730	9,730
8¾%	F April 1, 2006	60,000	60,000
8.45%	G September 1, 2006	60,000	60,000
8¼%	H June 1, 2007	125,000	125,000
8½%	I September 1, 2007	59,900	59,900
9¾%	J November 1, 2008	99,000	100,000
9¾%	K July 1, 2009	99,000	100,000
12 %	L November 1, 2009		119,750
12½%	M June 1, 2010		87,500
15¾%	N August 1, 1991		100,000
14¾%	O September 1, 2012	42,300	43,300
12½%	P December 1, 2012	85,044	98,500
12½%	Q August 1, 1993	100,000	100,000
9½%	R July 1, 2015	125,000	125,000
9¾%	S January 14, 1996	75,000	75,000
9½%	T March 1, 2016	100,000	
7½%	U April 1, 1996	250,000	
8¾%	V April 1, 2016	200,000	
8 %	June 1, 2037	7,463	7,463
5 %	July 1, 2037	7,538	7,538
Pollution Control Series			
6.30%	A October 1, 2006	14,300	14,300
6.90%	B September 1, 2009	42,620	42,620
6.90%	C September 1, 2009	2,990	2,990
12½%	D April 1, 2012	23,500	23,500
9¾%	E June 1, 2013	64,000	64,000
10½%	F July 1, 2014	150,000	150,000
10¾%	G September 1, 2014	150,000	150,000
10½%	H November 1, 2014	130,400	130,400
10¾%	I November 1, 2012	4,600	4,600
Total First and Refunding Mortgage Bonds		\$3,193,685	\$3,018,391

(Thousands of Dollars)		1986	1985
Debtenture Bonds of PSE&G unsecured			
Maturity Date			
5¾%	June 1, 1991	\$ 34,647	\$ 35,787
7¼%	December 1, 1993	24,800	25,380
9 %	November 1, 1995	47,607	49,345
7¾%	August 15, 1996	50,898	52,152
8¾%	November 1, 1996	36,484	38,198
6 %	July 1, 1998	18,195	18,195
Total Debtenture Bonds		212,631	219,057
Principal amount outstanding (note B)		3,406,316	3,237,448
Amount due within one year (note C)		(69,491)	(55,250)
Net Unamortized Discount		(25,705)	(17,557)
Long-Term Debt of PSE&G		3,311,120	3,164,641
Bank Loans of PSRC—			
7¼-7½% (note D)		25,000	
Consolidated Long-Term Debt (note E)			
		\$3,336,120	\$3,164,641

Notes:

A. PSE&G's Mortgage, securing the First and Refunding Mortgage Bonds, constitutes a direct first mortgage lien on substantially all property and franchises.

B. At December 31, 1986, PSE&G had unexercised commitments under a Credit Agreement with 12 domestic banks for issuance of revolving loans up to an aggregate amount of \$200,000,000 at any time to May 1, 1987. PSE&G may terminate the commitments, in whole or in part, without penalty or premium. Under the agreement, any borrowings outstanding at May 1, 1987 are convertible, at PSE&G's option, into three-year term loans. PSE&G is required to pay a commitment fee on any unused portion. PSE&G has the right, with the consent of the banks, to extend the agreement on a year-to-year basis.

C. PSE&G has requested or received regulatory approval to redeem \$159,574,000 and \$296,000,000 principal amount of First and Refunding Mortgage Bonds prior to maturity in the years 1987 and 1988, respectively. Assuming such redemptions, the aggregate principal amount of requirements for sinking funds and maturities for each of the five years following December 31, 1986 are as follows:

(Thousands of Dollars)			
Year	Sinking Funds	Maturities	Total
1987	\$ 9,491	\$ 60,000	\$ 69,491
1988	10,845	60,000	70,845
1989	8,100	50,000	58,100
1990	8,100	50,000	58,100
1991	6,900	31,200	38,100
	\$43,436	\$251,200	\$294,636

For sinking fund purposes, certain First and Refunding Mortgage Bond issues require annually the retirement of \$21,550,000 principal amount of bonds or the utilization of bondable property additions at 60% of cost. The portion expected to be met by property additions has been excluded from the table above. Also, PSE&G may, at its option, retire additional amounts up to \$6,200,000 annually through sinking funds of certain debtenture bonds. The election of any such option is included in long-term debt due within one year.

D. At December 31, 1986 PSRC had \$25,000,000 outstanding under a Credit Agreement that provides for revolving credit loans up to \$25,000,000. PSRC may terminate the commitment, in whole or in part, without penalty or premium. Under the agreement, any borrowings outstanding at October 31, 1989 are convertible, at PSRC's option, into three-year term loans. PSRC is required to pay a commitment fee on any unused portion.

E. At December 31, 1986 the annual interest requirement on Long-Term Debt was \$290,253,000 of which \$272,112,000 was the requirement for First and Refunding Mortgage Bonds. The embedded interest cost on Long-Term Debt was 8.80%.

See Organization and Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Statement of Financial Accounting Standards No. 90 (SFAS 90)

In December 1986, the Financial Accounting Standards Board (FASB) issued SFAS 90—Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs which amends the previously prescribed accounting standards for these two types of events that have occurred primarily in the electric utility industry.

This new statement requires that a loss be recognized if the carrying amounts of abandoned assets exceed the present value of future revenues generated by those assets in the regulatory process. Previous accounting standards required that abandoned assets be reported at the lesser of cost or probable gross revenues.

This new statement also requires any disallowance of the cost of a recently completed plant to be recognized as a loss (cost defined to include a return on capital). Previous accounting standards did not require the recognition of a loss if the total cost of the plant (exclusive of a return on capital after construction) would be recovered.

While SFAS 90 is not required to be implemented until 1988, earlier adoption is encouraged and Enterprise has chosen to adopt the provisions of this new accounting statement in 1986. Consistent with the recommendation of SFAS 90, prior years' financial statements have been restated to reflect the application of the new statement.

The following tables illustrate the effect of adoption of SFAS 90:

(Thousands of Dollars) For the Years Ended December 31,	1986	1985	1984
Income before application of SFAS 90	\$ 562,289	\$484,550	\$429,808
Disallowed Costs			
Hope Creek 1 (Note 2)			
Direct Disallowance	431,532		
Return Disallowance—Discount	(80,961)	135,139	
Amortization of Discount	(12,157)		
Related Income Taxes	(122,818)	(35,935)	
Hope Creek—net	215,596	99,204	
Property Abandonments (Note 5)			
Return Disallowance—Discount		15,870	35,346
Amortization of Discount	(43,170)	(41,292)	(30,330)
Related Income Taxes	11,400	11,136	(2,172)
Property Abandonments—net	(31,770)	(14,286)	2,844
Effects of application of SFAS 90	183,826	84,918	2,844
Net Income	\$ 378,463	\$399,632	\$426,964
Earnings per Average Share of Common Stock			
Income before application of SFAS 90	\$4.22	\$3.96	\$3.95
Effects of application of SFAS 90	1.38	.69	.03
Net Income	\$2.84	\$3.27	\$3.92

The tax effects of discounting of abandonments were calculated using the tax rates applicable to related deferred tax balances. The tax effect of the Hope Creek 1 disallowance was calculated using a 35.8 percent rate. Such rate reflects rates that will be in effect when the tax basis of this plant is depreciated (46% in 1986, 40% in 1987 and 34% thereafter) to determine the net realizable value of the tax benefit.

Retained earnings as of December 31, 1983 have been reduced by \$131.8 million to reflect the retroactive discounting of the abandonments occurring prior to that date, principally the Atlantic Project and Hope Creek Unit 2.

2 Rate Matters

On February 6, 1987, the Board of Public Utilities of the State of New Jersey (BPU) issued a Decision authorizing an increase in PSE&G's electric base rates designed to produce additional annual revenues of \$421.5 million. Also, the Decision reduced PSE&G's electric Levelized Energy Adjustment Clause (LEAC) by \$697.7 million over a compressed 10½ month period commencing February 16, 1987 and reduced electric base rates by \$77.2 million for the recognition of the 1987 impact of the Tax Reform Act of 1986, resulting in an overall electric revenue decrease of \$353.4 million. The Decision allows a return on common equity of 13% and an overall rate of return of 10.65%. As determined by the BPU, the increase in electric base rates is designed to reflect a recovery of PSE&G's reasonable costs of constructing Hope Creek Generating Station (Hope Creek). PSE&G's share of the cost of constructing Hope Creek through February 6, 1987 was \$4.276 billion, including \$970 million of allowance for funds used during construction (AFDC). The Decision disallowed \$431.5 million of PSE&G's share of Hope Creek's costs. In addition, in accordance with the terms of the Cost Containment Incentive Penalty Agreement explained below, the Decision disallowed a return on an additional \$57.7 million resulting in a total allowed investment for Hope Creek by PSE&G in rate base of \$3.787 billion.

PSE&G's witnesses had testified that all costs incurred in connection with the construction of Hope Creek were prudently incurred and should be recovered from customers through rates. PSE&G was subject to the terms of a Cost Containment Incentive Penalty Agreement (Agreement) signed in 1982 by PSE&G, the New Jersey Department of Energy, the New Jersey Public Advocate and the other co-owner of Hope Creek, and approved by the BPU in 1983. The Agreement established the targeted cost of Hope Creek at \$3.795 billion, of which PSE&G's share was \$3.556 billion, and a target-in-service date of December 1986. The Agreement provided an earnings penalty whereby PSE&G's revenue requirement related to rate base, as determined by the BPU, will be based on the exclusion from the rate base of 20% of allowed costs incurred in excess of the cost cap.

Also, the February 6, 1987 Decision continues the deferral of the \$70.0 million of replacement energy costs of PSE&G resulting from failures of the electric generators at Salem in 1984 pending more definitive information from PSE&G's litigation against the generator manufacturer with respect to one of such outages.

In addition, the BPU, in its Decision adopted performance standards for all of PSE&G's nuclear units. The penalties or awards are based on targeted capacity factors as illustrated in the following table:

Capacity Factor Range	Difference in Replacement Power Costs vs. Target Capacity Factor of 70%	
	Award	Penalty
90 - 100%	25%	—
80 - 90%	20%	—
60 - 80%	None	None
50 - 60%	—	20%
40 - 50%	—	25%
Below 40%	BPU Intervenes	

The application of these performance standards could have a significant effect on future results of operations.

On October 30, 1986, the BPU approved agreements by the major parties in PSE&G's recent gas base rate case and gas levelized Raw Materials Adjustment Clause (RMAC) proceedings which provided, among other things, for an annual reduction in gas base revenues of \$30 million effective October 31, 1986 and for the removal of Energy Development Corporation (EDC), at that time a wholly-owned gas and oil exploration subsidiary of PSE&G, from inclusion in its gas rate base for ratemaking purposes. The agreements also established a reduced price for gas sold by EDC to PSE&G during the twelve-month period ending October 30, 1987. As a result, EDC wrote down the value of its assets at December 31, 1986 to reflect the lower net realizable value of its oil and gas reserves, which reduced EDC's net income by \$70.5 million. (See Note 5—Deferred Items—Gas and Oil Exploration Plant Write-Down.)

3 Federal Income Taxes

A reconciliation of reported Net Income with pre-tax income and of Federal income tax expense with the amount computed by multiplying pre-tax income by the statutory Federal income tax rate of 46% is as follows:

(Thousands of Dollars)	1986	1985	1984
Net Income	\$ 378,463	\$399,632	\$426,964
Preferred stock dividend requirements of PSE&G	51,372	60,002	60,221
Subtotal	429,835	459,634	487,185
Federal income Taxes included in:			
Operating income			
Current provision	180,132	74,987	15,474
Provision for deferred income taxes—net (A)	42,236	63,881	150,623
Investment tax credits—net	48,415	134,251	97,173
Total included in operating income	270,783	273,119	263,270
Miscellaneous other income—net	7,546	4,189	3,339
SFAS 90 deferred Federal income tax (A)	(78,652)	(24,799)	(2,172)
SFAS 90 deferred investment tax credit	(32,766)		
Total Federal income tax provisions	166,911	252,509	264,437
Pre-tax income	\$ 596,746	\$712,143	\$751,622
Tax expense at the statutory rate	\$ 274,503	\$327,586	\$345,746

Adjustments to pre-tax income, computed at the statutory rate, for which deferred taxes are not provided under current rate-making policies:

Tax depreciation under book depreciation	\$ 30,470	\$ 15,510	\$ 11,454
Allowance for funds used during construction	(111,000)	(90,089)	(73,044)
Overhead costs capitalized	(20,538)	(18,083)	(15,992)
Other	10,576	33,109	8,447
Subtotal	(90,492)	(59,553)	(69,135)
Amortization of investment tax credits	(17,100)	(15,524)	(12,174)
Subtotal	(107,592)	(75,077)	(81,309)
Total Federal income tax provisions	\$ 166,911	\$252,509	\$264,437

A. The provision for deferred income taxes represents the tax effects of the following items:

Current Liabilities			
Unbilled revenues	\$ (18,784)	\$ 20,648	\$(16,039)
Deferred Credits			
Property abandonments	(7,946)	364	2,220
Additional tax depreciation and amortization	62,511	42,333	79,462
Deferred fuel costs—net	(161,405)	(19,720)	96,931
Gas and Oil Exploration Plant Write-Down	53,287		
Other	35,921	(4,543)	(14,123)
Subtotal	(17,632)	18,434	164,490
Total	\$ (36,416)	\$ 39,082	\$148,451

Deferred income taxes are provided for differences between book and taxable income. For PSE&G the deferred income taxes are limited to the extent permitted for rate-making purposes. At December 31, 1986 the cumulative net amount of income tax timing differences for which deferred income taxes have not been provided was \$1.3 billion. The related deferred income taxes, at the current statutory rate of 46%, would be \$600 million. In September 1986, the Financial Accounting Standards Board issued an Exposure Draft of a proposed Statement of Financial Accounting Standards that would, if adopted, require PSE&G to record a liability on its balance sheet for these future taxes at the applicable future tax rates. However, since PSE&G expects to continue to recover through rates the taxes due as such timing differences reverse, an asset for the same amount would also be recorded. The proposed effective date of the Statement would be for fiscal years beginning after December, 15, 1987.

The Tax Reform Act of 1986 enacted on October 22, 1986 made major changes regarding corporate taxes. The major provisions which affect Enterprise are as follows:

- A decrease in the corporate rate from 46 to 34 percent effective July 1, 1987.
- The repeal of investment tax credit for property placed in service after December 31, 1985.
- Changes in depreciable asset lives and methods.
- A requirement to capitalize interest and overheads on capital projects effective January 1, 1987.

The last three provisions do not apply for property covered by transition rules. Since deferred income taxes are a source of internally generated funds, the reduction in the corporate tax rate could adversely impact cash flows in future periods.

The February 6, 1987 decision of the BPU in PSE&G's base rate case ordered PSE&G to pass the tax benefits derived from the Tax Reform Act of 1986 to customers commencing February 16, 1987. The BPU ordered a reduction of \$77.2 million in 1987 electric rates primarily attributable to a decrease in the corporate tax rate. The BPU will make a further review to consider additional reductions during the next RMAC and LEAC proceedings to reflect the corporate tax rate change applicable to 1988 and any change as may be required to the 1987 amounts.

As a result of Internal Revenue Service (IRS) audits for taxable years 1976 through 1980, the IRS has proposed an increase in taxable income which would increase the current tax liability by \$72 million due to the inclusion of unbilled revenues as taxable income in the year estimated services were provided. In accordance with the Tax Reform Act of 1986, the balance of unbilled revenues at December 31, 1986, \$169.6 million, will be included in taxable income ratably over a four-year period commencing in 1987. It is anticipated that the IRS will drop its proposal for the taxable years 1976 through 1980. Nevertheless, if the IRS proposal is upheld and PSE&G is unsuccessful in its appeal, there will be little effect on consolidated earnings as deferred taxes have been provided for the unbilled revenues.

4 Cash and Temporary Cash Investments

The balance at December 31, 1986 consists primarily of temporary cash investments, mainly U.S. Government Securities. At December 31, 1985 it consisted principally of compensating balances under informal arrangements with various banks to compensate them for services and to support lines of credit. At December 31, 1986 and 1985, Enterprise had \$202 million of lines of credit supported by compensating balances and \$35 million of lines of credit which were compensated for by fees. There are no legal restrictions placed on the withdrawal or other use of the compensating bank balances.

5 Deferred Items Property Abandonments

The following table reflects the application of SFAS 90 on property abandonments for which no return is earned. (See Note 1.)

(Thousands of Dollars)	Property Abandonments			
	1986		1985	
	Cost	Discounted	Cost	Discounted
December 31,				
Atlantic Project	\$200,172	\$114,290	\$215,232	\$118,437
Hope Creek Unit 2	109,196	64,572	174,076	105,023
LNG Project	44,208	28,640	48,823	26,683
Uranium Projects	32,165	17,941	31,623	16,268
Other	2,120	1,590	3,862	3,190
	\$387,861	\$227,033	\$473,616	\$269,601

	Related Income Taxes			
Atlantic Project	\$ 84,149	\$ 48,065	\$ 90,485	\$ 49,811
Hope Creek Unit 2	57,628	33,310	69,105	40,946
LNG Project	16,950	11,034	18,725	10,290
Uranium Projects	13,329	7,437	13,106	6,745
	\$172,056	\$ 99,846	\$191,421	\$107,792

Atlantic Project

In December 1978, PSE&G cancelled the Atlantic nuclear plant project. The BPU authorized PSE&G to recover a portion of the costs of the project over a period of 20 years commencing in April 1980. Such costs are being recovered at the rate of \$8.7 million annually, net of taxes. The related amortization of the discount, net of taxes, will result in a credit to income of \$6.1 million in 1987.

Hope Creek Unit No. 2

In December 1981, PSE&G abandoned the construction of Hope Creek Generating Station Unit No. 2. In March 1982, the BPU authorized the recovery of all after-tax abandonment costs for Hope Creek 2 from customers through the electric leveled energy adjustment clause. The recovery is over 15 years on an accelerated method which commenced in June 1982. As a result of the February 6, 1987 BPU rate Decision, no Hope Creek 2 costs will be recovered during 1987 to reflect an adjustment of estimated close-out costs. The amortization of the discount, net of taxes, will result in a credit to income of \$4.6 million in 1987.

LNG Project

In December 1984, PSE&G abandoned its investment in certain facilities for the storage of liquefied natural gas. As a result of this abandonment and prior to regulatory approval, PSE&G's investment of approximately \$69.3 million, less tax savings of \$27.9 million or the net amount of \$41.4

million, was deferred and was being amortized over a seven-year period commencing in 1984.

On October 30, 1986, the BPU approved an agreement by the major parties in the gas rate proceeding recommending the recovery of \$48.8 million, the unamortized balance of the LNG Project costs less tax savings of \$18.7 million. This amortization will result in the recovery of approximately \$2.8 million per year, net of taxes. The related amortization of the discount, net of taxes, will result in a credit to income of \$1.7 million in 1987.

Uranium Projects

In September 1985, PSE&G terminated a uranium supply agreement with Sequoyah Fuels Corporation (Sequoyah), a subsidiary of Kerr-McGee Corporation.

In December 1985, Philadelphia Electric Company terminated its Lee Mine uranium supply project, in which PSE&G had participated as a co-owner of Peach Bottom Generating Station. In addition, PSE&G terminated the Homestake Mining Company contract, dated February 25, 1976, for the exploration and development of uranium. The total loss of these projects when combined with the Sequoyah loss amounts to \$37.1 million.

As a result of the abandonment and prior to regulatory approval, PSE&G's net unrecovered advances of \$21.7 million, after related tax savings, were deferred and were being amortized over a seven-year period commencing in 1985.

On February 6, 1987, the BPU issued a Decision adopting a 15-year amortization period commencing January 1, 1985. The annual amortization and recovery will be approximately \$1.4 million, net of taxes. The related amortization of the discount, net of taxes, will result in a credit to income of \$1.0 million in 1987.

Gas and Oil Exploration Plant Write-Down

In the agreement between the major parties in the gas rate proceeding, approved by the BPU on October 30, 1986, the investment in EDC was removed from rate base. As a result EDC wrote down the carrying value of its assets under the full cost method of accounting to the present value of estimated future net revenues. The after tax effect of the write-down made in December was \$70.5 million (\$134.5 million before tax).

In the BPU approved agreement PSE&G was allowed to defer the loss on its investment in EDC, generated by the rate base disallowance, and to seek recovery of such loss, over a period of not less than 10 years in its next base rate case. As a result PSE&G has deferred \$58.8 million, net of taxes, anticipated to be recovered subsequent to the next base rate increase.

Future action of the BPU with respect to such recovery may require adjustment to the carrying value of the deferral and the related amortization.

Over (Under) recovered Electric Energy and Gas Fuel Costs—net

Recoveries of electric and gas fuel costs are determined by the BPU. Earnings are not directly affected by increases or decreases in the costs of fuel or interchanged power, because such costs are adjusted monthly to match amounts recovered through revenues. These clauses also provide that any over or underrecoveries at the end of the period, along with interest in the case of an overrecovery, will be included in the average cost used to determine the rate for the succeeding levelized period.

At December 31, 1986, the overrecovery under the LEAC amounted to \$63.2 million which is net of \$70 million of deferred replacement energy costs described below. At December 31, 1986 the overrecovery of the RMAC amounted to \$20.8 million.

Electric

On February 6, 1987, the BPU Decision adjusted the LEAC rates to reduce revenues by \$697.6 million over a compressed 10½ month period commencing February 16, 1987. Also, the BPU continued the deferral of the recovery of \$70 million of replacement energy costs relating to the extended outages of the Salem Generating Station Units 1 and 2 during the year 1984. (See Note 2.)

Gas

On October 16, 1986, the BPU approved a Stipulation entered into by PSE&G which will reduce revenues under the RMAC by \$150 million for the period October 31, 1986 through September 30, 1987. This reduction reflects projected price declines and spot market savings from natural gas purchases.

Unamortized Debt Expense

Costs associated with the issuance of debt by PSE&G are deferred and amortized over the lives of the related issues. Amounts shown in the Consolidated Balance Sheets consist principally of costs associated with PSE&G's reacquisition of the following First and Refunding Mortgage Bonds:

12 %	Series E due 2004 (tender offer 5/77)
12 %	Series L due 2009 (redeemed 6/86)
12½%	Series M due 2010 (redeemed 6/86)
15½%	Series N due 1991 (redeemed 8/86)

The redemption costs of the above debt have been deferred and are being amortized over the lives of the new securities issued to replace older, higher-cost securities. PSE&G expects to amortize \$2.5 million of these costs in 1987.

6 Bank Loans and Commercial Paper

Bank loans represent unsecured promissory notes issued under credit arrangements with various banks and have a term of eleven months or less. Such notes were issued in 1986 by CEA and EDC. Certain information regarding bank loans follows:

(Thousands of Dollars)	1986	1985	1984
Balance at end of year	\$104,996	None	None
Maximum amount outstanding at any month end	\$104,996	N/A	N/A
Average daily outstanding	\$ 13,069	N/A	N/A
Weighted average annual interest rate	6.62%	N/A	N/A
Weighted average interest rate for bank loans outstanding at year-end	6.58%	N/A	N/A

Commercial paper represents PSE&G's unsecured bearer promissory notes sold through dealers at a discount with a term of nine months or less. Certain information regarding commercial paper follows:

(Thousands of Dollars)	1986	1985	1984
Balance at end of year	\$139,000	\$107,000	\$185,000
Maximum amount outstanding at any month end	\$286,000	\$157,500	\$185,000
Average daily outstanding	\$ 98,100	\$ 72,400	\$ 55,300
Weighted average annual interest rate	6.29%	7.91%	9.80%
Weighted average interest rate for commercial paper outstanding at year-end	6.34%	8.09%	8.26%

7 Pension Plan

Information on accumulated plan benefits and net assets of the pension plan of Enterprise is as follows:

(Thousands of Dollars) December 31,	1986	1985
Actuarial present value of accumulated plan benefits		
Vested	\$575,000	\$491,000
Nonvested	92,000	75,000
	\$667,000	\$566,000
Assumed rate of return	7.5%	8.5%
Market Value of Plan Net Assets	\$741,870	\$647,087

Pension costs for the past three years were charged as follows:

(Thousands of Dollars)	1986	1985	1984
Operating expenses	\$43,844	\$52,155	\$55,294
Utility plant	13,827	14,743	13,296
Total pension costs	\$57,671	\$66,898	\$68,590

In December 1985 the Financial Accounting Standards Board issued Statement No. 87—Employer's Accounting for Pensions which requires future changes for the accounting and reporting of pension costs. The Statement requires a standardized method for measuring pension cost, expanded disclosure of the components of pension plans in the Notes to Consolidated Financial Statements, and recording of a liability on the Consolidated Balance Sheets when the accumulated pension benefit obligation exceeds the fair market value of the pension plan assets. The provisions of Statement No. 87 are effective for calendar year 1987 financial statements, except that the liability recognition provisions, if any, are not effective until 1989. PSE&G may be required to defer the difference between net periodic pension cost, as defined in Statement No. 87, and the amount of pension cost recovered for rate-making purposes.

8 Commitments and Contingent Liabilities Construction and Fuel Supplies

Enterprise's principal subsidiary, PSE&G, has substantial commitments as part of its construction program. Construction expenditures of \$3.1 billion, including approximately \$209 million of allowance for funds used during construction (AFDC), are expected to be incurred during the years 1987 through 1991. In addition, PSE&G has commitments to obtain sufficient sources of fuel for electric generation and adequate gas supplies.

Construction expenditures for all projects in 1986 were \$1.0 billion, including \$241 million of AFDC, which is an increase of \$281 million, including \$82 million of AFDC, over the construction expenditures estimated in PSE&G's 1985 Annual Report to the Securities and Exchange Commission (SEC) on Form 10-K. The increase principally reflects additional costs associated with the completion of construction of Hope Creek Generating Station.

Gas and Oil Exploration Plant Write-Down

As described in Note 5, the recovery of \$58.8 million, after income taxes, is subject to recovery in PSE&G's next base rate case.

Nuclear Insurance Coverages

PSE&G's insurance coverages for its nuclear operations are as follows:

(Millions of dollars)	Maximum Coverage	Maximum Retrospective Assessment for a single incident
Type and Source of Coverage		
Public Liability:		
American Nuclear Insurers	\$ 160	\$None
Federal Government (A)	535	13.2(B)
	\$ 695(C)	\$ 13.2
Property Damage:		
Nuclear Mutual Limited (D)	\$ 500	\$ 39.8
Nuclear Electric Insurance Limited (D)	575	16.0
American Nuclear Insurers	85	None
	\$1,160	\$ 55.8
Replacement Power:		
Nuclear Electric Insurance Limited (D)	\$ 3.3(E)	\$ 9.9

A. Retrospective premium program under the Price-Anderson Liability provisions of the Atomic Energy Act of 1954, as amended. Subject to retrospective assessment with respect to loss from an incident at any licensed nuclear reactor in the United States.

B. Maximum assessment would be \$26.4 million in the event of more than one incident in any year.

C. Limit of liability under the Atomic Energy Act of 1954, as amended for each nuclear incident.

D. Mutual insurance companies of which PSE&G is a member. Subject to retrospective assessment with respect to loss at any nuclear generating station covered by such insurance.

E. Maximum weekly indemnity for 52 weeks which commences after the first 26 weeks of an outage. Also provides \$1.65 million weekly for an additional 52 weeks.

The Atomic Energy Act provisions (the Price-Anderson Act) in Notes (A), (B) and (C) above expire on August 1, 1987, unless extended by Congress. The most recent such proposal considered by Congress would establish a limit of liability of \$6.5 billion per incident with the maximum assessment per reactor to be limited to \$63 million, but no more than \$10 million per reactor per year. Congress will again consider the matter in 1987. Certain proposals would eliminate any limit on liability. PSE&G cannot predict whether the Price-Anderson provisions will be extended or what provisions will be enacted if they are extended. In 1984, in a case to which PSE&G was not a party, the United States Supreme Court held that the Atomic Energy Act, the Price-Anderson limitation of liability provisions thereunder and the extensive regulation of nuclear safety by the NRC do not pre-empt claims under State law for personal, property, or punitive damages related to radiation hazards.

Environmental Controls

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 and certain similar State statutes authorize various governmental authorities to seek court orders compelling responsible parties to take clean-up action at disposal sites determined to present an imminent and substantial danger to the public and to the environment because of an actual or threatened release of hazardous substances. Because of the nature of PSE&G's business, various by-products and substances are produced or handled which are classified as hazardous under these laws. PSE&G generally provides for the disposal of such substances through licensed individual contractors, but these statutory provisions generally impose potential joint and several responsibility on the generators of the wastes for clean-up costs. PSE&G has been notified with respect to a number of such sites, and the clean-up of hazardous wastes is receiving increasing attention from the governmental agencies involved. This trend is expected to continue. PSE&G cannot estimate the costs which may result from these matters, but such costs could be substantial.

9 Capital Lease Obligations

The Consolidated Balance Sheets include assets and related obligations applicable to capital leases. The total amortization of the leased assets and interest on the lease obligations equals the net minimum lease payments included in rent expense for capital leases.

Capital leases of PSE&G relate primarily to its corporate headquarters and computer equipment. Certain of the leases contain renewal and purchase options and also contain escalation clauses.

Enterprise and its other subsidiaries do not presently have any capitalized leases.

Utility plant includes the following amounts for capital leases at December 31:

(Thousands of Dollars)	1986	1985
Common Plant	\$65,872	\$65,872
Less Accumulated Amortization	7,535	4,890
Net Assets under Capital Leases	\$58,337	\$60,982

Future minimum lease payments for noncancelable capital and operating leases at December 31, 1986 are:

(Thousands of Dollars)	Capital Leases	Operating Leases
1987	\$ 14,998	\$ 3,526
1988	13,863	3,287
1989	13,114	3,135
1990	13,110	2,694
1991	13,046	2,115
Later Years	303,698	2,662
Minimum lease payments	371,829	\$17,419
Less: Amount representing estimated executory costs, together with any profit thereon, included in minimum lease payments	183,841	
Net minimum lease payments	187,988	
Less: Amount representing interest	129,651	
Present value of net minimum lease payments (A)	\$ 58,337	

A. Reflected in the Consolidated Balance Sheets in Capital Lease Obligations of \$56,409,000 and in Long-Term Debt and Capital Lease Obligations due within one year of \$1,928,000.

The following schedule shows the composition of rent expense included in Operating Expenses:

(Thousands of Dollars)	1986	1985	1984
For the Years Ended December 31,			
Interest on Capital Lease Obligations	\$ 6,966	\$ 7,344	\$ 7,533
Amortization of Utility Plant under Capital Leases	2,645	3,448	2,942
Net minimum lease payments relating to Capital Leases	9,611	10,792	10,475
Other Lease payments	14,172	15,569	16,514
Total Rent Expense	\$23,783	\$26,361	\$26,989

10 Financial Information by Business Segments

Information related to the segments of Enterprise's business is detailed below:

For the Year Ended December 31, 1986				
(Thousands of Dollars)	Electric	Gas	Other	Total
Operating Revenues	\$3,156,010	\$1,324,690	\$ 77,531	\$ 4,558,231
Eliminations (Intersegment Revenues)			(59,815)	(59,815)
Total Operating Revenues	3,156,010	1,324,690	17,716	4,498,416
Depreciation and Amortization	176,489	58,721	171,392	406,602
Eliminations (Note 5)			(134,452)	(134,452)
Total Depreciation and Amortization	176,489	58,721	36,940	272,150
Operating Income Before Income Taxes	845,992	95,854	(125,990)	815,856
Eliminations (Note 5)			134,452	134,452
Total Operating Income Before Income Taxes	845,992	95,854	8,462	950,308
Capital Expenditures	893,788	125,764	21,794	1,041,346
December 31,				
Net Utility Plant Gas and Oil	7,871,636	872,801		8,744,437
Exploration Plant			159,040	159,040
Other Corporate Assets	923,876	529,485	220,984	1,674,345
Total Assets	\$8,795,512	\$1,402,286	\$ 380,024	\$10,577,822

For the Year Ended December 31, 1985				
(Thousands of Dollars)	Electric	Gas	Other	Total
Operating Revenues	\$3,000,564	\$1,408,490	\$ 98,009	\$ 4,507,063
Eliminations (Intersegment Revenues)			(78,722)	(78,722)
Total Operating Revenues	3,000,564	1,408,490	19,287	4,428,341
Depreciation and Amortization	168,108	55,004	45,067	268,179
Operating Income Before Income Taxes	779,293	117,220	16,489	913,002
Capital Expenditures	1,116,040	104,049	47,418	1,267,507
December 31,				
Net Utility Plant Gas and Oil	7,536,326	803,262		8,339,588
Exploration Plant			308,351	308,351
Other Corporate Assets	1,123,051	439,586	23,714	1,586,351
Total Assets	\$8,659,377	\$1,242,848	\$ 332,065	\$10,234,290

For the Year Ended December 31, 1984				
(Thousands of Dollars)	Electric	Gas	Other	Total
Operating Revenues	\$2,816,241	\$1,379,883	\$ 83,373	\$ 4,279,497
Eliminations (Intersegment Revenues)			(72,125)	(72,125)
Total Operating Revenues	2,816,241	1,379,883	11,248	4,207,372
Depreciation and Amortization	159,512	51,800	35,403	246,715
Operating Income Before Income Taxes	753,669	101,275	18,669	873,613
Capital Expenditures	879,458	87,907	52,891	1,020,256
December 31,				
Net Utility Plant Gas and Oil	6,797,809	752,480		7,550,289
Exploration Plant			305,999	305,999
Other Corporate Assets	1,238,501	416,719	11,814	1,667,034
Total Assets	\$8,036,310	\$1,169,199	\$ 317,813	\$ 9,523,322

11 Jointly-Owned Facilities

Enterprise's subsidiaries have ownership interests and are responsible for providing their share of the necessary financing for the following jointly-owned facilities.

All amounts reflect the share of jointly-owned projects and the corresponding direct expenses are included in Consolidated Statements of Income as an operating expense.

(Thousands of Dollars) Plant	Ownership Interest	Plant In Service	Accumulated Depreciation	Plant Under Construction
Coal Generating				
Conemaugh	22.50%	\$ 74,121	\$ 22,807	\$ 5,564
Keystone	22.84%	74,311	21,028	1,717
Nuclear Generating				
Peach Bottom	42.49%	514,907	175,769	23,202
Salem	42.59%	797,616	208,649	20,919
Hope Creek	95.00%			3,808,184
Nuclear Support Facilities	Various	67,724	6,429	76
Pumped Storage Generating				
Yards Creek	50.00%	18,718	5,157	375
Transmission Facilities	Various	135,502	17,558	374
Merrill Creek Reservoir	16.19%			14,940
Linden Synthetic				
Natural Gas	90.00%	66,754	52,852	
Gas and Oil Exploration Plant (Primarily jointly-owned)	Various	296,520	183,286	45,806

12 Selected Quarterly Data (Unaudited)

The information shown below in the opinion of Enterprise includes all adjustments, consisting only of normal recurring accruals, necessary to a fair

presentation of such amounts. Due to the seasonal nature of the utility business, quarterly amounts vary significantly during the year.

Calendar Quarter Ended	March 31,			June 30,		September 30,		December 31,	
(Thousands where applicable)	1986	1985	1986	1985	1986	1985	1986	1985	
Operating Revenues	\$1,314,667	\$1,286,229	\$1,007,304	\$ 942,930	\$1,057,678	\$1,062,680	\$1,118,767	\$1,136,502	
Operating Income	186,132	182,286	155,142	139,195	192,891	172,020	143,119	144,268	
Net Income	\$ 161,686	\$ 143,095	\$ 133,050	\$ 118,184	\$ 174,888	\$ 126,498	\$ (91,161)	\$ 11,855	
Earnings per Share of Common Stock	\$1.23	\$1.21	\$1.00	\$.98	\$1.31	\$1.03	\$(.68)	\$.09	
Average Shares of Common Stock Outstanding	131,754	117,889	132,795	121,038	133,648	122,329	134,327	128,010	

Prior quarters restated to reflect the adoption of SFAS 90 and the consolidation of wholly-owned subsidiaries.

CONSOLIDATED FINANCIAL STATISTICS Public Service Enterprise Group Incorporated

(Thousands of Dollars where applicable)		1986		1985	
Condensed Consolidated Statements of Income (A)		Amount	%	Amount	%
Operating Revenues					
Electric		\$ 3,156,010	70	\$ 3,000,564	68
Gas		1,324,690	30	1,408,490	32
Other		17,716		19,287	
Total Operating Revenues		4,498,416	100	4,428,341	100
Operating Expenses					
Operation					
Fuel for Electric Generation and Interchanged Power — net		1,033,371	23	965,966	22
Gas Purchased and Materials for Gas Produced		692,224	15	757,976	17
Other		607,301	14	567,698	13
Maintenance		254,256	6	291,940	7
Depreciation and Amortization		272,150	6	268,179	6
Amortization of Property Abandonments and Write-Down		71,232	1	55,263	1
Taxes					
Federal Income Taxes		270,783	6	273,119	6
New Jersey Gross Receipts Taxes		563,518	13	557,270	13
Other		56,297	1	53,161	1
Total Operating Expenses		3,821,132	85	3,790,572	86
Operating Income					
Electric		602,801	13	547,343	12
Gas		67,664	2	80,443	2
Other		6,819		9,983	
Total Operating Income		677,284	15	637,769	14
Allowance for Funds Used During Construction (Debt and Equity)		241,317	5	195,871	4
Other Income — net		10,840		458	
Application of SFAS 90					
Disallowed Plant Costs and Abandonments—net		(295,244)	(6)	(109,717)	(2)
Related Income Taxes		111,418	2	24,799	
Interest Charges		(315,780)	(7)	(289,546)	(6)
Preferred Stock Dividend Requirements of PSE&G		(51,372)	(1)	(60,002)	(1)
Net Income		\$ 378,463	8	\$ 399,632	9
Shares of Common Stock Outstanding (Thousands)					
End of Year		134,882		131,699	
Average for Year		133,140		122,344	
Earnings per average share of Common Stock		\$2.84		\$3.27	
Dividends Paid per Share		\$2.93		\$2.81	
Payout Ratio		103%		86%	
Rate of Return on Average Common Equity		10.56%		12.27%	
Book Value per Common Share		\$26.89		\$26.81	
Utility Plant		\$11,437,196		\$10,842,182	
Accumulated Depreciation and Amortization of Utility Plant		\$ 2,692,759		\$ 2,502,594	
Total Assets		\$10,577,822		\$10,234,290	
Consolidated Capitalization (A)					
Mortgage Bonds of PSE&G		\$ 3,100,210	41	\$ 2,945,723	40
Debenture Bonds of PSE&G		210,910	3	218,918	3
Other Long-Term Debt		25,000			
Total Long-Term Debt		3,336,120	44	3,164,641	43
Other Long-Term Obligations of PSE&G		56,409	1	58,337	1
Preferred Stock of PSE&G with Mandatory Redemption		65,000	1	65,000	1
Preferred Stock of PSE&G without Mandatory Redemption		554,994	7	554,994	7
Common Stock		2,632,662	34	2,535,687	34
Retained Earnings		993,836	13	1,013,285	14
Total Common Equity		3,626,498	47	3,548,972	48
Total Capitalization		\$ 7,639,021	100	\$ 7,391,944	100

Prior years restated to reflect the adoption of SFAS 90 and the consolidation of wholly-owned subsidiaries.

A. See Management's Discussion and Analysis of Financial Condition and Results of Operations, Organization and Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

1984		1983		1982		1981		1976	
Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
\$2,816,241	67	\$2,570,457	65	\$2,543,191	65	\$2,322,042	67	\$1,316,077	70
1,379,883	33	1,392,475	35	1,330,785	34	1,149,610	33	553,458	30
11,248		16,316		20,191	1	18,419		3,093	
4,207,372	100	3,979,248	100	3,894,167	100	3,490,071	100	1,872,628	100
872,805	21	868,977	22	959,382	25	1,059,539	31	484,194	26
758,627	18	815,996	20	774,634	20	641,796	18	260,306	14
545,737	13	518,209	13	468,001	12	400,468	12	226,722	12
270,359	6	239,017	6	220,725	6	192,917	6	99,677	6
246,715	6	228,264	6	220,465	6	208,201	6	133,970	7
58,975	1	49,040	1	43,345	1	15,362		1,996	
263,270	6	197,833	5	185,588	4	127,661	4	100,821	5
529,654	13	513,760	13	514,266	13	462,095	13	249,356	13
51,930	1	45,696	1	41,325	1	16,346		26,210	1
3,598,072	85	3,476,792	87	3,427,731	88	3,124,385	90	1,583,252	84
527,625	13	421,364	11	383,213	10	288,087	8	236,359	13
70,513	2	72,586	2	71,246	2	66,180	2	52,079	3
11,162		8,506		11,977		11,419		938	
609,300	15	502,456	13	466,436	12	365,686	10	289,376	16
158,792	4	128,592	3	91,427	2	95,679	3	43,547	2
2,674		4,108		5,616		4,362		1,716	
(5,016)		32,499	1	34,060	1	(133,107)	(4)	235	
2,172		(13,333)		(13,968)		54,200	2		
(280,737)	(7)	(245,377)	(6)	(220,652)	(6)	(201,590)	(6)	(130,615)	(7)
(60,221)	(2)	(58,234)	(2)	(53,865)	(1)	(51,538)	(1)	(41,257)	(2)
\$ 426,964	10	\$ 350,711	9	\$ 309,054	8	\$ 133,692	4	\$ 163,002	9
112,563		102,858		94,845		86,089		58,976	
108,913		97,467		89,233		80,962		58,308	
\$3.92		\$3.60		\$3.46		\$1.65		\$2.80	
\$2.70		\$2.62		\$2.53		\$2.44		\$1.78	
69%		73%		73%		147%		64%	
15.19%		14.03%		13.88%		6.60%		11.21%	
\$26.46		\$25.61		\$24.86		\$24.28		\$25.50	
\$9,870,429		\$9,017,951		\$8,165,130		\$7,385,315		\$5,255,286	
\$2,320,140		\$2,214,135		\$2,046,372		\$1,877,815		\$1,194,467	
\$9,523,322		\$8,472,538		\$7,780,773		\$7,113,764		\$4,742,341	
\$2,877,518	42	\$2,452,954	40	\$2,341,142	41	\$2,140,835	41	\$1,549,579	39
225,825	3	231,945	4	238,640	4	269,268	5	341,511	9
4,500						720		3,120	
3,107,843	45	2,684,899	44	2,579,782	45	2,410,823	46	1,894,210	48
122,947	2	119,815	2	118,419	2	60,086	1		
137,750	2	139,500	2	111,250	2	77,913	2	35,000	1
554,994	8	554,994	9	554,994	10	554,994	11	524,994	13
2,032,665	29	1,819,082	30	1,637,621	28	1,450,439	28	926,999	23
963,573	14	831,815	13	737,294	13	656,437	12	594,308	15
2,996,238	43	2,650,897	43	2,374,915	41	2,106,876	40	1,521,307	38
\$6,919,772	100	\$6,150,105	100	\$5,739,360	100	\$5,210,692	100	\$3,975,511	100

OPERATING STATISTICS Public Service Electric and Gas Company

(Thousands of Dollars where applicable)	1986	1985	% Annual Increase (Decrease)—1986 compared with	
			1985	1976
Electric				
Revenues from Sales of Electricity				
Residential	\$ 971,236	\$ 918,911	5.69	8.15
Commercial	1,333,144	1,236,027	7.86	10.88
Industrial	782,008	774,963	.91	7.84
Public Street Lighting	43,726	43,786	(.14)	5.39
Total Revenues from Sales to Customers	3,130,114	2,973,687	5.26	9.09
Interdepartmental	1,927	1,877	2.66	1.97
Total Revenues from Sales of Electricity	3,132,041	2,975,564	5.26	9.09
Other Electric Revenues	23,969	25,000	(4.12)	23.79
Total Operating Revenues	\$ 3,156,010	\$ 3,000,564	5.18	9.14
Sales of Electricity — megawatthours				
Residential	8,726,769	8,390,658	4.01	1.24
Commercial	14,118,028	13,313,639	6.04	4.03
Industrial	10,134,327	10,290,711	(1.52)	(.33)
Public Street Lighting	295,639	300,612	(1.65)	1.33
Total Sales to Customers	33,274,763	32,295,620	3.03	1.76
Interdepartmental	23,790	24,888	(4.41)	(3.79)
Total Sales of Electricity	33,298,553	32,320,508	3.03	1.75
Megawatthours Produced, Purchased and Interchanged — net				
Load Factor	53.2%	51.6%		
Capacity Factor	33.0%	31.3%		
Heat Rate — Btu of fuel per net kwh generated	10,716	10,692	.22	11.55
Net Installed Generating Capacity at December 31 — megawatts	10,032	9,007	11.38	1.39
Net Peak Load — megawatts (60-minute integrated)	7,735	7,721	.18	2.25
Temperature Humidity Index Hours	14,934	15,720	(5.00)	1.63
Average Annual Use per Residential Customer — kilowatthours	5,650	5,494	2.84	.46
Meters in Service at December 31 — Thousands	1,812	1,788	1.34	.66
Gas				
Revenues from Sales of Gas				
Residential	\$ 754,785	\$ 751,339	.46	8.22
Commercial	390,811	407,073	(3.99)	10.75
Industrial	171,860	242,767	(29.21)	9.66
Street Lighting	355	372	(4.57)	8.36
Total Revenues from Sales to Customers	1,317,811	1,401,551	(5.97)	9.09
Interdepartmental	2,849	1,321	115.67	19.59
Total Revenues from Sales of Gas	1,320,660	1,402,872	(5.86)	9.11
Other Gas Revenues	4,030	5,618	(28.27)	13.37
Total Operating Revenues	\$ 1,324,690	\$ 1,408,490	(5.95)	9.12
Sales of Gas — kilotherms				
Residential	1,065,630	1,019,850	4.49	.19
Commercial	644,450	634,059	1.64	3.23
Industrial	413,072	468,489	(11.83)	2.98
Street Lighting	680	736	(7.61)	5.74
Total Sales to Customers	2,123,832	2,123,134	.03	1.54
Interdepartmental	5,498	2,540	116.46	12.04
Total Sales of Gas	2,129,330	2,125,674	.17	1.56
Gas Produced and Purchased — kilotherms				
Effective Daily Capacity at December 31 — kilotherms	20,899	19,990	4.55	.72
Maximum 24-hour Gas Sendout — kilotherms	14,871	17,994	(17.36)	1.51
Heating Degree Days	4,699	4,764	(1.36)	(1.29)
Average Annual Use per Residential Customer — therms	876	853	2.70	(.53)
Meters in Service at December 31 — Thousands	1,448	1,422	1.83	.67

	1984	1983	1982	1981	1976
\$	883,652	\$ 829,967	\$ 791,279	\$ 728,642	\$ 443,531
	1,111,175	984,499	981,795	871,377	474,791
	749,725	686,880	716,662	684,976	367,470
	42,164	38,672	37,809	33,249	25,863
	2,786,716	2,540,018	2,527,545	2,318,244	1,311,655
	1,810	1,863	1,709	1,612	1,585
	2,788,526	2,541,881	2,529,254	2,319,856	1,313,240
	27,715	28,576	13,937	2,186	2,837
\$	2,816,241	\$ 2,570,457	\$ 2,543,191	\$ 2,322,042	\$ 1,316,077
	8,373,471	8,402,397	7,686,548	7,795,988	7,711,953
	12,452,020	11,753,667	11,114,655	10,940,609	9,514,574
	10,444,412	10,283,784	10,017,613	10,923,042	10,472,054
	301,702	302,053	301,603	275,489	259,151
	31,571,605	30,741,901	29,120,419	29,935,128	27,957,732
	25,796	27,800	25,154	25,567	34,996
	31,597,401	30,769,701	29,145,573	29,960,695	27,992,728
	34,178,862	33,391,011	31,563,231	32,204,191	30,376,187
	52.4%	52.6%	51.2%	52.3%	55.9%
	32.6%	31.6%	34.7%	33.2%	32.0%
	10,616	10,717	10,677	10,725	10,593
	8,999	8,999	8,995	9,101	8,741
	7,422	7,244	7,042	7,034	6,190
	16,677	17,262	12,155	15,494	12,701
	5,543	5,602	5,156	5,261	5,395
	1,769	1,757	1,746	1,739	1,697
\$	717,286	\$ 746,200	\$ 716,308	\$ 604,521	\$ 342,524
	393,197	396,159	371,027	302,281	140,809
	263,080	246,408	241,437	240,711	68,341
	369	358	350	290	159
	1,373,932	1,389,125	1,329,122	1,147,803	551,833
	1,682	1,011	1,068	1,075	476
	1,375,614	1,390,136	1,330,190	1,148,878	552,309
	4,269	2,339	595	732	1,149
\$	1,379,883	\$ 1,392,475	\$ 1,330,785	\$ 1,149,610	\$ 553,458
	1,019,025	995,686	994,647	993,527	1,045,627
	628,855	596,868	581,739	555,806	468,761
	495,719	460,601	465,835	514,136	307,949
	339	327	331	334	389
	2,143,938	2,053,482	2,042,552	2,063,803	1,822,726
	3,377	1,857	2,090	2,430	1,764
	2,147,315	2,055,339	2,044,642	2,066,233	1,824,490
	2,249,352	2,151,417	2,148,839	2,145,325	1,895,041
	19,856	19,129	19,139	19,010	19,449
	14,927	15,612	16,201	14,812	12,803
	4,743	4,677	4,820	5,082	5,349
	863	850	853	857	924
	1,404	1,392	1,384	1,378	1,354

OFFICERS

Public Service Electric and Gas Company

E. James Ferland

Chairman of the Board, President and Chief Executive Officer

Everett L. Morris

Senior Executive Vice President

Frederick W. Schneider

Executive Vice President — Operations

Fredrick R. DeSanti

Senior Vice President — Customer Operations

Robert W. Lockwood

Senior Vice President — Administration

Stephen A. Mallard

Senior Vice President — Planning and Research

Donald A. Anderson

Vice President — Information Systems

Lawrence R. Codey

Vice President and Corporate Rate Counsel

Pierre R.H. Landrieu

Vice President — Engineering and Construction

John H. Maddocks

Vice President — Public Affairs

Charles E. Maginn, Jr.

Vice President — Human Resources

Wallace A. Maginn

Vice President and Treasurer

Winthrop E. Mange, Jr.

Vice President — Corporate Services

Corbin A. McNeill, Jr.

Vice President — Nuclear

Parker C. Peterman

Vice President and Comptroller

Louis L. Rizzi

Vice President — Customer and Marketing Services

William Saller

Vice President — Governmental Affairs

R. Edwin Selover

Vice President and General Counsel

Robert S. Smith

Vice President and Secretary

Robert F. Steinke

Vice President — Fuel Supply

Rudolph D. Stys

Vice President — Transmission and Distribution

Richard A. Uderitz

Vice President — Production



James R. Cowan, M.D.

Irwin Lerner

Robert V. Van Fossan

Josh S. Weston

James C. Pitney

Robert R. Ferguson, Jr.
Everett L. Morris

E. James Ferland

DIRECTORS

Public Service Enterprise Group Incorporated

E. James Ferland

Chairman of the Board, President and Chief Executive Officer

Everett L. Morris

Vice President

Frederick W. Schneider

Vice President

Wallace A. Maginn

Treasurer

Parker C. Peterman

Comptroller

Robert S. Smith

Secretary



William E. Marfuggi T.J. Dermot Dunphy Kenneth C. Rogers Harold W. Sonn
Marilyn M. Pfaltz Robert I. Smith

James R. Cowan, M.D.

President and Chief Executive Officer,
United Hospitals Medical Center, Newark, New Jersey.
-Member of Finance Committee and Nominating Committee.

T.J. Dermot Dunphy

President, Chief Executive Officer and director,
Sealed Air Corporation (manufactures protective packaging
products and systems), Saddle Brook, New Jersey.
-Member of Nominating Committee and Organization and
Compensation Committee.

Robert R. Ferguson, Jr.

President, Chief Executive Officer and director,
First Fidelity Bancorporation and Chairman of the Board
and director, First Fidelity Bank, National Association, both of
Newark, New Jersey.
-Member of Finance Committee and Organization and
Compensation Committee.

E. James Ferland

Chairman of the Board, President and Chief Executive Officer
of the Company.
-Chairman of Executive Committee and member of
Finance Committee.

Irwin Lerner

President, Chief Executive Officer and director,
Hoffmann-La Roche Inc. (manufactures prescription
pharmaceuticals, vitamins and fine chemicals and provides
diagnostic products and services), Nutley, New Jersey.
-Member of Audit Committee, Executive Committee and
Organization and Compensation Committee.

William E. Marfuggi

Chairman of the Board and director, Victory Optical
Manufacturing Company (manufactures ophthalmic frames)
and Chairman of the Board and director, Plaza Sunglasses, Inc.
(manufactures sunglasses), both of Newark, New Jersey.
-Member of Audit Committee and Finance Committee.

Everett L. Morris

Vice President of the Company.
-Chairman of the Finance Committee and member of
Executive Committee.

Marilyn M. Pfaltz

Partner of P and R Associates (public relations and publicity
specialists), Summit, New Jersey.
-Member of Audit Committee and Nominating Committee.

James C. Pitney

Partner in the law firm of Pitney, Hardin, Kipp & Szuch,
Newark and Morristown, New Jersey.
-Chairman of Audit Committee and member of Organization
and Compensation Committee.

Kenneth C. Rogers

President, Stevens Institute of Technology, Hoboken, New Jersey.
-Chairman of Nominating Committee and member of
Organization and Compensation Committee.

Robert I. Smith

Retired Chairman of the Board
of Public Service Electric and Gas Company.
-Member of Finance Committee and Nominating Committee.

Harold W. Sonn

Retired Chairman of the Board of the Company.
-Member of Executive Committee and Finance Committee.

Robert V. Van Fossan

Chairman of the Board, Chief Executive Officer and director,
The Mutual Benefit Life Insurance Company, Newark, New Jersey.
-Chairman of Organization and Compensation Committee and
member of Executive Committee and Finance Committee.

Josh S. Weston

Chairman of the Board, Chief Executive Officer and director,
Automatic Data Processing, Inc., Roseland, New Jersey.
-Member of Audit Committee and Organization and
Compensation Committee.

CORPORATE AND STOCK INFORMATION

Additional Reports Available — Form 10-K

Stockholders or other interested persons wishing to obtain a copy of Enterprise's or PSE&G's 1986 Annual Report to the Securities and Exchange Commission, filed on Form 10-K, may obtain one without charge by writing to the Manager-Investor Relations, Public Service Electric and Gas Company, P.O. Box 570, T6B, Newark, N.J. 07101 (telephone 201-430-6503). The copy so provided will be without exhibits. Exhibits may be purchased for a specified fee.

Financial and Statistical Review

A comprehensive statistical supplement to this report, containing financial and operating data will be available this Spring. If you wish to receive a copy, please write to the Manager—Investor Relations, Public Service Electric and Gas Company, P.O. Box 570, T6B, Newark, N.J. 07101 (telephone 201-430-6503).

Transfer Agents

All Stocks,
Morgan Shareholder Services Trust Company,
30 West Broadway, New York, N.Y. 10015

Stockholder Services,
Public Service Enterprise Group Incorporated
80 Park Plaza, P.O. Box 1171
Newark, N.J. 07101-1171

Registrars

All Stocks,
First Fidelity Bank, N.A., New Jersey
765 Broad Street, Newark, N.J. 07101

Morgan Shareholder Services Trust Company,
30 West Broadway, New York, N.Y. 10015

Stock Exchange Listings

Common:

New York Stock Exchange
Philadelphia Stock Exchange
London Stock Exchange

Preferred of PSE&G:

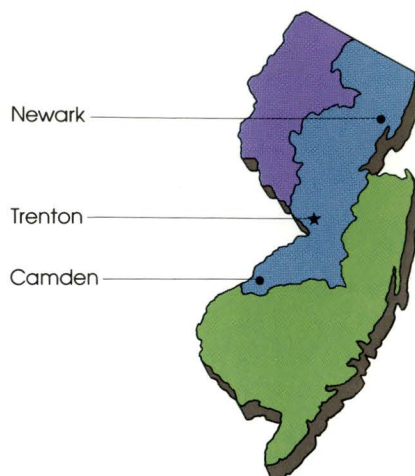
New York Stock Exchange

Common Stock

	High	Low
First Quarter	38 $\frac{1}{8}$	30 $\frac{3}{4}$
Second Quarter	38 $\frac{3}{4}$	34 $\frac{5}{8}$
Third Quarter	48 $\frac{1}{4}$ *	36 $\frac{5}{8}$
Fourth Quarter	43 $\frac{3}{8}$	39 $\frac{1}{8}$

*All-time market price record

PSE&G Territory



Public Service Enterprise Group Incorporated
80 Park Plaza, P.O. Box 1171
Newark, New Jersey 07101-1171

Bulk Rate
U.S. Postage
Paid
Public Service
Enterprise Group
Incorporated

