

PSEG POWER LLC
Form 10-Q
November 02, 2007

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

FORM 10-Q

(Mark One)

**S QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007
OR
£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO**

| Commission File Number | Registrants, State of Incorporation, Address, and Telephone Number | I.R.S. Employer Identification No. |
|-----------------------------------|--|---|
| 001-09120 | PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED (A New Jersey Corporation) 80 Park Plaza, P.O. Box 1171 Newark, New Jersey 07101-1171 973 430-7000 http://www.pseg.com | 22-2625848 |
| 001-00973 | PUBLIC SERVICE ELECTRIC AND GAS COMPANY (A New Jersey Corporation) 80 Park Plaza, P.O. Box 570 Newark, New Jersey 07101-0570 973 430-7000 http://www.pseg.com | 22-1212800 |
| 000-49614 | PSEG POWER LLC (A Delaware Limited Liability Company) 80 Park Plaza T25 Newark, New Jersey 07102-4194 973 430-7000 http://www.pseg.com | 22-3663480 |
| 000-32503 | PSEG ENERGY HOLDINGS L.L.C. (A New Jersey Limited Liability Company) 80 Park Plaza T20 Newark, New Jersey 07102-4194 973 430-7000 http://www.pseg.com | 42-1544079 |

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Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes S No £

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|--|---------------------------|---------------------|-------------------------|
| Public Service Enterprise Group Incorporated | Large accelerated filer S | Accelerated filer £ | Non-accelerated filer £ |
| Public Service Electric and Gas Company | Large accelerated filer £ | Accelerated filer £ | Non-accelerated filer S |
| PSEG Power LLC | Large accelerated filer £ | Accelerated filer £ | Non-accelerated filer S |
| PSEG Energy Holdings L.L.C. | Large accelerated filer £ | Accelerated filer £ | Non-accelerated filer S |

Indicate by check mark whether any of the registrants is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes £ No S

As of October 31, 2007, Public Service Enterprise Group Incorporated had 254,313,179 outstanding shares of its sole class of Common Stock, without par value.

As of October 31, 2007, Public Service Electric and Gas Company had issued and outstanding 132,450,344 shares of Common Stock, without nominal or par value, all of which were privately held, beneficially and of record by Public Service Enterprise Group Incorporated.

PSEG Power LLC and PSEG Energy Holdings L.L.C. are wholly owned subsidiaries of Public Service Enterprise Group Incorporated and meet the conditions set forth in General Instruction H(1) (a) and (b) of Form 10-Q and are filing their respective Quarterly Reports on Form 10-Q with the reduced disclosure format authorized by General Instruction H.

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FORWARD-LOOKING STATEMENTS

Certain of the matters discussed in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. When used herein, the words anticipate, intend, estimate, believe, expect, plan, hypothetical, potential, forecast, of such words and similar expressions are intended to identify forward-looking statements. Public Service Enterprise Group Incorporated (PSEG), Public Service Electric and Gas Company (PSE&G), PSEG Power LLC (Power) and PSEG Energy Holdings L.L.C. (Energy Holdings) undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The following review should not be construed as a complete list of factors that could affect forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements discussed above, factors that could cause actual results to differ materially from those contemplated in any forward-looking statements include, among others, the following:

changes in energy
policies and
regulation,
including market
rules;

ability to attain
satisfactory
regulatory results;

ability to maintain
operating
performance and
cash flow from
investments at
projected levels;

inability to
effectively
manage portfolios
of electric
generation assets,
gas supply
contracts and
electric and gas
supply
obligations;

continued market
based rate
authority,
including any
necessary
mitigation

measures;

energy
transmission
constraints or lack
thereof and the
availability of
transmission
facilities;

adverse changes in
the market for
energy, capacity,
natural gas, coal,
nuclear fuel,
emissions credits,
congestion credits
and other
commodity prices,
especially during
significant price
movements for
natural gas and
power;

changes in the
electric industry,
including changes
to regional
transmission
organizations and
power pools;

changes in the
number of market
participants and
the risk profiles of
such participants;

adverse or
unanticipated
weather conditions
that significantly
impact costs
and/or operations;

environmental
regulations that
significantly
impact operations;

governmental and industry responses to global climate change;

changes in demand including the effects of conservation efforts and energy efficiency;

timing and success of efforts to develop generation, transmission and distribution projects;

credit, commodity, interest rate, counterparty and other financial market risks;

liquidity and the ability to access capital and maintain adequate credit ratings;

changes in rates of return on overall debt and equity markets that could adversely impact the value of pension and other postretirement benefits assets and liabilities and the Nuclear Decommissioning Trust Funds;

effectiveness of risk management and internal control systems;

ability to realize
tax benefits and
favorably resolve
tax audit claims;

ability to attract
and retain
management and
other key
employees;

changes in
political
conditions;

changes in
technology that
make generation,
transmission
and/or distribution
assets less
competitive;

continued
availability of
insurance
coverage at
commercially
reasonable rates;

involvement in
lawsuits, including
liability claims
and commercial
disputes;

acquisitions,
divestitures,
mergers,
restructurings
or strategic
initiatives that
change
PSEG's,
PSE&G's,
Power's and
Energy
Holdings
strategy or
structure;

general
economic
conditions,
including
inflation or
deflation;

changes in tax
laws and
regulations;

substantial
competition in
the domestic
and
worldwide
energy
markets;

margin
posting
requirements,
especially
during
significant
price
movements
for natural gas
and power;

availability of
fuel and
timely
transportation
at reasonable

prices;

delays, cost escalations or unsuccessful construction and development;

changes in regulation and safety and security measures at nuclear facilities;

changes in foreign currency exchange rates;

deterioration in the credit of lessees and their ability to adequately service lease rentals;

changes to accounting standards or accounting principles generally accepted in the U.S., which may require adjustments to financial statements;

ability to recover investments or service debt as a result of any of the risks or

uncertainties
mentioned
herein; and

acts of war or
terrorism.

Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements and PSEG, PSE&G, Power and Energy Holdings cannot assure you that the results or developments anticipated by management will be realized, or even if realized, will have the expected consequences to, or effects on, PSEG, PSE&G, Power and Energy Holdings or their respective business prospects, financial condition or results of operations. Undue reliance should not be placed on these forward-looking statements in making any investment decision. Each of PSEG, PSE&G, Power and Energy Holdings expressly disclaims any obligation or undertaking to release publicly any updates or revisions to these forward-looking statements to reflect events or circumstances that occur or arise or are anticipated to occur or arise after the date hereof. In making any investment decision regarding PSEG s, PSE&G s, Power s and Energy Holdings securities, PSEG, PSE&G, Power and Energy Holdings are not making, and you should not infer, any representation about the likely existence of any particular future set of facts or circumstances. The forward-looking statements contained in this report are intended to qualify for the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Quarters Ended September 30, | | For the Nine Months Ended September 30, | |
|--|--|----------|---|----------|
| | 2007 | 2006 | 2007 | 2006 |
| | (Millions) (Unaudited) | | | |
| OPERATING REVENUES | \$ 3,475 | \$ 3,297 | \$ 9,888 | \$ 9,286 |
| OPERATING EXPENSES | | | | |
| Energy Costs | 1,674 | 1,740 | 5,101 | 5,223 |
| Operation and Maintenance | 576 | 533 | 1,774 | 1,682 |
| Write-down of Assets | 12 | | 12 | 263 |
| Depreciation and Amortization | 213 | 228 | 603 | 629 |
| Taxes Other Than Income Taxes | 31 | 32 | 104 | 100 |
| Total Operating Expenses | 2,506 | 2,533 | 7,594 | 7,897 |
| Income from Equity Method Investments | 33 | 30 | 86 | 93 |
| OPERATING INCOME | 1,002 | 794 | 2,380 | 1,482 |
| Other Income | 61 | 48 | 190 | 149 |
| Other Deductions | (57) | (41) | (130) | (84) |
| Interest Expense | (191) | (199) | (560) | (587) |
| Preferred Stock Dividends | (1) | (1) | (3) | (3) |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 814 | 601 | 1,877 | 957 |
| Income Tax Expense | (314) | (229) | (750) | (388) |
| INCOME FROM CONTINUING OPERATIONS | 500 | 372 | 1,127 | 569 |
| Income (Loss) from Discontinued Operations, including Gain on Disposal, net of tax (expense) benefit of (\$3), \$1, (\$18) and (\$132) for the | 6 | 2 | (17) | 217 |

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quarters and nine months ended
2007 and 2006, respectively

| | | | | | | | | |
|--|----|---------|----|---------|----|---------|----|---------|
| NET INCOME | \$ | 506 | \$ | 374 | \$ | 1,110 | \$ | 786 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (THOUSANDS): | | | | | | | | |
| BASIC | | 254,272 | | 251,747 | | 253,603 | | 251,471 |
| DILUTED | | 254,545 | | 252,329 | | 253,983 | | 252,161 |
| EARNINGS PER SHARE: | | | | | | | | |
| BASIC | | | | | | | | |
| INCOME FROM CONTINUING OPERATIONS | \$ | 1.97 | \$ | 1.47 | \$ | 4.45 | \$ | 2.26 |
| NET INCOME | \$ | 1.99 | \$ | 1.48 | \$ | 4.38 | \$ | 3.12 |
| DILUTED | | | | | | | | |
| INCOME FROM CONTINUING OPERATIONS | \$ | 1.97 | \$ | 1.47 | \$ | 4.44 | \$ | 2.26 |
| NET INCOME | \$ | 1.99 | \$ | 1.48 | \$ | 4.37 | \$ | 3.12 |
| DIVIDENDS PAID PER SHARE OF COMMON STOCK | \$ | 0.585 | \$ | 0.57 | \$ | 1.755 | \$ | 1.71 |

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

| | September 30, 2007 | December 31, 2006 |
|---|---------------------------|----------------------|
| | (Millions) (Unaudited) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 421 | \$ 125 |
| Accounts Receivable, net of allowances of \$55 and \$52 in 2007 and 2006, respectively | 1,520 | 1,359 |
| Unbilled Revenues | 237 | 328 |
| Fuel | 879 | 847 |
| Materials and Supplies | 318 | 290 |
| Prepayments | 233 | 72 |
| Restricted Funds | 80 | 79 |
| Derivative Contracts | 56 | 128 |
| Assets of Discontinued Operations | 297 | 622 |
| Assets Held for Sale | | 40 |