

CFO Perspective: 2009 Financing Challenges

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PSEG is an Integrated Energy Company



*Electric and Gas
Delivery*

2.1 million electric, 1.7 million gas customers. *ReliabilityOne* national award winner for most reliable utility



*Regional
Wholesale Energy*

13,500 MW located in PJM, New England and New York
2,000 MW operated in Texas (ERCOT)



*Renewable Investments and
Leveraged Leases*

Early development phase of 350 MW off-shore wind Joint Venture in the development of Compressed Air Energy Storage

PSEG Financing Overview



Credit Rating	Senior Unsecured BBB / Baa2
Credit Capacity	\$1.1B
Liquidity	Commercial Paper Program = \$1B

Credit Rating	Senior Secured A- / A3	Senior Unsecured BBB / Baa1	Non-Recourse Financing
Credit Capacity	\$600M	\$2B	\$136M
Liquidity	Commercial Paper Program = \$600M	Parent Borrowing	Cash on Hand

Current Markets and Challenges

➤ **Bank Loan Markets**

- Fewer banks
- Lending constraints
- Higher cost of capital for banks

➤ **Debt Capital Markets**

- Volatility since financial crisis
 - Periods of limited access and high pricing
- Improved capital markets but uncertainty remains
- Debt maturity/refinancing peaks in 2012/2013

➤ **Significant Capital Reinvestment Needs**

➤ **Financing Costs**

- Interest rates likely to rise/yield curve steepening

Current Markets and Challenges (Cont.)

- **Credit Capacity Significantly Reduced**
 - End of 2008/early 2009, credit was unavailable
 - Credit availability returning but with higher costs, shorter terms, more restrictions
- Banks Need to Better Differentiate Stronger/Weaker Credits for Sizing Capacity
- Alternative Structures Emerging, but More Work is Needed
- All Credit Capacity Sizing Needs to be Tested Under Stress Scenarios (e.g., July 2008)

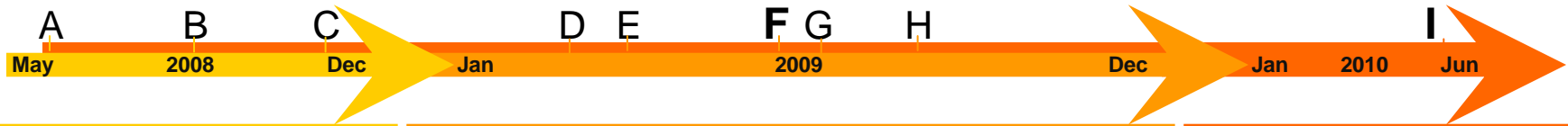
Uniqueness of Electric Industry Financing

- **Capital Intensive, Long Service Lives; Long Periods for Discounted Payback**
- **Subject to Commodity Pricing Cycle**
 - Not hedgeable over timeframe needed for payback

PSE&G Financing Considerations

- **Capital Expenditures Funded Using a Mix of Internally Generated Cash and Debt Financing**
- **Sources of Internally Generated Cash**
 - Fair return on investments
 - Timely recovery of investments
- **Debt Financing**
 - Internally generated cash balances reliance on external financing
 - Consistent access to capital on reasonable terms - dependent on credit profile
 - Cost of financing considers stability of regulatory treatment
- **Drivers of Credit Profile**
 - Business risk:
 - Manageable capital programs
 - Supportive regulatory environments
 - Financial strength:
 - Capital requirements and uncertainty necessitate solidifying credit measures

PSE&G is Well Positioned to Respond to NJ's Needs . . .



2008 Regulatory Activities

\$215M Filed

A. Solar Loan Program (\$105M)

- Approved April 2008
- Up to 30MW

B. Demand Response (\$63M)

- Filed August 2008. Decision pending
- Reduce demand by residential and small commercial customers by 150MW

C. Carbon Abatement Program (\$47M)

- Approved December 2008
- Provides energy efficiency programs

2009 Regulatory Activities

D. Capital Economic Stimulus Infrastructure Investment Program (\$694M)

- Filed January 2009, approved April 2009; 10.0% ROE
- Accelerate capital investments to promote economic stimulus and promote job growth in NJ

E. Solar Loan Program – Phase II

- Filed March 2009
- 40 MW of potential new generation

F. Electric and Gas Distribution base rate case

- Filed May 2009

G. Energy Efficiency Economic Stimulus Program (\$200M)

- Filed January 2009, expected BPU decision by mid-year 2009
- Promote job growth and stimulate NJ economy via energy efficiency expenditures

H. Solar 4 All (\$773M)

- Filed February 2009, expected BPU decision by August 2009
- 120MW of utility-owned solar generation

2010 Regulatory Activities

I. Resolve Electric and Gas Distribution base rate case

- Normal BPU schedule would have resolution of rate proceeding by mid-2010
- 2011 will be first full year of rate relief

... with a manageable rate increase of 2% - 4% to customers.

PSE&G Capital Projects

➤ **Energy Efficiency**

- Working with regulators and other stakeholders to enable greater utility investment in energy efficiency

➤ **Solar – Two Innovative Solutions**

- Solar loan program; PSE&G provides loans, with repayment in solar energy renewable certificates (SRECs)
- Utility owned; PSE&G is proposing to build solar installations on both its own and third party property
 - e.g., pole top solar panels

Power Financing Considerations

- **Internally Generated Cash Contributes Significantly to Meeting Capital Requirements**
- **Maintain Substantial Liquidity**
 - Support hedging program and potential collateral requirements
 - Protect against potential credit events
- **Minimize Reliance on Debt Financing**
 - Maximize financial flexibility through strong credit profile
- **Drivers of Credit Profile**
 - Business risk:
 - Operational risk / commodity price environment
 - Financial strength:
 - Strong and stable cash flows

Power Financing Considerations (Cont.)

➤ **New Nuclear Financing**

- Size and duration of capital commitment could pressure credit profile
- Government sponsored programs / support needed to fund spending and mitigate risk

➤ **RPM Auction is Important to Provide Appropriate Value for Capacity**

- PSEG Power bid and was cleared for 178 MW of capacity at the last RPM auction

➤ **Impact on Long Term Financing/Investor Considerations:**

- Predictability/volatility
- Long term role of efficiency, demand response and equivalent requirements of those providers

Summary

- **PSEG Committed to Long Term Investment in PJM Assuming Reasonable Returns and Supported by Predictability**
- **Credit and Capital Market Conditions are Critical Enablers**
- **Predictable and Balanced Regulatory Environment Provides the Framework for Achievement of Mutual Goals**