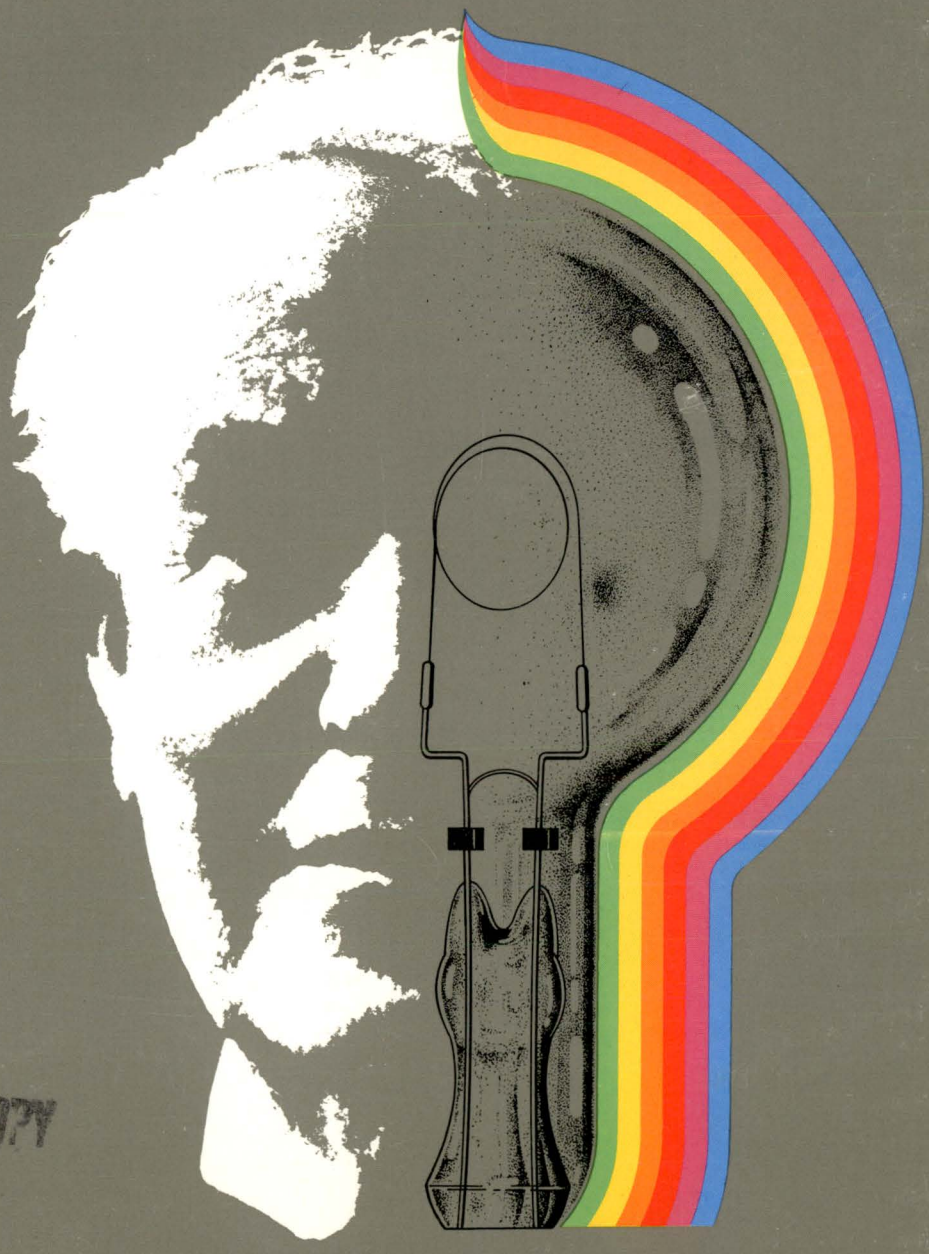
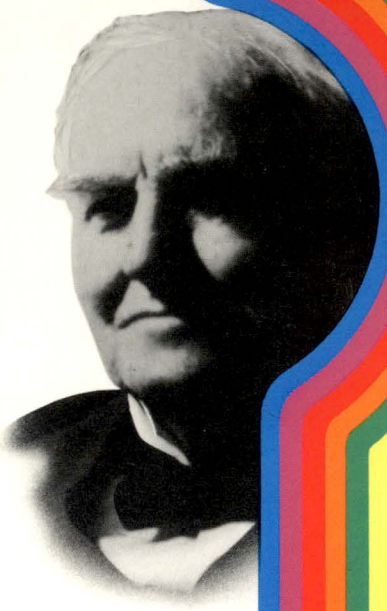
PSE&G

1979 Annual Report



879-1979 CENTENNIAL OF LIGHT



Edison Centennial of Light

About the Cover
Thomas A. Edison's invention of the first practical incandescent lamp on October 21, 1879, is depicted artistically to dramatize his historic accomplishment. The electric utility industry, as well as countless others, owe their existence to his genius. The 100th anniversary of his invention was observed during 1979 by the "Centennial of Light." The centennial not only honored Edison for his contributions to mankind, but also sought to stimulate interest in science and technology as a means of renewing the nation's technical leadership.

Symbol of the Centennial of Light 1879-1979

1979 Annual Report

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About the Company

Public Service Electric and Gas Company, New Jersey's largest utility, serves about 5.5 million people, more than three-fourths of the state's population. The Company's service area stretches across the state's industrial corridor from the New York state line on the north to below Camden in the south. The territory, a center of transportation, contains a well-balanced mixture of industrial, commercial and residential development. Included in the area are New Jersey's six largest cities and nearly 300 smaller suburban and rural communities.

Annual Meeting

Please note that the Annual Meeting of Stockholders of the Company will be held at the Robert Treat Hotel, 50 Park Place, Newark, New Jersey, Tuesday, April 15, 1980, at 2:00 P.M. A summary of the meeting will be sent to stockholders at a later date.

Financial and Statistical Review

A comprehensive statistical supplement to this report, containing financial and operating data for the years 1969-1979, will be available this Spring. If you wish to receive a copy, please write to the Vice President and Treasurer, Public Service Electric and Gas Company, P.O. Box 570, Newark, N.J. 07101.

Public Service Electric and Gas Company
80 Park Place, Newark, New Jersey 07101
(201) 430-7000

Stockholder Information – Toll Free

New Jersey residents	(800) 242-0813
Outside New Jersey	(800) 526-8050

Stock Symbol PEG
The Company's Common Stock and the $1.40 Dividend Preference Common Stock are traded on the New York Stock Exchange and the Philadelphia Stock Exchange.

Transfer Agents All Stocks
Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, N.Y. 10015

Stock Transfer Department, Public Service Electric and Gas Company, 80 Park Place, Newark, N.J. 07101

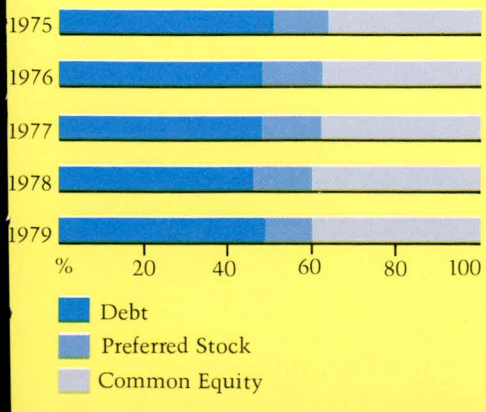
Registrars All Stocks
Fidelity Union Trust Company, 765 Broad Street, Newark, N.J. 07101

Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, N.Y. 10015

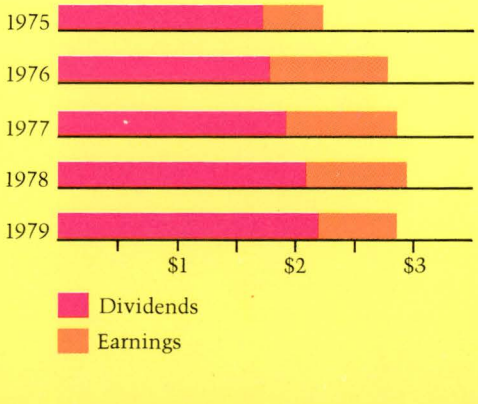
Financial Highlights

	1979	1978	% Change
Earnings per average share of Common Stock	**$2.85**	$2.95	(3)
Shares of Common Stock Average	**65,409,000**	61,783,000	6
Year-end	**68,914,000**	64,120,000	7
Dividends paid per share of Common Stock	**$2.20**	$2.08	6
Book Value per share of Common Stock	**$26.26**	$26.13	—
Total Operating Revenues	**$2,416,707,000**	$2,219,785,000	9
Total Operating Expenses	**$2,093,086,000**	$1,899,385,000	10
Earnings Available for Common Stock	**$ 186,530,000**	$ 181,987,000	2
Gross Additions to Utility Plant	**$ 538,135,000**	$ 513,757,000	5
Total Utility Plant	**$6,325,033,000**	$5,810,329,000	9

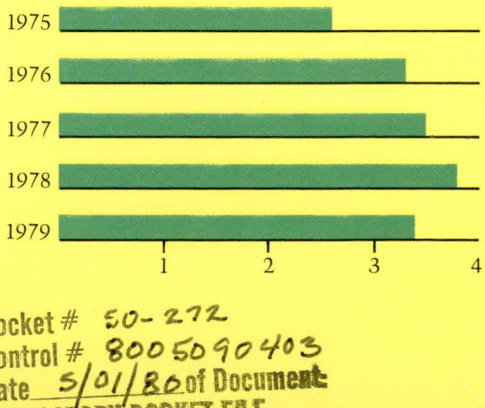
Capitalization Ratios
(Year-End)



Earnings and Dividends per Share



Times Fixed Charges Earned
(Before Income Taxes)



Message to Shareholders

The year 1979 was a difficult one for PSE&G as it was for many utility companies, especially those in the Northeast. A dramatic increase in oil prices, accelerating inflation, high money costs and reactions to the Three Mile Island accident in Pennsylvania contributed to an adverse operating environment for utilities. Further, abnormal weather conditions in our territory, combined with high energy costs, tended to reduce demands for both gas and electricity. As a result of these unfavorable circumstances, the Company's earnings per share of Common Stock dropped to $2.85 in 1979, 3.4% below the $2.95 realized in 1978, when there were 3,626,588 fewer average shares outstanding.

Total revenues in 1979 rose to $2.4 billion from $2.2 billion in 1978, a 9% increase, while net income available for Common Stock increased 2.5% from $182 million to $186.5 million.

The dividend on Common Stock was increased in 1979 for the fourth time in as many years. Beginning with the first quarter, the dividend was raised by two cents a share to 55 cents from the 53 cents paid in the fourth quarter of 1978. Dividends on Common Stock paid in 1979 increased to $2.20 compared with $2.08 in 1978. As we have stated on numerous occasions, we are committed to a program of regular dividend increases as long as financial conditions permit.

Rate Increase

On April 2, 1979, the Company filed a petition for a rate increase of $374.5 million with the New Jersey Board of Public Utilities. Hearings on the petition were held during the year and the record closed on December 14, except for issues relating to unrecovered fuel costs. As of this date, an initial decision by the administrative law judge in the proceeding has been issued, and an order by the New Jersey Board is expected in March.

Nuclear Power

The Three Mile Island accident on March 28, 1979, focused attention on the generation of electricity by nuclear power. Although PSE&G has no involvement in either the ownership or operation of the Three Mile Island station, repercussions of the accident have had a significant effect on our Company. When the accident occurred, the No. 2 nuclear unit at our Salem Generating Station was near completion. We were expecting to receive an operating license in April and, after testing, to begin commercial operation by late summer or early fall. As a consequence of the accident, the Nuclear Regulatory Commission halted the issuance of operating licenses and construction permits. We do not now expect to receive an operating license before the spring of 1980.

Robert I. Smith, Chairman of the Board (left), and John F. Betz, President, photographed with model for aquaculture project, emphasizing PSE&G's dedication to energy research and development in the tradition of Edison.

The No. 1 Salem unit, which had an excellent performance record in the first quarter of 1979, was shut down April 2 for refueling and maintenance work. We had originally scheduled the return of this unit to service in late June but because of a number of requirements, some stemming from the Three Mile Island accident, its return was delayed until December.

During 1979 nuclear power provided 22% of the Company's electric output, a large part of which came from the Peach Bottom station in Pennsylvania in which we have a 42.49% interest. We had anticipated a greater portion of our electric output would come from nuclear but the unavailability of the Salem units reduced our expected nuclear generation.

Immediately following the Three Mile Island accident, the Company and other utilities operating nuclear plants, established task forces to investigate the accident and apply the "lessons learned" to their nuclear stations. Improvements in safety systems and operating procedures at Salem were made. Management of the Company, after reviewing all the facts, reaffirmed its commitment to nuclear power.

Oil Reduction

The low-sulphur oil that the Company burns originates abroad and it is imperative for both economic and political reasons that we reduce its use. Events in 1979, particularly in Iran, emphasized the need for the Company and the nation to lessen dependence on foreign oil.

The price of oil rose from $15.51 a barrel at the end of 1978 to $29.36 at the close of 1979 and the current price is $31.34 – more than double what it was at the end of 1978. Obviously, the continuously increasing price of oil as well as the continuity of supply are of deep concern.

Our use of oil for electric generation was reduced from 35% in 1978 to 25% in 1979 by burning gas and by purchasing coal-generated electricity from the Pennsylvania-New Jersey-Maryland Interconnection.

In order to further reduce oil imports we are studying conversion of existing oil burning plants to coal where this can be done economically without harmful environmental effects.

Gas Supply

An improvement in natural gas supplies made it possible for the company to add 20,804 new house heating installations during the year. Of this total, 15,065 were conversions to gas from fuel oil as a result of the rapidly escalating oil price.

Our natural gas supply has been enhanced by deliveries from Energy Development Corporation (EDC), our subsidiary engaged in gas exploration and development. At the end of 1979 we were receiving gas from fields discovered by EDC at the rate of about 3(
million cubic feet a day.

Energy Research

As this report shows, the Company is participating in extensive research on a number of alternate energy sources. However, our basic conclusion is that we will have to place primary reliance on coal and nuclear for the near-term future because none of the alternates, nor all of them together, can make a meaningful contribution to energy supply between now and the end of the century.

We were much encouraged during 1979 by the progress made toward the development of fusion energy. It now appears that, with sufficient funding, a fusion demonstration plant could be on line by the year 2000. We have supported fusion research for a number of years and we are looking forward to the time when the tremendous potential of this energy source can be commercially utilized.

Research Advisory Council

In the latter part of 1979, a Research Advisory Council was established. The function of this group of some twenty people from various backgrounds outside of the utility industry is to provide advice and guidance for our research activities. Consumers, environmentalists, the media, academia and various businesses are represented on the council.

Energy Education

During the year, the Company expanded its energy education program, stressing the need for nuclear power. The program included employee education sessions, newspaper advertising and television commercials. The company's speakers bureau increased its activity and made qualified speakers available for any group interested in learning more about the energy situation.

We urge you to actively support our nuclear program if you are convinced, as we are, that nuclear power must play an important role in the overall national energy policy.

Effects of Inflation

Over the past decade, inflation has become a significant factor in the economy and in our business. During this period the Consumer Price Index has doubled, indicating that the dollar currently will purchase half as much as in 1970. Financial statements have not shown the impact of inflation. In recognition of this problem, the accounting profession through the Financial Accounting Standards Board has issued a statement requiring that certain inflation-adjusted data be presented in 1979 annual reports. This information, on page 39, is supplemental to the primary financial statements and is designed to show the effects that inflation has had on the Company.

Transport of New Jersey

During 1979, legislation enacted by the State of New Jersey established the New Jersey Transit Corporation to acquire privately-owned transportation companies. Our wholly-owned subsidiary, Transport of New Jersey, is presently receiving operating subsidies from the State of New Jersey and we have indicated our willingness to sell this subsidiary to the State for a reasonable price. Negotiations are presently in progress for State acquisition.

Looking to the Future

A bright aspect of 1979 for the electric industry was celebration of the "International Centennial of Light" which marked the 100th anniversary of Thomas A. Edison's invention of the first practical incandescent lamp.

The Company had a special interest in the observance because Edison's inventions not only gave rise to the electric utility industry, but he carried out most of his life's work in New Jersey, and in our service area.

As we embark on the decade of the 80's, we do so with the same kind of determination that characterized Edison's efforts to find solutions to problems. The decade of the 70's was a period of trial and upheaval for the utility industry. Triggered by the Arab oil embargo of 1973 we have been buffeted by crisis after crisis as the result of rising fuel costs and rampant inflation. The rate of growth in demand for electricity has been slowed by high prices and by recognition of the need to conserve and make more efficient use of our energy resources.

As we enter the 1980's, we are aggressively gearing our plans to the lower growth rates which we expect to persist for some time. We are dedicated to reducing our dependence on foreign oil. We are exploring alternate energy sources for the future and we are pursuing all possible ways to improve the efficiency and economy of our operations.

As 1979 ended, a new corporate home for the Company was nearing completion – a modern, 26-story gleaming glass walled structure that gives added dimension to Newark's downtown skyline.

The Company will occupy 22 floors of the office tower and a satellite three-story plaza building. Named 80 Park Plaza, the complex is adjacent to and east of the 80 Park Place headquarters, the Company's home since 1915.

This spring the first of 3,300 employees will begin moving into the new quarters. After the old building is empty, it will be demolished and a landscaped plaza developed.

The new headquarters, which was built and is owned by subsidiaries of Rockefeller Center, Inc., will provide greater efficiency through consolidation of operations in a more favorable working environment as well as significant savings from energy conservation.

During 1979, as in years past, the dedication and support of Company employees, and of you, the stockholders, has been of incalculable value. We look forward to the decade of the 1980's with confidence, knowing that your interest and trust will continue.

Robert I. Smith
Chairman of the Board
and Chief Executive Officer

John F. Betz
President and
and Chief Operating Officer

February 15, 1980

CENTENNIAL OF LIGHT

1879 1979

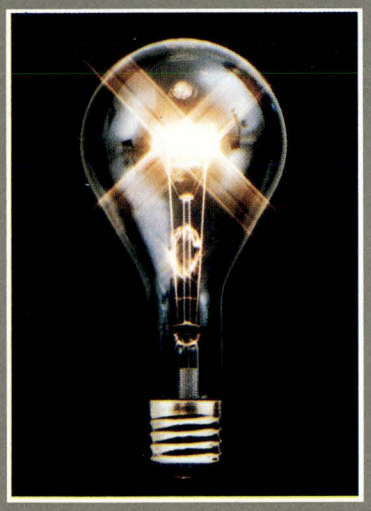
"The incandescent light was the hardest one of all; it took many years, not only of concentrated thought, but also of world-wide research."

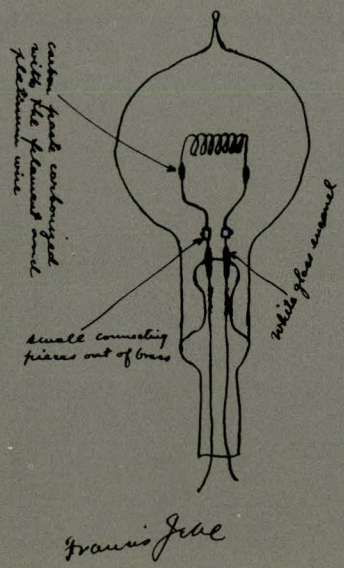
Thomas Alva Edison's first practical incandescent lamp burned out after 40 hours, but its afterglow and reflections continue to illuminate and enrich mankind 100 years later.

Of all Edison's inventions—he patented 1,093—the lamp he lighted in the third week of October of 1879 in his Menlo Park laboratory outshone all the others. The world always would be a brighter and better place in which to live.

In 1979, a year-long *"International Centennial of Light"* observance commemorated Edison's historic accomplishment. Robert I. Smith, chairman and chief executive officer of PSE&G, served as chairman of the centennial committee.

Centennial events were held throughout the nation and abroad. A number took place in New Jersey where Edison lived and worked most of his life.





As part of the observance, PSE&G on October 19 illuminated a *"Centennial of Light"* display on the facade of its headquarters building in Newark. At the ceremony in Military Park, facing the headquarters building, Smith borrowed the words spoken in 1929 by Thomas N. McCarter, the Company's founder, in honoring Edison on the 50th anniversary of his invention:

"We of the electric light and power industry owe to Mr. Edison much more than is involved in the discovery of a practical incandescent lamp, important as that discovery was. We owe to him the very basis of our industry. He gave to us the first practical commercial central station and he developed for us the first practical method of generating and distributing electrical energy."

New Jersey claims Edison as her own, and rightfully so, for it was in the state that he produced most of his inventions. As a young inventor of 22 he had arrived in Newark and set up manufacturing facilities for the production of stock tickers.

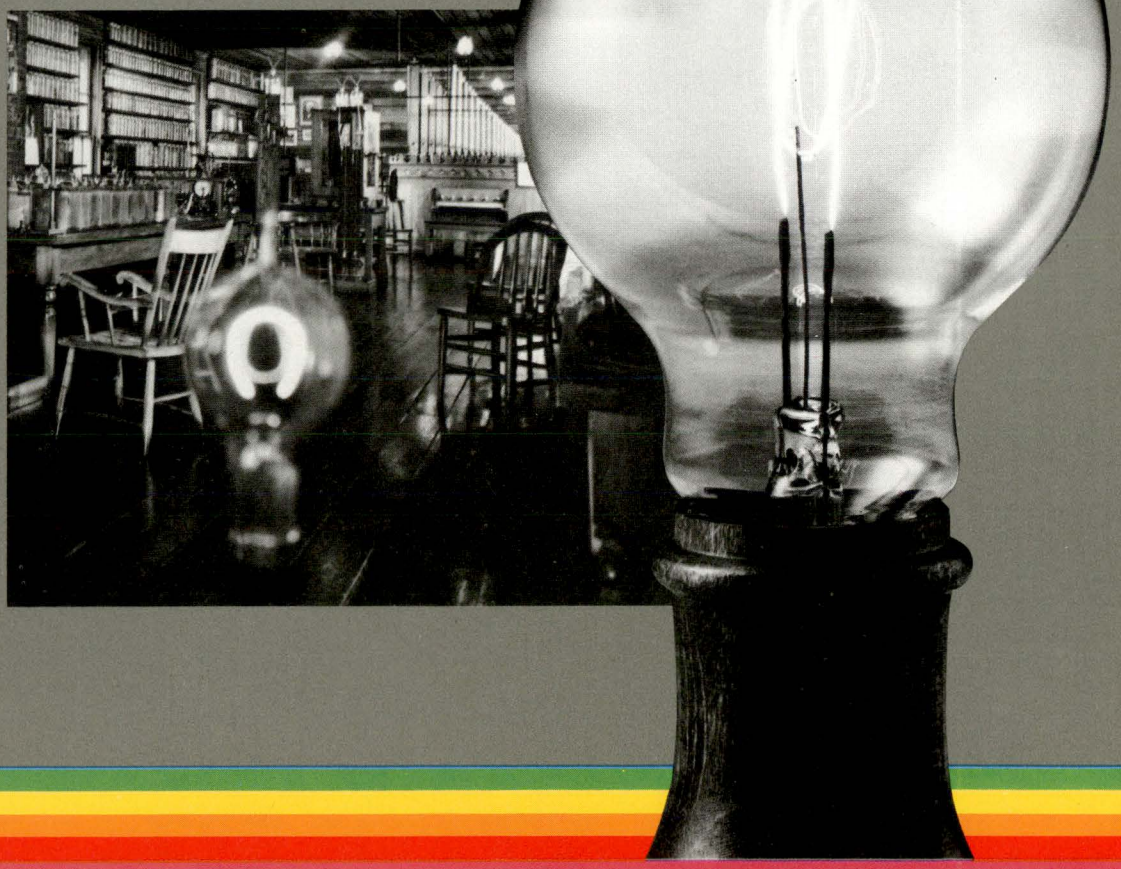
Newark at the time was a bustling, growing industrial city in which inventors—would-be and successful—abounded. Edison already had established himself as an inventor by making improvements to the stock ticker that had brought him $40,000.

In 1876 Edison established what he called an *"invention factory"* in Menlo Park. There, amidst quiet country surroundings, he planned to turn out *"a minor invention every 10 days and a major one every six months."*

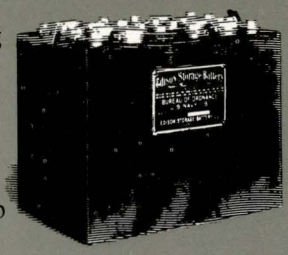
At the Menlo Park laboratory for the first time a group of talented people was assembled in one location, furnished with scientific equipment and supplies and encouraged to invent. It was the first industrial research laboratory in America.

"Remember, nothing that's good works by itself, just to please you," Edison told his associates. *"You've got to make the damn thing work."*

Edison boasted publicly in 1878 that he could devise in about six weeks a system to light streets, homes and factories with electricity. Weeks became months as Edison and his Menlo Park assistants sought to develop a practical incandescent lamp, a vital requirement.



After 1,600 other materials had been tried, a filament of cotton thread impregnated with carbon was placed in a glass bulb and a vacuum created on October 19, 1879. The lamp, powered by a string of batteries, was lighted and glowed for the 40 hours that would make history.



News of Edison's successful incandescent lamp was met with skepticism and doubt. But by December 260 lamps had been produced and tested. On New Year's Eve Edison illuminated his laboratory and the streets of Menlo Park with his lamps. More than 3,000 persons traveled by excursion trains to see the display.

Edison then began devising and producing the necessary equipment to supply electricity for a section of lower Manhattan from a central generating station. The result was the historic Pearl Street Station. On September 4, 1882 Edison threw a switch and the world's first electric light and power system was energized. Some 85 customers received power to light a total of 400 lamps in the Wall Street area.

"It was not until 7 o'clock when it began to be dark that the electric light bulb really made itself known and showed how bright and steady it was," the New York Times reported.

"I have accomplished all that I promised," Edison said.

Although Edison's accomplishments received wide attention and acclaim, the electrical age did not arrive overnight. Edison had established a factory to produce electric lamps in East Newark, now Harrison, in 1881. Some 135,000 bulbs were produced during the first year, but there was no market for most of them.

The nation's major cities and larger towns were illuminated by gas lamps, and Edison knew from the beginning that electrical illumination not only had to be demonstrated as better, but also more economic than gas lighting.

"I shall make electric light so cheap that only the rich will be able to burn candles," Edison declared. He had calculated all the costs of capital, labor and fuel to assure himself that his system was competitive with gas.

There also were fears to be overcome. Many people objected to the *"newfangled"* system, believing that they would be injured, or that their homes would be set on fire. The gas companies were keenly watching every move and ready to take maximum advantage from any failure.

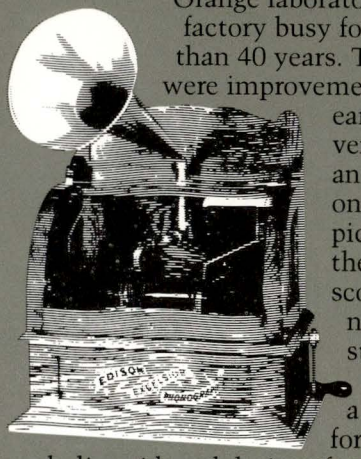
The Edison Electric Light Company gradually increased the capacity of the Pearl Street station and extended the distribution system. A subsidiary, the Edison Company for Isolated Lighting, was organized to establish electric plants and systems for towns and villages, factories, stores, hotels and steamships.

The first village electric plant was built in Roselle, New Jersey, by the subsidiary. Construction began in 1882 and on the night of January 19, 1883, dynamos whirled, a switch was thrown and the railroad station, the telegraph office, a number of homes, and other buildings were illuminated by Edison electric lamps.

During eight years at Menlo Park, Edison and his associates produced 420 inventions. Among them were the phonograph, the first practical electric power generator, an electric railway, and a variety of electrical switches, fuses, sockets and other equipment.

In 1884 Edison built a new laboratory 10 times larger in West Orange. Instead of a dozen or so assistants, he now had 50. The laboratory was the finest of the day with the most sophisticated equipment of the era.

Edison's genius kept the West Orange laboratory and a factory busy for more than 40 years. There were improvements in earlier inventions and new ones—motion pictures, the fluoroscope, a non-acid storage battery, a process for making carbolic acid, and designs for plants to produce coal-tar derivatives and cement.



During his lifetime, Edison witnessed the improvement his inventions had brought in the quality of life. He also saw the creation of the utility and other industries.

In 1926 he toured the newly-completed Kearny Generating Station of Public Service which incorporated the most advanced production technology of the day.

New Jersey Energy Commissioner Joel Jacobson speaks at the illumination of "Centennial of Light" display on facade of PSE&G's headquarters on October 19. Robert I. Smith, Company board chairman (seated at left), and John T. Cunningham, author and historian, also participated.

"Marvelous! But we had a lot more trouble back in the Eighties than you do now," he told his host, Thomas N. McCarter.

On the 50th anniversary of his invention of the incandescent lamp, Edison re-enacted his work in the Menlo Park laboratory. The laboratory was then part of the Greenfield Village in Dearborn, Mich., where it had been moved by Henry Ford, an Edison friend and admirer. In 1979, as part of the centennial observance, the invention was again re-enacted there.

A 130-foot Tower of Light, erected on the 50th anniversary, is on the spot where the laboratory stood in Menlo Park. PSE&G played a significant role in the tower's construction.

Edison's laboratory in West Orange, and his home there in Llewellyn Park, where he died October 18, 1931, are national historical sites.

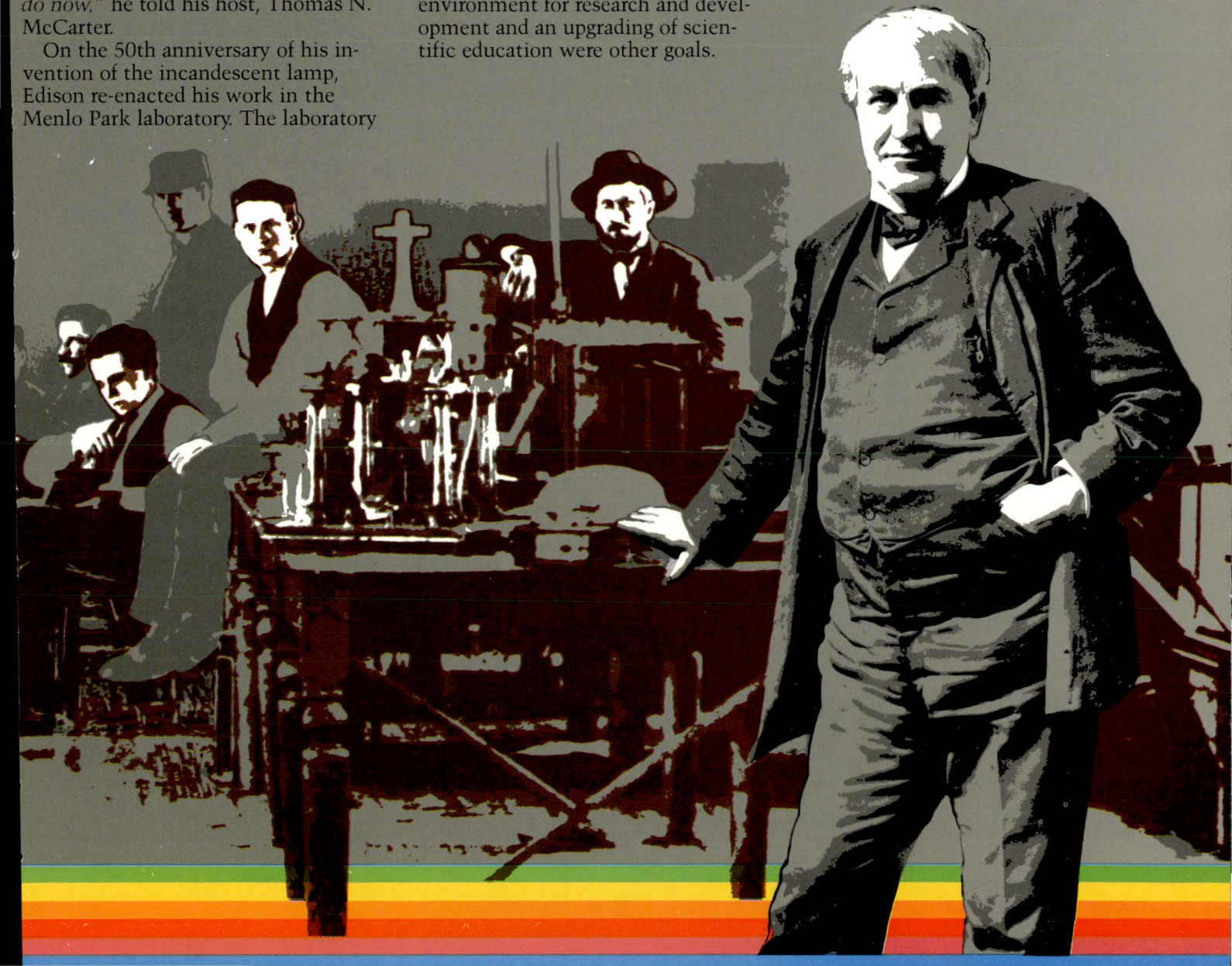
The incandescent light heralded a century of scientific, technological and industrial progress that made the United States the most powerful nation on earth.

The *"Centennial of Light"* observance in 1979 not only honored the memory of Edison, but also sought to rekindle in young people Edison's enthusiasm for discovering new ways to improve the quality of life. A better environment for research and development and an upgrading of scientific education were other goals.

Thomas N. McCarter points out a feature of the Kearny Generating Station to Thomas A. Edison and Governor A. Harry Moore at the facility's dedication in 1926.

New ideas, inventions and technologies are needed today to provide solutions to fundamental problems and to restore the nation's technical leadership.

Most of all, new Edisons are needed–and many of them.



Financial Review

Escalating inflation, record-high money rates and a less-than-buoyant economy during the second half adversely affected the Company's financial performance in 1979. Despite this inclement climate, earnings of $2.85 a share of Common Stock were recorded, compared with $2.95 in 1978 when 3,626,588 fewer average shares were outstanding.

Revenues Rise

Total revenues rose to $2.4 billion, up $197 million, or 8.9% from 1978. Electric revenues were $1.7 billion, an increase of $125 million, and accounted for 70% of the total. Gas revenues were $727 million and represented the other 30%.

The higher revenues resulted from an increase in base rates which became effective in June 1978, increases in the energy adjustment charge for electricity and the raw materials charge for gas, and higher sales.

The sources of 1979 revenues by customer classification were:

	Electric	Gas	Combined
Residential	32%	57%	40%
Commercial	37	25	33
Industrial	29	18	25
Street Lighting and Other	2	—	2
Total	100%	100%	100%

Expenses Up

Operating expenses in 1979 increased $194 million, or 10.2% to $2.1 billion from $1.9 billion in 1978.

PSE&G's new 80 Park Plaza headquarters for which cornerstone laying ceremony was held December 4 gives added dimension to downtown Newark skyline. Company will occupy 22 floors of 26-story office tower and three-story satellite building. Employees will begin moving in during Spring. Complex is owned by a subsidiary of Rockefeller Center, Inc.

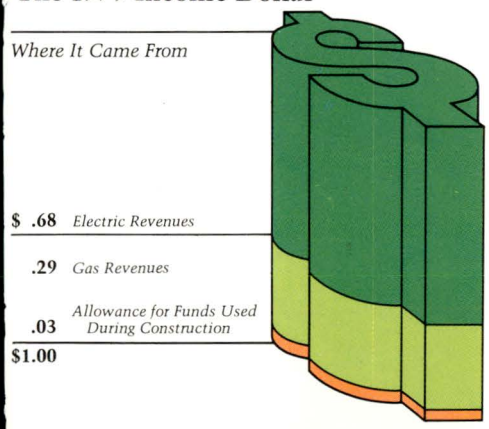
Production expenses rose $151 million, or 15%. Of this increase, electric costs jumped $97 million, equal to 15%, and gas expenses $54 million, or 16%.

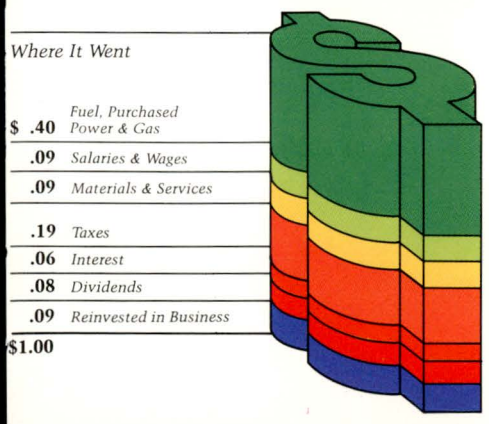
Skyrocketing oil prices and delays in the return to operation of Salem No. 1 unit after refueling and in licensing of Salem No. 2, plus the forced outage of Hudson No. 2, the Company's largest coal-burning unit, resulted in higher power production costs. The increased costs were mitigated somewhat by greater use of natural gas as a fuel for electric generation. The cost of power interchanged through the Pennsylvania-New Jersey-Maryland Interconnection increased by 147% during the year, because of higher unit costs and 56% greater purchases.

Higher prices for natural gas were mainly responsible for the increase in cost of gas purchased and produced. The costs of raw materials to make gas also continued to rise.

Maintenance expenses increased 17%, reflecting repair work at the Bergen, Linden and Salem generating stations as well as costs for the restoration of service disrupted by Tropical Storm David in September.

The 1979 Income Dollar





Labor costs increased $17 million, mainly because of wage increases provided for in union contracts. Three-year labor agreements which expire April 30, 1980 provided for a reopening for wage discussions in the third year. Under this provision the Company negotiated a wage increase of 7.0% effective May 1, 1979.

Because of higher revenues, the New Jersey gross receipts taxes increased by $26 million, from $296 million in 1978 to $322 million in 1979.

The Company also was affected by amendments to the Pennsylvania Public Utility Realty Tax Act which subjected additional jointly-owned property of the Company to the Act. The Company's additional tax liability was $6.9 million for 1979, including a non-recurring surtax of $5.4 million.

Dividend Increased

Beginning with the first quarter of 1979, the quarterly dividend on Common Stock was increased by two cents a share to 55 cents from the 53 cents paid in the fourth quarter of 1978. The increase resulted in dividends paid in 1979 totalling $2.20, compared with $2.08 in 1978. This was the fourth consecutive year in which the dividend was increased.

The Company has estimated that, subject to Internal Revenue Service approval, 40.5% of the dividend paid on Common Stock in 1979 is nontaxable for Federal Income tax purposes. The nontaxable portion represents a return of capital which should be applied to reduce the cost of shares owned in computing gain or loss on a subsequent disposition. Dividends on $1.40 Dividend Preference Common Stock and Preferred Stock for 1979 are fully taxable.

Rate Increase Requested

On April 2, the Company filed a petition with the New Jersey Board of Public Utilities asking for an overall increase of $374.5 million in annual revenues. Of the amount, $289.6 million was requested for electric service and $84.9 million for gas service.

The request was based on 1979 as the test year, a return on rate base of 9.50 per cent, and a return on common equity of 14.25 per cent. In the Company's previous rate case the Board approved a return on rate base of 8.83 per cent and a 13 per cent return on common equity with an increase in annual revenues of $153.1 million, effective June 1, 1978. The Company agreed to a stipulation in that case which prohibited an additional increase in base rates prior to March 1, 1980.

Hearings on the current petition were completed during the year and the record closed in December. The actual amount of any rate relief will be determined by the Board by its final order in the proceeding. A decision is expected to be issued in March 1980.

On February 6, 1980, the Administrative Law Judge who heard the case filed his initial decision. He found the Company entitled to $213.8 million in additional annual revenues, an overall rate of return of 9.64% and a return on equity of 14.25%.

An important question in the case is the treatment of $329.5 million of costs for the Atlantic Generating Station Project which was abandoned by the Company in December 1978. After the tax effect of the abandonment, approximately $187.7 million remains to be recovered. It has been agreed by the active parties in the proceeding that the legitimate costs

Stock Data

	Common Stock		$1.40 Dividend Preference Common Stock	
	1979	1978	1979	1978
Quarterly Dividends Paid Per Share	55¢	53¢*	35¢	35¢
Price Range:				
First Quarter	$ 22¾-20⅛	$23-21½	$14¾-14⅛	$16⅞-15¼
Second Quarter	22¼-20	24⅛-22	14½-13½	15⅞-14⅝
Third Quarter	22⅛-19⅜	24⅝-22¼	14¼-13½	16 -14½
Fourth Quarter	20½-18⅜	23¾-20	13¾-11½	15⅞-14⅛

*49¢ first quarter only

associated with the Atlantic Project should be recovered from customers through rates over a 20-year period. The Company believes that all Atlantic Project costs are legitimate and that the $187.7 million net cost after taxes should be recovered through rates. However, other parties in the case have argued that certain Atlantic Project costs should not be permitted to be recovered through rates.

In the February 6, 1980 initial decision, the Administrative Law Judge concluded that about $168.5 million of the Atlantic Project costs should be recovered through rates, leaving about $19.2 million of net unrecovered costs. The Company has filed exceptions to the initial decision. If any net Atlantic Project costs are not permitted to be recovered through rates, the Company would be required to reduce net income for 1980 by that amount.

The decision of the Administrative Law Judge also adopted a stipulation agreed to by the active parties in the case that $140 million of unrecovered fuel costs as of December 31, 1979, should be recovered by the Company over a 28-month period through the levelized energy adjustment clause. These unrecovered costs are largely due to the sharp increase in the price of oil and the Salem units not being in service as anticipated.

Construction Outlays Up

Construction expenditures, including Allowance for Funds Used During Construction (AFDC), payments for nuclear fuel and advances to subsidiaries, increased to $579 million in 1979 from $537 million in 1978. Expenditures in 1980 are estimated at $781 million.

In the five years through 1984, expenditures are estimated at $4.0 billion which includes $674 million of AFDC. Spending over the next five years for construction of nuclear generating units and the fuel to operate them will be approximately $2.4 billion. The fuel costs include advance payments to uranium suppliers.

The Company expects to generate internally approximately 50% of its construction expenditures, excluding AFDC, for the next five years, assuming adequate rate increases are received and inflation is kept within bounds. The balance will be financed by the sale of long-term securities.

Estimated Construction Expenditures:

Year	1980	1981	1982	1983	1984
		(Millions)			
Totals	$781	$794	$810	$813	$806

Bonds, Common Stock Sold

During 1979, the Company raised more than $363 million through the sale of Mortgage Bonds and Common Stock. In July, $100 million principal amount of First and Refunding Mortgage Bonds, 9¾% Series K due 2009 were sold. A total of $45.6 million of First and Refunding Mortgage Bonds, Pollution Control Series B and C at an interest rate of 6.90% were issued in September. Sale of three million shares of Common Stock to underwriters provided more than $57.3 million in October. In November $125 million of First and Refunding Mortgage Bonds,12% Series L due 2009 were sold. In addition, the Company raised $33 million through sales of 1,665,561 shares of Common Stock through the Automatic Dividend Reinvestment Plan and $2.6 million through issuance of shares under the Employee Stock Purchase Plan.

Short-term capital needs were financed during the year through the sale of commercial paper. At year end, the Company had $95 million in short-term debt outstanding.

The Company expects to raise approximately $500 million in 1980 through the sale of long-term securities.

Stockholders Increase

The number of stockholders of record at the end of 1979 totalled 271,006 compared with 267,386 at the end of 1978, an increase of 1.4% per cent. There were 226,339 holders of Common Stock, 13,319 holders of $1.40 Dividend Preference Common Stock, and 31,348 holders of Preferred Stock.

A new computerized stockholder accounting system was installed in the third quarter of 1979. The system improves maintenance and expedites processing of the Company's 256,311 stockholder accounts.

Reinvestment Plan Popular

Participants in the Company's Automatic Dividend Reinvestment Plan rose to 42,734 at year end, up from 38,625 at the close of 1978. A 5 per cent discount from the market price for plan participants who reinvest their Common Stock dividends has created a greater interest in the plan. Participants also may purchase additional shares with optional cash payments of up to $3,000 per quarter, although not at a discount.

Informational Meeting Held

The Company's first regional stockholders informational meeting was held October 18 at Cherry Hill. More than 800 stockholders attended the meeting at which top Company officers discussed operations and answered questions. The Company expects to hold similar meetings in the future at various locations.

Fair Return Sought

The utility industry is the most capital intensive in the United States. PSE&G's large investment in generating, transmission and distribution facilities when related to annual revenues is typical of the industry. For each dollar of annual revenues, the Company has more than 2.62 dollars invested in facilities compared with 45 cents for the average manufacturing company.

The Company constantly seeks a fair return on invested capital so that shareholders can be adequately compensated for use of their funds. A basic objective is to set a dividend that is sustainable and can be raised on a reasonable basis.

In our rate cases we have emphasized the need for adequate income and earnings to finance our construction program on a sound basis.

Strong cash flow, adequate interest coverage, high quality credit ratings and conservative accounting practices are major elements in our long-term financial policy.

Management seeks to maintain a sound capital structure so that new funds to finance the Company's construction program can be raised at reasonable cost. The Company's current objective is for capitalization ratios in the range of 46-48% debt, 12% preferred stock, and 40-42% common equity. Over the longer range we recognize the need to further reduce the level of debt to approximately 45% of capitalization.

Energy Production

Electric output in 1979 increased slightly compared with 1978. Total kilowatthours produced, purchased and interchanged amounted to 32.0 billion, up 1.2% from the previous year. Demand for electricity was held down by customer conservation, the effect of setting thermostats in public buildings at 78 degrees for air conditioning, and a hesitant New Jersey economy in the second half of the year.

Peak demand during 1979 was 6,736,000 kilowatts on August 2. This was 1.8% higher than 1978's peak of 6,615,000 kilowatts, but 2.3% below the record peak of 6,895,000 kilowatts reached in 1977. The maximum day's output of 127,380,000 net kilowatthours, 2% below that in 1978, also occurred on August 2.

At the time of the peak load and at the end of the year the Company's installed generating capacity was 9,023,000 kilowatts. This was down from 9,061,000 kilowatts at year-end 1978 due to rerating of a combustion turbine unit. Installed generating reserve at the time of the 1979 peak was 34%. The planning peak electric loads, installed generating capacities and percent reserve generating capacities expected for the next ten years are shown on the following table.

Salem Generating Station and Hope Creek construction (right) are silhouetted against skyline in this view from across marshland of Artificial Island on Lower Delaware River. Salem has been completed and Hope Creek units are scheduled for operation in 1985 and 1987.

Generating Capacity Forecast

Year	Planning Peak Load	Installed Capacity	% Reserve
	(Megawatts)		
1980	7,118	9,023	27
1981	7,320	9,228	26
1982	7,525	9,228	23
1983	7,730	9,416	22
1984	7,950	9,477	19
1985	8,173	10,091	23
1986	8,388	10,091	20
1987	8,598	10,812	26
1988	8,797	10,812	23
1989	9,012	10,812	20

Salem No. 2 Completed

Construction of Salem No. 2 nuclear unit was substantially completed early in 1979 and the Company had anticipated receiving an operating license for the unit and placing it in commercial operation in late summer or early fall. However, issuance of an operating license was delayed by the Nuclear Regulatory Commission because of the Three Mile Island accident. The Company does not expect to receive a license before the spring of 1980. After receipt of a license it will require about five months for fuel loading and testing before commercial operation can begin.

PSE&G and Philadelphia Electric Company each own and are entitled to receive 42.59% of the output of the Salem station. Atlantic City Electric Company and Delmarva Power & Light Company each have a 7.41% share.

Peach Bottom Record

During 1979, the No. 2 unit of the Peach Bottom Atomic Power Station in Pennsylvania, in which PSE&G holds a 42.49% interest, established a record for maximum electrical energy produced by a single generating unit, including nuclear or fossil-fueled. Philadelphia Electric Company, which operates the station, reported the unit produced 8.2 billion kilowatt-hours of net electric energy for the year.

Work On Hope Creek Continues

The Hope Creek Generating Station, being built adjacent to Salem, was about 20% completed at year end. The two 1,067-megawatt units are now scheduled for operation in 1985 and 1987. PSE&G owns 95% of the station and Atlantic City Electric the other 5%. When the two units are in operation it is anticipated that about one-half of the Company's electricity will be generated by nuclear power.

Task Force Appointed

After the Three Mile Island nuclear generating plant accident March 28 in Pennsylvania, the Company promptly set up a task force which conducted a thorough review of safety systems and equipment, as well as operating instructions and procedures at the Salem Generating Station. As a result of the task force's work, as well as other studies of the accident, improvements in safety systems and operating procedures at Salem were made.

Although the Salem units are pressurized water reactors, as are those at Three Mile Island, they are of different design and were built by a different manufacturer. The Company has no involvement in the ownership or the operation of the Three Mile Island plant.

Training Center Planned

In November, the Company announced plans to build a training center for generating station personnel. The center will include simulated control rooms of the Salem and Hope Creek generating stations to provide nuclear operator license training and refresher instruction for licensed operators and supervisors.

The two-story 40,000 square-foot facility also will contain classrooms, shops and laboratories. The center is to be constructed in South Jersey in the vicinity of the Salem-Hope Creek stations.

Major Maintenance Performed

During the year extensive maintenance and repair work was performed on a number of large generating units in the Company's system.

The Salem No. 1 nuclear unit was shut down on April 2 for refueling and maintenance, including retubing of

New fuel assemblies are moved into place at No. 1 unit of Salem Generating Station during refueling operation. Refueling was the first since unit went into commercial operation in 1977.

the main condensers. The unit had been originally scheduled to return to service late in June, but was delayed until December because of work necessary to correct a number of problems which were discovered. These included damage to some metal support grids of fuel rod assemblies, cracks in rodlets of six of 53 control rod assemblies, and cracking in sections of the steam generator feedwater lines. The return of the unit also was delayed by Nuclear Regulatory Commission requirements relating to seismic-stress analyses and required modifications on safety-related piping systems.

On August 29 the largest coal-burning unit in the PSE&G system, the No. 2 unit at the Hudson Generating Station, was forced out of service by a generator stator coil failure which necessitated rewinding of the stator and repairs to the generator field. The unit is expected to return to service in March of 1980. While the unit is off line annual overhaul activities planned for 1980 will be accomplished, including major boiler repairs.

Substantial maintenance work also was done in 1979 on units at the Bergen, Linden, Sewaren and Mercer generating stations.

Conversion To Coal Studied

The economic, technological and environmental factors involved in converting to coal some steam generating units which now burn oil is being analyzed by a study group formed during the year. A total of 1,991 megawatts of generation could be converted in approximately two years at a significant cost if environmental requirements were relaxed. Considerably longer conversion periods and substantial additional costs would be required to comply fully with existing environmental regulations.

Oil Prices Jump

The price of oil used by the Company to produce electricity increased dramatically during 1979 mainly as an outgrowth of the Iranian oil cutoff in December of 1978. Tight market conditions which prevailed during 1979 were intensified late in the year by the U.S. embargo on Iranian oil. The cost of a barrel of low sulphur heavy oil increased from $15.51 a barrel at the end of 1978 to $29.36 at the close of 1979.

Coal prices escalated primarily as a result of transportation cost increases. The average delivered coal cost for 1979 was 4% above that of 1978.

Oil and coal costs are expected to increase in 1980. Oil prices will continue to increase because of actions by the OPEC members, and the domestic crude oil price decontrol plan. Coal prices are expected to rise further as a result of higher transportation costs and from wage increases scheduled under terms of labor agreements with the mine workers.

Fuel purchased for the Company's New Jersey production facilities included 14.6 million barrels of oil and 1.6 million tons of coal, both of low sulphur content. Fuel oil and coal requirements were met during 1979 despite a cutback in fuel oil deliveries by one of the Company's principal suppliers beginning in March and an extended tugboat strike that hampered coal deliveries to one location for 90 days.

Uranium Shipments Received

A substantial portion of the uranium required to operate the Salem and Hope Creek generating stations from 1980 to 1995 is expected to be provided under agreements with Kerr-McGee Nuclear Corporation and Homestake Mining Company. The Company in 1979 continued to receive shipments of uranium, begun in the fourth quarter of 1978, from the Kerr-McGee South Powder River Basin project in Wyoming. Surface mining operations at the basin are expected to produce approximately 4.2 million pounds of uranium over the next 10 years. A partially developed underground mine has been placed in a standby condition for up to three years and may be reactivated at the option of the Company.

Under the Homestake agreement, exploration continued in 1979 in another section of Wyoming and reserves of about 4 million pounds of uranium have been proven. The exploration will continue toward its objective of proving sufficient reserves to justify development of a mining and milling complex.

During 1979 market prices for uranium remained stable.

Bird's-eye view of Artificial Island shows Hope Creek Generating Station under construction in foreground and Salem station in upper right. After Hope Creek units are on line in late 1980s about half the Company's electric output will be from nuclear power.

Gas Sendout Increases

Total gas sendout for the year was 1.93 billion therms, 4.2% more than 1.85 billion therms in 1978. The increase was made possible by greater deliveries from pipeline suppliers and from Energy Development Corporation, the Company's exploration subsidiary.

During February of 1979, two records were set in gas output. Daily gas sendout for the month, one of the coldest Februarys on record, averaged 10,844,690 therms. This was 5% more than the previous record of 10,297,538 therms set in January of 1977. Total gas sendout for the month was 303,651,311 therms, the highest for any February on record and exceeding by 9% the prior mark of 279,093,205 recorded for that month in 1972.

The highest 24-hour sendout of 13,349,009 therms in 1979 occurred on February 17 when the average temperature was 6°F. This was exceeded only once before in the Company's history, on January 17, 1977, when the sendout was 14,005,789 therms and the average temperature was 2.6°F.

The number of gas customers served under interruptible contracts increased to 80 at the end of the year compared with 71 a year earlier. New customers were added under authorizations by the New Jersey Board of Public Utilities. Interruptions of service in 1979 totaled 13 calendar days, down substantially from 136 days in 1978, because of the improvement in availability of natural gas.

Capacity Unchanged

The Company's effective daily gas capacity, excluding the effect of pipeline curtailments, was 18,639,000 therms per day during the year, the same as in 1978. Composition of the daily capacity on December 31, 1979 was:

Type of Gas	Therms Per Day
Natural Gas	13,892,000
Liquefied Petroleum Gas	1,981,000
Synthetic Natural Gas	1,325,000
Oil Gas	1,186,000
Refinery Gas	255,000
Total	18,639,000

Supplies Improved

The supply situation for natural gas improved significantly during the year. A major factor in the improvement was the passage of Federal energy legislation in late 1978 which allowed the Company's pipeline suppliers to compete more effectively for onshore supplies in gas producing states. Another factor was greater efforts by suppliers in developing new sources and reserves.

Contractual pipeline deliveries were curtailed by an average of 17.6% or 1.1 million therms a day compared with 29% or 1.9 million therms daily in the previous year, a substantial improvement. Hurricanes in the Gulf of Mexico caused curtailments between July 11 and 31 at rates ranging from 31% to 44% by one pipeline supplier.

The cost of natural gas to the Company averaged $1.80 a million Btu's, up 17% from the 1978 figure of $1.54.

Approximately 48% of the Company's natural gas capacity is made up of high-load factor gas that is available every day of the year. The rest comes from field storage, liquefied storage and contract peaking service.

The Company entered into a new long-term contract in 1979 with Transcontinental Gas Pipe Line Corporation which increased total underground gas storage capacity from 415.2 million therms in 1978 to 446.0 million therms in 1979.

Increased Deliveries By Subsidiary

At the end of 1979 Energy Development Corporation (EDC), the Company's exploration subsidiary, was delivering natural gas to the Company at a rate of 277,000 therms a day compared with 110,000 therms at the close of 1978, an increase in flow of 152%. The first deliveries of gas from offshore wells discovered in the Gulf of Mexico by EDC began in 1979.

During the year, record highs were set by EDC not only in gas deliveries, but also in earnings. Net income was $3.2 million in 1979, a substantial increase over the prior year. Revenues from sales of oil and gas were $23 million, an increase of 118%.

EDC participated in 1979 in drilling 85 wells, of which 16 were started in 1978. Of the total, 27 were onshore and 58 offshore.

A major effort by the Company to lessen the effects of electric production facilities on surrounding bodies of water advanced in 1979 with the construction and operation of expanded and upgraded waste water treatment facilities. The installation of facilities such as that shown substantially improved the quality of water discharged. Total cost at seven generating stations will be over $55 million.

The onshore program was concentrated in the Gulf Coast region of Texas and Louisiana. Onshore operations involved drilling of 7 successful wells and 14 that were abandoned. At year end 6 wells were still being drilled.

Offshore activity increased as additional blocks were acquired. During the year 37 wells were completed as commercial producers, 18 were abandoned, and 3 were being drilled at the close of the year.

EDC owned an interest ranging from 5.9% to 25.0% in 9 commercial offshore discoveries at the end of 1979. All but 2 of these blocks are expected to be producing by the end of 1980. The other blocks should be producing during 1981. These offshore discoveries during their peak production life should make up nearly 70% of EDC's total gas supply to PSE&G.

Two federal lease sales were held for the Gulf of Mexico blocks in 1979. EDC, as part of a group, bid $50.1 million on 21 blocks and placed high bids on 5 blocks totalling $9.6 million in its interest.

At year end, EDC owned an interest in 43 offshore blocks, of which 20 were in the Atlantic Outer Continental Shelf. Exploratory drilling off the Atlantic Coast was extended to the Southeast Georgia Embayment.

Oil Replaced By Gas

The Company received a temporary exemption from the provisions of the Fuel Use Act which placed severe restrictions on the use of natural gas as fuel for electric generation. In order to help ease the oil supply shortage that developed during 1979, the U.S. Department of Energy established temporary procedures allowing electric utilities to make direct purchases of natural gas to save fuel oil. PSE&G purchased 95.5 million therms of natural gas for this purpose during 1979, which reduced the consumption of oil by approximately 1.5 million barrels and resulted in cost savings of approximately $11.4 million.

Supplemental Gas Supplies

The Company bought 79.1 million therms of refinery gas in 1979 from Exxon's Bayway refinery. This gas accounted for 4.1% of PSE&G's total gas supply for the year. The cost of this gas averaged $4.41 a million Btu's compared with $3.21 in 1978. In October a contract renegotiation reduced the price of refinery gas to a parity with heavy oil.

PSE&G supplements its supplies of natural gas and refinery gas with synthetic natural gas (SNG) produced from naphtha, oil gas produced from kerosene and liquefied petroleum gas produced from propane. The daily capacity for production of these gases was 4,492,000 therms in 1979. Total production in 1979 fell to 11.0 million therms, from 41.2 million therms in 1978 as a result of an improvement in natural gas supplies. These manufactured gases amounted to less than 1% of PSE&G's total gas sendout during the year.

LNG Plans Changed

In order to meet anticipated increases in demand for natural gas in the future, additional storage to meet peak demands in winter will be required. Efforts were intensified in 1979 to put in use two large liquefied natural gas storage tanks on Staten Island. The tanks are owned by Energy Terminal Services Corporation, a subsidiary.

Originally the tanks were to be used as a terminal for imported liquefied natural gas. Because of uncertainties and delays relating to the importation project, including lack of regulatory approval, the terminal was not placed in operation.

On March 1, 1979, the application before the Federal Energy Commission was amended to seek approval for use of one of the tanks for storage of domestic gas for use during periods of peak demand. Early in 1980 it is planned to ask approval for similar use of the second tank.

Operation of the facility for peaking service will require construction of a liquefaction unit and other facilities on the site. It is also anticipated that a pipeline under the Arthur Kill will be required to bring the gas to New Jersey.

An Energy Management Standards Program has been developed by the Electric Production Department to improve power plant operating efficiency and reduce fuel costs. It involves monitoring key operating parameters and uses a computer to compare them against tested standards thereby operating units in the most efficient manner. Program already has saved $3.4 million in fuel costs.

Energy Distribution

The Company's transmission and distribution systems were expanded and improved in 1979, but nature provided the most dramatic event of the year.

Tropical Storm David struck on September 6 with tornado-like winds and driving rains which felled countless trees and limbs that knocked down thousands of wires in the overhead distribution system. The storm, one of the most destructive in the Company's history, interrupted electric service to more than 433,000 of our 1.6 million electric customers throughout the Company's territory. Bergen and Hudson counties were hit the hardest.

All available electric transmission and distribution personnel were mobilized to restore service as quickly as possible. These forces were augmented by gas transmission and distribution employees, neighboring utility personnel and tree crews of contractors.

Service was restored to 94% of the interrupted customers within 48 hours and to the last individual house service in five days. This compared favorably with performance following Hurricane Hazel in 1954 which required six days to restore service to 411,000 customers.

Transmission Line Completed

The electric transmission system was expanded in 1979 with the addition of a 230,000-volt pipe-type underground cable between Hawthorne Substation and Hinchmans Avenue Substation in Wayne. This completed the transmission path between the Waldwick and Cedar Grove Switching Stations.

Completion of this addition permitted research to proceed for accurately determining the capacity of underground cables. The research is being done under a $1.1 million U.S. Department of Energy contract. Heat sensing devices were inserted during manufacture of the newly-installed cable. The communications system to report these temperatures to a central computer for analysis has been completed. Data being collected will provide necessary information to permit maximum use of all transmission cables.

A 230,000-volt pipe-type underground cable was installed between Sewaren Generating Station and Raritan River Steel Company, a major new electric customer. Work also progressed on another 230,000-volt cable between Aldene and Essex switching stations.

Cable Innovations To Cut Costs

Since the 1930's, when PSE&G installed its first 132,000 volt underground transmission line, the Company has been a leader in high

The magnitude of the work of restoring electrical service disrupted by Tropical Storm David in September is illustrated dramatically by photo of two repair crews working in a street devastated by high winds. Storm was one of the most destructive in the Company's history.

voltage cable development. During 1979 Company staff engineers persuaded manufacturers to market pipe-type cables incorporating PSE&G-developed design innovations which will contribute markedly to lower construction costs and greater operating efficiencies. The improvements will produce savings in a major, four-year reinforcement of PSE&G's transmission system in the northern portion of the service area where additional overhead transmission is no longer practicable.

By 1982, over 40 miles of 230,000-volt and 345,000-volt underground cables will be added to the 154 miles of cable that were in service at the beginning of 1979. The additions will serve growing electric demands and improve service reliability.

500,000 Volt Facilities Planned

PSE&G participated with other New Jersey utilities in development of plans for building approximately 70 miles of 500,000-volt transmission system to meet energy needs of the state in the 1980s.

The Company and Atlantic City Electric Company completed plans for facilities required to transmit the output of Hope Creek Generating Station to load centers throughout their systems. Implementation of the project is being coordinated with 500,000-volt transmission development of Jersey Central Power & Light Company.

'Live-Line' Maintenance Progresses

"Live-line" maintenance advanced during the year with the purchase in January of an aerial lift vehicle with a specially insulated boom that has a reach of 150 feet. The lift permits work on high voltage transmission lines, up to 500,000 volts, while the line is carrying current. Use of the lift is the latest step in a six-year accident-free program in which a carefully instructed and trained group of specialists has been developing and perfecting various "live-line" methods.

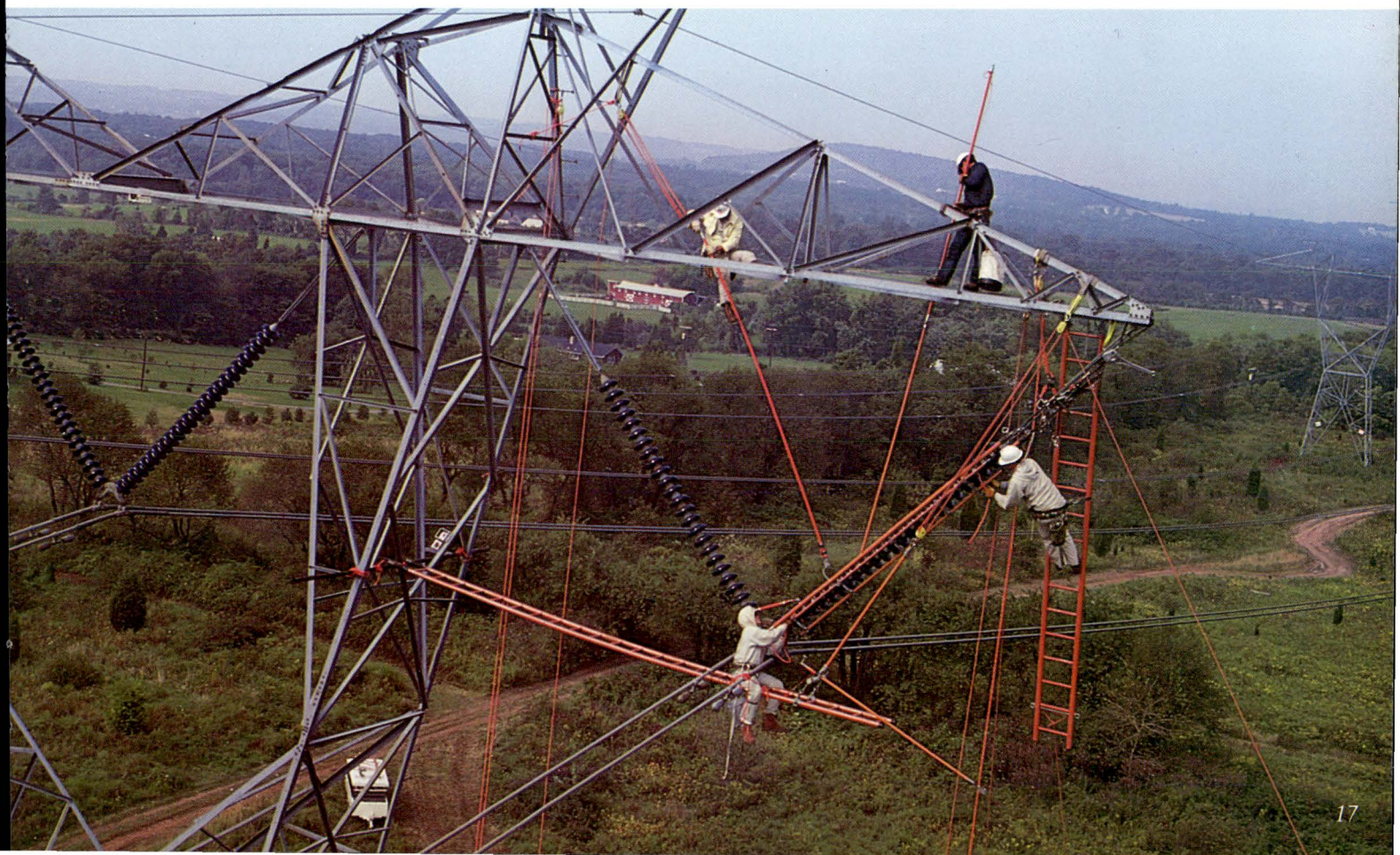
Gas Lines Extended

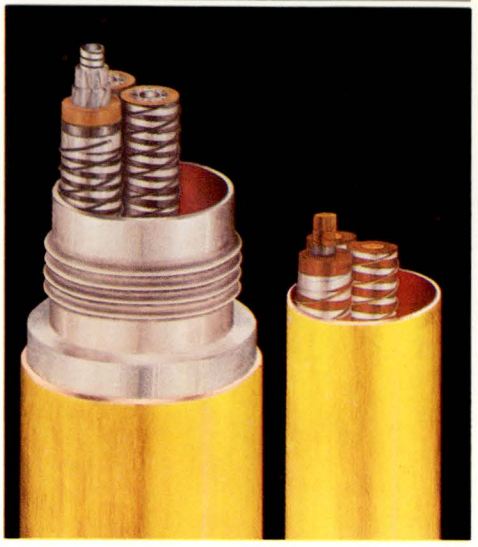
Gas transmission and distribution construction activities increased to meet demand of new customers. During the year 724,000 feet of new main and 860,000 feet of new service pipe were installed to meet customer requirements.

Environmental Costs Rise

Approximately $233 million was spent in 1979, compared with $177 million in 1978, to minimize the impact of Company operations on the environment. The cost of environmental protection has been rising substantially. This is due primarily because of the increasing differential between the cost of fuels for which many of the Company's facilities were designed to burn and the price of low sulfur oil and coal.

Specially-trained group carries out 'live-line' maintenance work, including replacement of insulators, high up on a 500,000-volt transmission line. The work is part of a program in which a carefully instructed and trained group of specialists has been developing and perfecting a number of 'live-line' techniques.





Illustrations show 500,000-volt cables enclosed in steel pipe. The longer one is filled with liquid nitrogen, insulated, and operates at extremely low temperatures. This gives it four times the capacity of the conventional cable which is filled with oil. PSE&G is evaluating application of this cryogenic technology to underground cable circuits.

Merrill Creek Project Planned

During 1979 plans advanced for the construction of the Merrill Creek Project by PSE&G and six other utilities who use Delaware River water. A contract was awarded for architectural and engineering services for the proposed dam and reservoir in Harmony Township.

The utilities have proposed the Merrill Creek Project in response to a 1976 order by the Delaware River Basin Commission that they provide a supplemental water source to help protect the river flow during dry periods. The commission has scheduled a decision on the project in 1980.

Crew lines up 12-inch polyethylene pipe for insertion in 16-inch cast iron main under the Raritan River between New Brunswick and Edison Township. Insertion of polyethylene pipe into mains instead of their replacement provided substantial savings for the Company. Replacement costs for the 2,000 feet of pipe were estimated at more than $1 million while the cost of using the polyethylene pipe was less than half that amount.

Energy Usage

Substantial new industrial electric load was added in 1979. A major addition was the Raritan River Steel Company's electric arc furnace facility in Perth Amboy. The new plant, which was completed in November, will be the Company's second largest electric customer with a demand of 89 megawatts and annual revenues of $13.3 million anticipated.

Another steel company, John A. Roebling Steel Corporation, began operation in the former Colorado Fuel & Iron facility in Florence Township. Production initially requires 14 megawatts of electrical power but is expected to increase eventually to 35 megawatts.

Connection of the two steel companies and other new customers with high load demands resulted in 280 megawatts of additional demand and $36 million in annual revenues.

New industrial and commercial gas installations of 63 customers, yielding $9.6 million in annual revenues, were connected during the year. C-E Glass of Cinnaminson, a manufacturer of tempered glass, will use nearly 5 million cubic feet of gas a day.

New Heating Customers

A flood of requests by customers for gas heating service highlighted marketing activities in 1979. The applications were triggered by reports in mid-year that heating oil prices would rise substantially in the Fall and that there might be a fuel shortage.

As a consequence, the Company connected a much greater number of new gas installations than had been anticipated. They included 20,804 residential, 1,830 commercial, and 334 industrial units. Of the residential installations, 15,065 were heating conversions, a new record, surpassing the figure of 10,246 set in 1963.

In two steps, in May and September, the New Jersey Board of Public Utilities approved Company requests to add a total of 7 billion cubic feet of gas load on an annual basis. The volume was in addition to 7.3 billion cubic feet authorized in 1978.

The availability of natural gas coupled with the growing popularity of electric heat pumps for heating and cooling resulted in employment of either gas or electricity for heating in most new construction in PSE&G territory.

Marketing personnel continued to encourage builders and consumers to install electric heat pumps because of their efficient use of energy. During the year 2,079 heat pumps were connected to Company lines.

The new gas and electric connections will provide $26.1 million in additional revenues annually.

Street Lights Converted

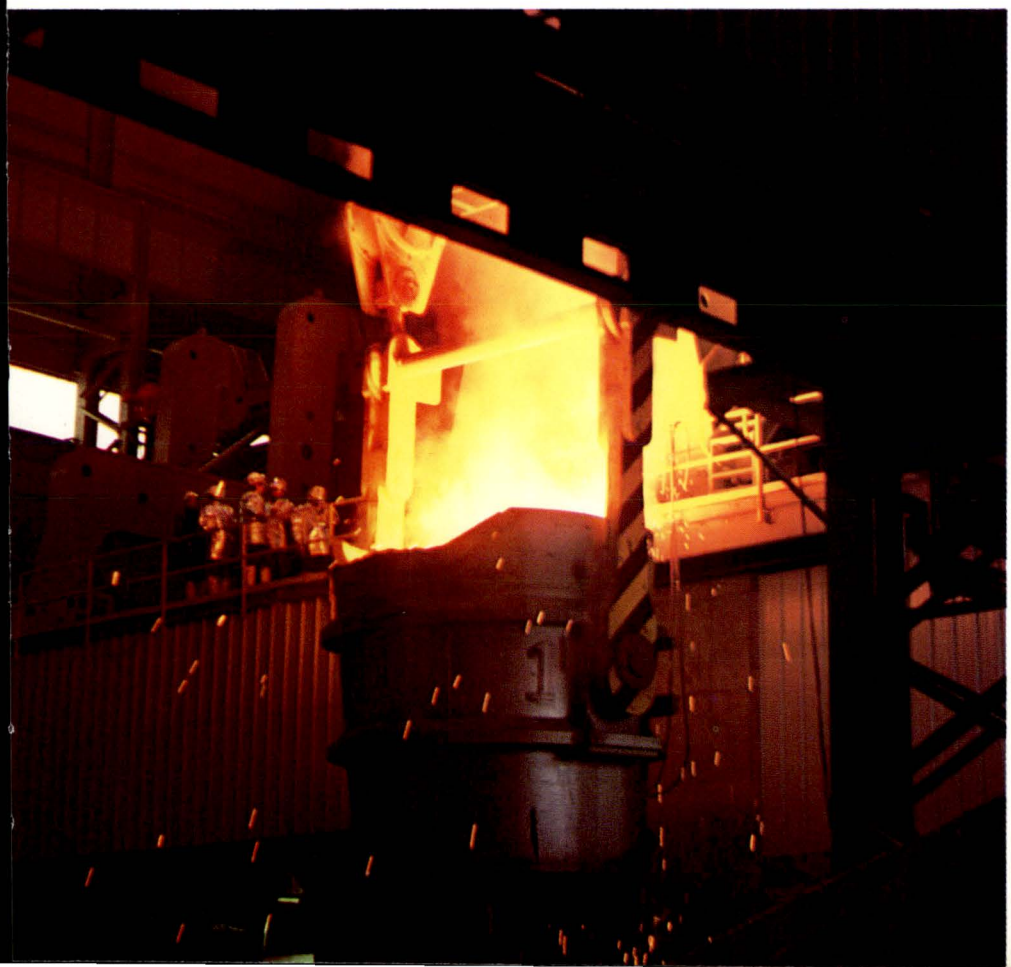
A total of 9,669 vapor lights were installed in 1979 as the state and municipalities continued to improve street lighting. The state is converting from incandescent lights on state highways to the energy-efficient vapor units. In addition, 4,510 dusk-to-dawn lighting units were installed, bringing the total on Company lines to 52,780.

Customer Relations Improved

Other facets of marketing activities during the year included preparation for implementation of the Company's new solar water heating program, expanded conservation services and closer liaison with customers.

More than 88,000 contacts with customers were made by personal visits, group meetings, correspondence and telephone. Consumer advisers conducted lectures on subjects such as the efficient use of energy, alternate energy sources, energy costs and nuclear power.

The higher cost of energy increased conservation activities. PSE&G with other utilities in the state participated in a Home Energy Savings Plan of the New Jersey Department of Energy. Energy audits were offered homeowners and assistance given in the selection of contractors and in the financing of energy-saving equipment.



Bucket of molten metal gives off intense heat and brilliance at Raritan River Steel Company's new plant in Perth Amboy. The facility, which uses electric arc furnaces, began production in 1979.

The Company also is participating in a study with the Princeton University Center for Energy and Environment Studies to determine the effectiveness of various energy conservation approaches in residential facilities.

Marketing representatives performed energy management surveys for numerous large industrial and commercial customers.

New governmental regulations have resulted in building temperature restrictions, maximum lighting rules, incremental pricing of natural gas, energy conservation measures and other programs requiring increased marketing operations.

As part of the Company's effort to improve customer relations, a new communications training program involving over 600 customer-contact employees was begun in 1979. Training was specifically designed to help employees respond more effectively to customer concerns. A random mail survey was conducted throughout the year to determine attitudes toward the Company and its service.

Customer Accounts Computerized

The first phase of a new computer-based system for customer accounts became operational at all commercial office locations in 1979. Any part of a customer's record can be displayed on a terminal screen in four to seven seconds by entering the account number or address. This improves accuracy and speed in answering customer inquiries.

The second phase of the system, expected to be operational in 1980, will provide for centralization of incoming customer telephone calls, and for processing of electric and gas service orders by computer.

A change in the method of recording monthly meter readings from a key-entry system to optical scanning of marked cards was begun. The new method will significantly improve efficiency and productivity of meter readers as well as customer billing operations. Computerized procedures for estimating customer use when readings cannot be obtained also will be improved.

Solar Water Heating Program

A residential solar water heating program for homeowners in the Company's electric service area was announced in September at a "Solar Summit" sponsored by the New Jersey Board of Public Utilities. The program will offer customers whose homes meet certain criteria the opportunity to purchase a soundly-engineered solar water heating system installed under PSE&G supervision and backed by service from the Company.

The units will consist of roof mounted, flat plate solar collectors employed in a closed system which will include a 120-gallon insulated storage tank. Electric resistance heating elements will supply supplemental energy. Cost of the units will be approximately $2,600.

Approval is being sought for a solar provision in the Residential Load Management rate which will provide a low rate for the supplemental electric energy in the off-peak period between 9 p.m. and 7 a.m.

The Company will purchase the solar systems from a manufacturer and retain qualified contractors to do installation work.

Before the program can be implemented a waiver from the U.S. Department of Energy will be necessary because of restrictions placed on utilities by the National Energy Act of 1978. A petition for a waiver has been filed.

The solar program, which is an outgrowth of experience the Company gained in its solar demonstration program over the last two years, is but one of a number of activities involving load management. Others include storage of thermal energy, utility control of customer appliances, industrial and commercial time-of-day rates, and interruptible service electric rates.

Employees who are in contact with customers attend training session. The classes are designed to improve abilities of employees in responding to inquiries of customers. The program involves more than 600 employees. Customer questions cover numerous topics, including higher energy costs, conservation, and nuclear and solar power.

As part of the Company's energy conservation program, PSE&G representatives conduct a home energy audit. Among the energy saving measures especially recommended are storm windows and caulking. The Company is participating in a Home Energy Savings Plan of the New Jersey Department of Energy. PSE&G personnel have received special training to conduct the audits.

Appliance Control Study Continued

A load management study of utility control of customer-owned air conditioners and electric water heaters, begun in 1978 in the Vincentown retirement community, continued in 1979. The project involves use of a remote control system by the Company to turn off the appliances at intervals to reduce load on the electric system.

"Headquarters, N.J."

"More and more of America's leading companies are moving to convenient urban, suburban or rural locations in New Jersey. That is why the state now has the third highest concentration of corporate headquarters in the nation," says the Company's promotional booklet "Headquarters, N.J." which was issued in 1979.

The statement was supported by a survey of Fortune Magazine of the 1,000 largest industrial corporations which indicated that New Jersey is a "most likely choice" for the location of new corporate headquarters facilities within the next five years.

The location and expansion of major corporate and regional office facilities as well as other office buildings continued last year at a rapid pace, bearing out these statements.

Interest in the Company's territory was generated by an extremely effective area development advertising campaign.

The establishment and expansion of large computer and data processing centers also had a major impact on development in the Company's service area. Campus-type locations and the availability of technically-trained employees were factors in the growth.

During the year 370 major industrial firms, employing approximately 16,700 persons, located or expanded in PSE&G territory. Lost were 49 companies, employing 3,450, leaving a net gain of 13,250 jobs.

Zurich-American Insurance Company's eastern processing center in Mt. Laurel is typical of the facilities that have been attracted to the Company's service area. Leading companies have found New Jersey advantageous for corporate headquarters, as well as divisional and regional facilities.

Thermal Storage Research

During the year the Company installed and began testing electric furnaces with ceramic cores in the homes of 30 of its electric heating customers. The furnaces normally use electricity only at night, thus reducing the demand for energy during the daytime period.

The ceramic cores consist of a "pile" of special bricks which are capable of storing large quantities of heat provided by embedded electric coils. The Company determines the best time to deliver electricity for core heating and, using special telephone lines, signals the equipment to receive it. When the home thermostat signals the need for heat, air circulates over the bricks and through the heating system.

A specially controlled electric water heater capable of heating large quantities of water at night for use during the day also is being tested.

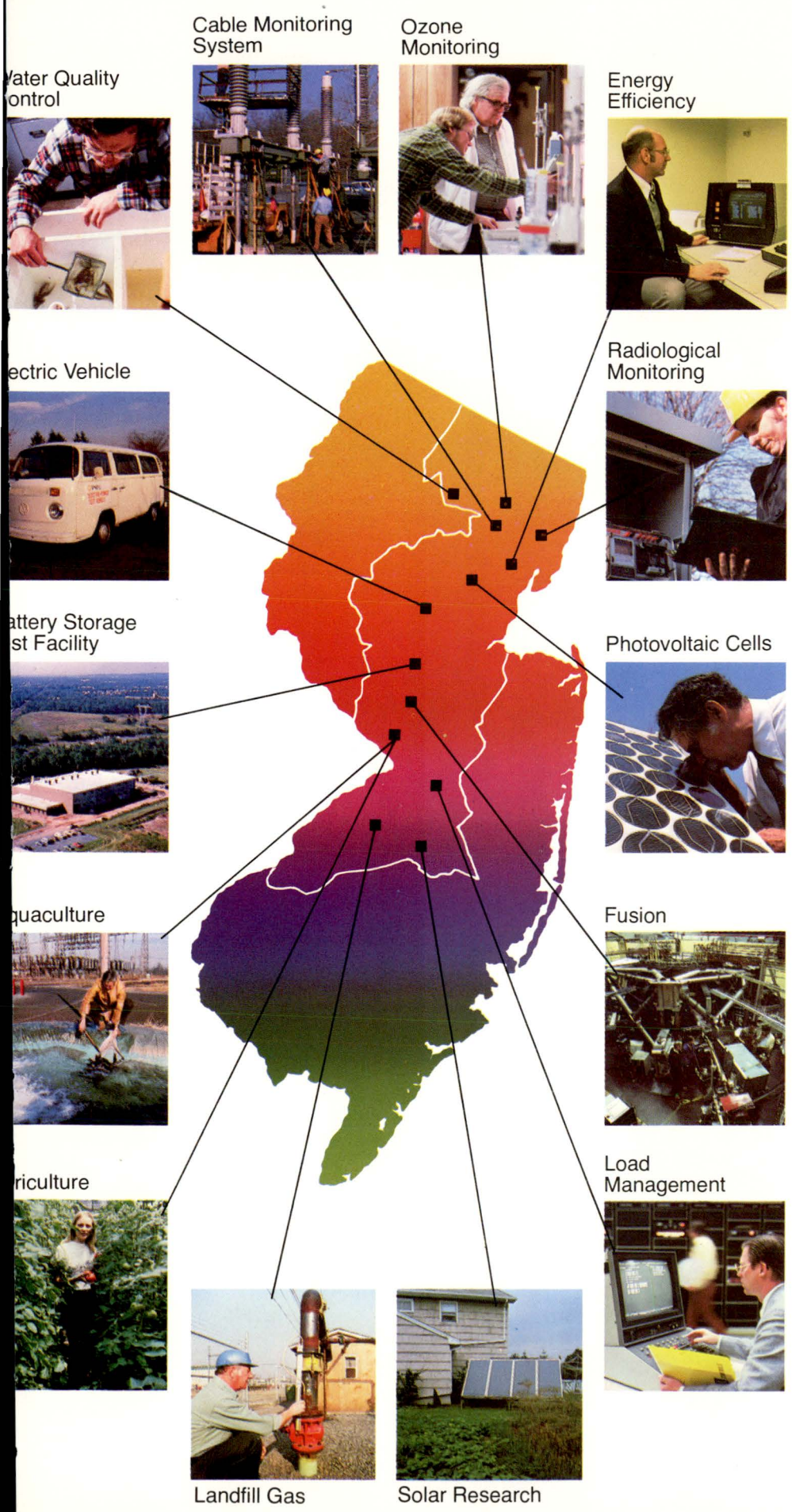
The U.S. Department of Energy and PSE&G are funding the two-year study. When it is completed, operation of the equipment and the associated communications system, customer reaction and the impact on the Company system will be analyzed.

Impact Of Energy Forecast

The effect which the various load management activities are expected to have upon Company operations is included in the corporate energy forecast. It is estimated that as a result of these, and other programs, the system peak electric demand in the year 2008 will be curtailed by about 1,900 megawatts. At the same time an additional 3,800 million kilowatt-hours of off-peak sales are expected to be realized.

The New Jersey Sports and Exposition Authority complex in East Rutherford continues to be one of the most successful enterprises of its kind in the nation. Dominating the complex is Giants Stadium with the Meadowlands Race Track in upper left and the new 20,000-seat indoor arena under construction in upper right. Arena is scheduled to be completed in December of 1980.

Energy Research



The Company's research and development program was expanded and broadened in 1979. A number of new projects were initiated and work advanced on those already under way.

Research and development goals include development of alternate energy technologies to reduce dependence on foreign oil, improvement in operating efficiencies, investigation of new business ventures to broaden the base of Company revenues, and conservation of energy.

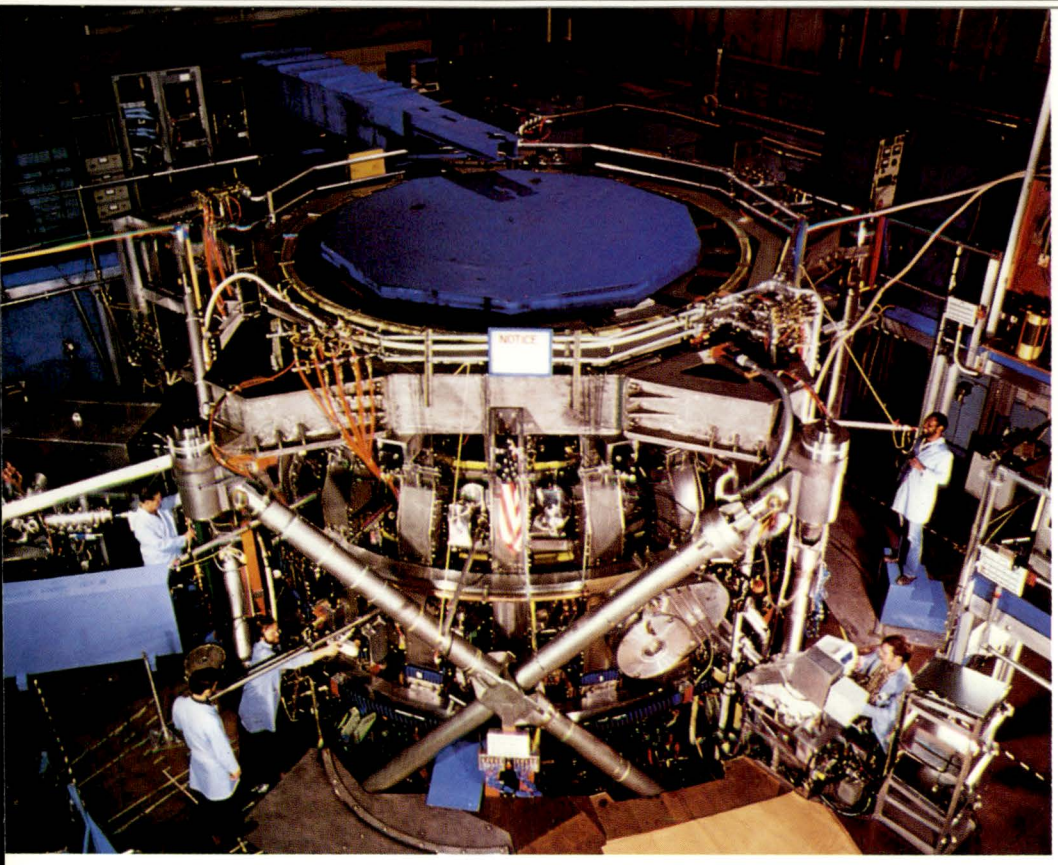
Total expenditures for research and development were $14.4 million of which $5.2 million came from outside agencies. The Company's cost for internal research work was $9.1 million of which $4.4 million was for support of outside general research through industry organizations.

Efforts continued to increase funding from outside sources for industry-wide research performed by PSE&G. In 1979 the Company received 13 research contracts amounting to $4.0 million of which $3.9 million is being provided by outside agencies.

BEST Facility Completed

Construction of the Battery Energy Storage (BEST) Facility in Hillsborough was completed and installation of major equipment began. The facility will be the center of a national effort for development, testing and demonstration of large-scale battery energy storage systems and power conversion equipment.

PSE&G's research and development activities encompass diverse technologies that range across the Company's service area. Representative projects depicted illustrate the scope of the effort to meet the overall goal of providing safe, reliable energy as economically as possible with emphasis on conservation and minimal environmental impact.



Since 1970, PSE&G has supported fusion research work at Princeton University Plasma Physics Laboratory where the most flexible tokamak device yet built, the Poloidal Divertor Experiment (PDX) has been constructed. The PDX is designed to provide answers to several highly significant physics questions. The Company's fusion research effort was expanded with three new projects in 1979. The subjects include the use of fusion for the production of fossil and synthetic fuels.

Radiation information is collected in an effort to assure the public of low levels in the area and promote confidence in nuclear power. The Research and Testing Laboratory began installation in 1979 of radiation detection equipment at the Company's four solar-data weather stations.

The project is co-sponsored by the U.S. Department of Energy and the Electric Power Research Institute, which is supported by the nation's electric utilities. PSE&G provided the building.

In October the scope of the $13.6 million project was increased by $3.1 million which permits PSE&G to design and build a second test bay for advanced system testing.

Successful development of large-scale batteries would permit power produced during night time periods of low demand by nuclear and coal generating units to be stored and used during day time hours of peak electric requirements. This would mean that fewer generating units would be needed to meet demand during peak periods and reduce the use of oil.

Coal Gasification Investigated

Under a grant from the U.S. Department of Energy, PSE&G and Burns and Roe Industrial Services Corp. are investigating the technical and economic feasibility of building a coal gasification plant in the Company's territory. The plant would provide supplemental gas supply for power plant and industrial processes. Environmental, regulatory and institutional factors also will be studied. Such a plant could increase the use of coal as a replacement for oil.

Methane From Landfill

The Company in 1979 placed in operation facilities that obtain methane gas from a sanitary landfill in Cinnaminson. The operation was the first of its kind in the eastern United States. A large industrial customer adjacent to the site is being provided with 700,000 cubic feet of gas per day. The output is expected to reach a million cubic feet a day when full production is achieved.

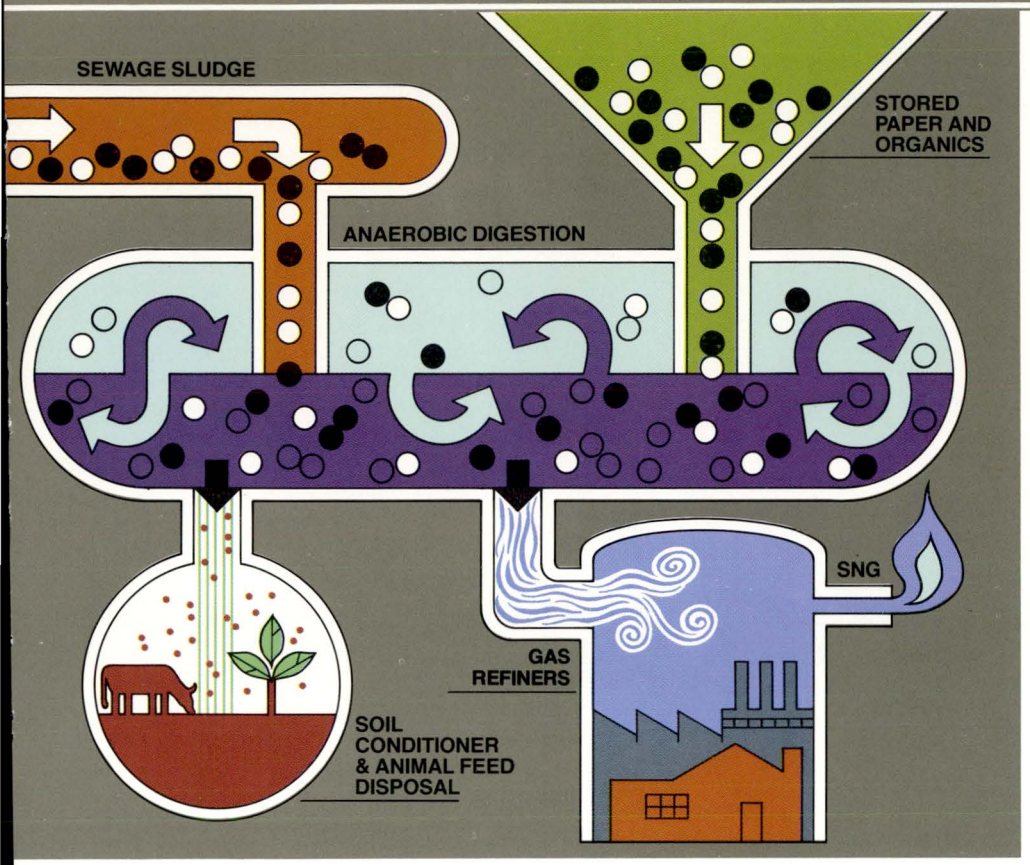


Diagram illustrates bioconversion process through which waste products, municipal solid waste and sewage sludge could be converted into a marketable synthetic natural gas. The Company has been participating in "energy from refuse" projects for several years. Work was completed in 1979 and a report submitted to the U.S. Department of Energy on a study of the technical and economic feasibility of integrating a 5 megawatt fuel cell into a sewage treatment process to produce heat and electricity from methane gas.

The project will help determine the feasibility of recovering methane from landfills over an extended period. If the project continues to be commercially successful, it may demonstrate that landfills can become a small, but significant source of gas for the Company.

Park Plaza Energy Analyzed

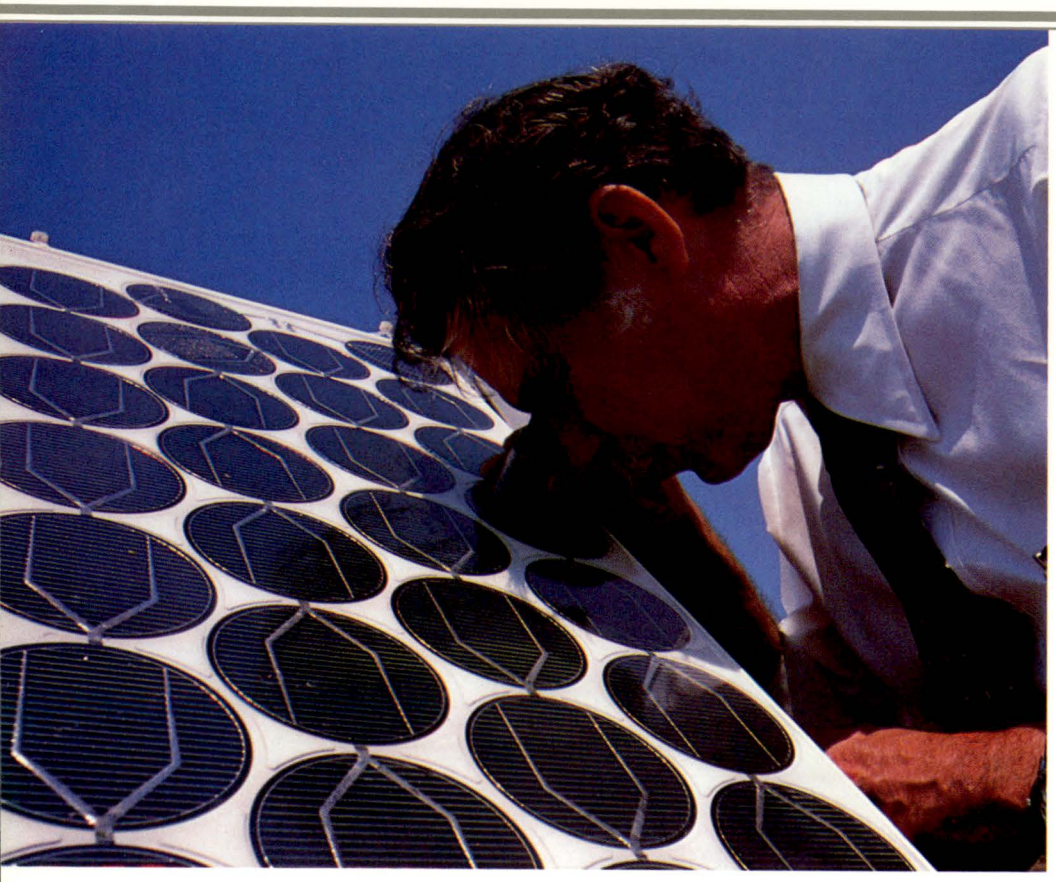
The U.S. Department of Energy (DOE) is funding a program to evaluate energy conservation techniques using the Company's new 80 Park Plaza headquarters building as a source of information. Hundreds of instruments have been installed in the heating, ventilating and air conditioning systems to measure the flow of energy within the building. The building automation computer will collect data from the instruments every 15 minutes over a period of about three years.

Data will be used to help measure the efficiency of the building's heating and air conditioning system; to validate results of a new DOE energy analysis computer program; to compare several design standards, including the DOE's new Building Performance Standards; and to compare energy consumed when various system control sequences are utilized.

Additional studies will be carried out on the 16th floor, where Company research personnel will be located. Lights in perimeter areas will be dimmed when natural daylight is available. Lights in some offices will be automatically switched off when they are empty. General lighting will be controlled by a new electronic time controller. Electrical energy use on the floor will be compared with that of other levels.

Tishman Research Corporation is managing the program with cooperation from PSE&G Research Corporation.

Members of new Research Advisory Council meet to discuss Company energy projects. The independent council was formed in 1979 to enhance the activities of PSE&G Research Corporation. Composed of prominent citizens representing a broad public interest in energy, the council will review the research and development program from a social and economic viewpoint and advise on broad program priorities.



▲ Company research employee checks photovoltaic test panels of silicon cells which were installed during 1979 on roof of the Research and Testing Laboratory in Maplewood.

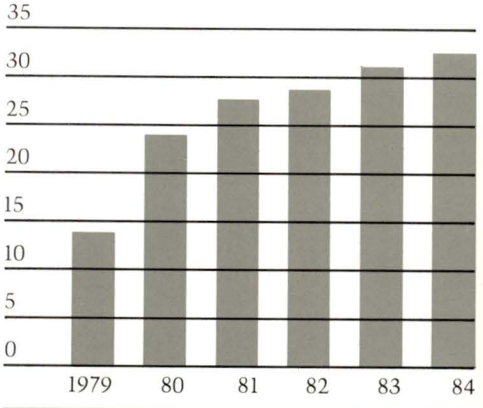
Solar Research Expanded

During the year the solar energy research program was extended into photovoltaics. Photovoltaic energy conversion is a process which converts solar energy directly to electricity through the use of semiconductor devices such as silicon solar cells.

Several panels containing silicon solar cells were installed for test purposes on the roof of the Research and Testing Laboratory in Maplewood. Basic information is being sought about the ability of solar cells to produce reliable amounts of electric energy.

The Company's solar demonstration program continued at the homes of 12 customers. As an outgrowth of this program, the Company decided to offer solar water heaters to customers in its electric service territory. The program is discussed on Page 20.

5 Year R&D Program



▼ Two excellent crops of tomatoes and one of lettuce were grown in 1979 in a prototype greenhouse at the Mercer Generating Station. The greenhouse uses the warm water discharge as a source of heat and humidity. Research into aquaculture at Mercer was an extension of aquaculture research, now in its fifth year, in which nearly 60,000 Rainbow trout were reared during 1979.

Condenser Studies Conducted

Under a contract with the Electric Power Research Institute, an assessment and comparison of generating station condenser bio-fouling control with ozone and chlorine was made at Bergen Generating Station. Model condensers, mounted on a trailer, were employed. Additional work is expected to be done at Mercer Generating Station.

A mobile test trailer also was used at the Bergen station to evaluate the biological effects of chlorinated and ozonated discharge water on aquatic life and environment. The trailer facilities were connected to receive the treated water from the model condensers. This program, funded by the U.S. Department of Energy, will be continued at the Mercer station.

Community, Employee Information

All employees were informed of the Company's expanded public information program at meetings, such as this one, held at various work locations before the program's public introduction. The program was in response to a greater public interest in energy issues. A broad range of topics was covered in television and radio commercials as well as newspaper and billboard advertising.

Television commercials were part of the expanded public information program and included one (left) which emphasized the need to reduce the nation's dependence on foreign oil, and another explaining the Company's rates for electric and gas service. Other commercials emphasized PSE&G's expanded research program, including solar energy.

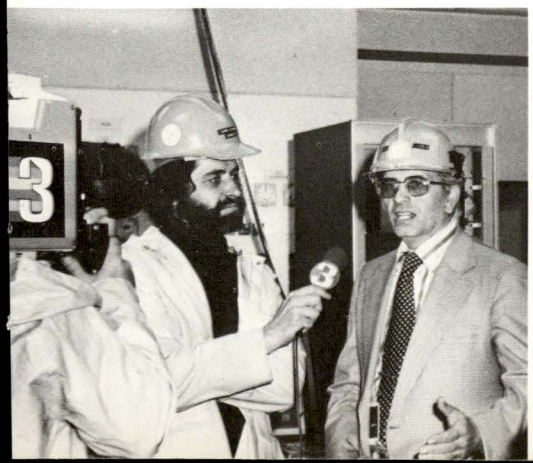
The Company expanded its public information program in 1979 partially in response to heightened interest in energy issues that stemmed from the Three Mile Island accident.

The program was first outlined to all employees so that they could help carry the Company's message to the public. In addition, the information program within the Company for employees was expanded.

Included in the public program were television and radio commercials, newspaper, magazine and billboard advertising, and bumper stickers. Newspaper advertisements featured statements by prominent scientists, acknowledged energy experts, who gave affirmative opinions concerning the importance and safety of nuclear energy.

Efforts were co-ordinated with a national program of the Edison Electric Institute in assisting in the creation of a New Jersey Chapter of the Nuclear Energy Women. On October 18, designated as Nuclear Energy Education Day, some 100 meetings were held in New Jersey.

On November 27 press conferences were held in northern and southern New Jersey at which top company officials and representatives of the Electric Power Research Institute and the Institute of Nuclear Power Operations discussed the changes that have been made in nuclear plant operations in the light of Three Mile Island.



The accident at the Three Mile Island plant in Pennsylvania focused public attention on nuclear power. Although the Company is not involved in the ownership or operation of the plant, numerous inquiries about nuclear operations were answered. At left, a television reporter conducts an interview at the Salem Generating Station, and, at right, Robert I. Smith, Company Chairman, talks to reporters at a press conference.

Company representatives sought greater opportunities to discuss such topics as nuclear energy, the environment and solar energy. A total of 227 talks were given before nearly 13,000 persons in 1979.

Company personnel conducted generating station tours for the general public and sponsored education programs for students. More than 29,406 people visited the Second Sun, the Company's floating energy information center where a special multi-media program entitled "Century of Light" was shown to mark the 100th anniversary of Edison's development of the first successful incandescent light bulb.

Centennial of Light activities also included sponsorship of a puppet show which was presented to 76,000 elementary school children; creation of window and shopping mall displays, and distribution of a customer bill insert describing Edison's legacy.

Community Activities

PSE&G employees in 1979 were involved in numerous community activities aimed at improving the quality of life in the Company's service area.

Company programs were administered by several departments. Employees served in a broad range of voluntary capacities in many civic, cultural, chartitable and educational organizations.

Throughout its service territory the Company maintained traditional affiliations with many community organizations.

Agencies which serve the needs of urban children from pre-school through college were supported. Aid also was provided to community organization programs for ethnic and cultural development, and education.

The Company's commitment to urban renewal and improvement was dramatized as its new headquarters building in downtown Newark neared completion. PSE&G believes that as part of the business community it has a responsibility to help improve living standards of disadvantaged citizens in the area it serves.

Employee Relations

Company employees at the end of 1979 numbered 13,176, an increase of 10 compared with the total at the end of 1978. Wages and salaries for 1979 amounted to $297 million, including $10.1 million for disability benefits and workers' compensation.

During the year the Company continued to stress its Affirmative Action Program in relation to the employment of women and members of minority groups. Effective in January, the Company implemented two additional Affirmative Action plans to cover handicapped individuals and veterans.

At the end of 1979, there were 1,845 female employees and 1,731 minority group employees. These figures reflected increases of 3.8 per cent and 4.2 per cent, respectively, of each group's representation in the overall workforce during the year.

Transport of New Jersey

The Public Transportation Act of New Jersey, which was enacted in July 1979, permits State acquisition by purchase or condemnation of privately-owned bus companies. State officials have expressed interest in acquiring, under this law, Transport of New Jersey, PSE&G's transportation subsidiary, and Maplewood Equipment Company, Transport's wholly-owned operating transportation subsidiary. Preliminary discussions relating to such acquisition have been held with representatives of the State.

Transport of New Jersey and Maplewood Equipment Company had net earnings of $465,000 in 1979 after receiving $28,786,000 in operating assistance from the State of New Jersey to supplement fare box revenues. This compares with a net loss of $117,000 in 1978 after receiving $28,166,000 in operating assistance from the State.

Private Reinvestment Capital Corporation, a wholly-owned nonoperating subsidiary of Transport of New Jersey, had net income of $1,357,000 in 1979 compared with $834,000 in 1978.

Company community relations representatives conduct programs for school children as well as numerous civic organizations. A variety of energy-related subjects were covered through the year and included presentations about Thomas A. Edison's invention of the first practical electric light bulb 100 years ago.

Financial Statement Responsibility

The management of PSE&G is responsible for the integrity and objectivity of the financial statements of the Company. These statements are prepared by the Company in accordance with generally accepted accounting principles applied on a consistent basis. Management believes that they fully disclose the Company's financial affairs.

To facilitate the gathering of financial data, PSE&G maintains an accounting system established with sound accounting and business policies which are communicated to the appropriate personnel. The system, together with its related internal controls, is reviewed by the Company's staff of internal auditors and its independent public accountants.

Management feels the effectiveness of this system is enhanced by a program of continuous and selective training of our employees.

The Board of Directors carries out its responsibility of financial disclosure through the Audit Committee currently consisting of five outside directors. The Audit Committee meets periodically with management as well as representatives of the internal and independent auditors and reviews the work of each to ensure that their respective responsibilities are being carried out, and to discuss related matters. Internal and independent auditors have full and free access to the Audit Committee.

Summary of Significant Accounting Policies

Ratemaking
The Company's accounting policies are in accordance with the rate-making decisions by the Board of Public Utilities of the State of New Jersey (BPU). As a result, the applications of accounting principles by the Company differ in certain respects from applications by nonregulated businesses.

System of Accounts
The Company is under the jurisdiction of the Federal Energy Regulatory Commission (FERC) and the BPU and maintains its accounts in accordance with their prescribed Uniform Systems of Accounts, which are substantially the same.

Investments in Subsidiaries
The Company's investments in its subsidiaries, which in the aggregate are not significant as defined by the Securities and Exchange Commission, are reported in the accompanying financial statements on the equity method of accounting.

Revenues
Revenues are recorded based on estimated service rendered, but are generally billed to customers through monthly cycle billings on the basis of actual usage.

Amortization of Deferred Items
Deferred Debits are amortizable as detailed below. Amounts estimated to be recoverable within one year, together with related taxes, are classified as current items in the balance sheets. Prior to 1979, all such items had been considered deferred until amortized. The 1978 financial statements presented herein reflect appropriate restatements to conform with the current policy.

Fuel Costs
The Company projects the costs of fuel for electric generation, interchanged power, gas purchased and materials for gas produced for twelve-month periods. Adjustment clauses in the Company's rates allow the recovery of the excess of such projected costs over those included in the Company's base rates through levelized monthly charges over the period of projection. Any under or overrecoveries are deferred and charged to operations in the period in which they are recovered.

Prior to July 1, 1977, the date of establishment of the levelized electric adjustment clause, the Company recovered increases in electric energy costs approximately two months subsequent to their incurrence and charged operations in the period in which these costs were recovered. The balance of unrecovered electric energy costs remaining from this procedure is being amortized through base rates over a period ending January 31, 1984. In addition, electric energy costs which had not been recovered through levelized adjustment clauses will be amortized by a surcharge in the adjustment clauses over a 28-month period in accordance with the BPU order expected in March 1980.

Prior to January 2, 1976, the date of the levelized gas adjustment clause, increases in costs of purchased gas and materials used to produce gas were recovered in months subsequent to their incurrence and were charged to operations principally as they were incurred. Unrecovered gas costs which were not included in the levelized rate established December 2, 1977 are being amortized through base rates over a period of three years.

Gross Receipts Tax
Effective January 1, 1973, the Company began accruing New Jersey gross receipts tax on current revenues rather than on the previous basis of taxes paid. The gross receipts tax on 1972 revenues was deferred and is being charged to operations by an amount equivalent to ½% of revenues subject to the gross receipts tax.

Unamortized Debt Expense
Unamortized Debt Expense represents costs associated with the issuance or reacquisition of debt which are deferred and amortized over the lives of the related issues. This amount consists principally of costs associated with the Company's tender offer for its 12% Series E Mortgage Bonds in May 1977.

Extraordinary Property Losses
Extraordinary Property Losses are deferred and amortized over various periods. The amount consists principally of unrecovered abandonment costs, before tax reduction, applicable to the Atlantic Project. The recoverability of such costs is subject to determination by the BPU. (See note 5 of Notes to Financial Statements.)

Depreciation and Utility Plant
Depreciation, for financial reporting purposes, is computed under the straight-line method and is based on estimated average remaining lives of the several classes of depreciable property. Depreciation applicable to nuclear plant provides for estimated costs of dismantling or decommissioning. These estimates are reviewed continuously and adjustments are made as required. Depreciation provisions for the years 1979 and 1978 stated in percentages of original cost of depreciable property are 3.48% and 3.49%, respectively.

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

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 the Company's Salem plant includes a provision for estimated spent fuel disposal costs. In accordance with procedures established by the operating company of the Peach Bottom plant, the rates for fuel used at that plant assume a zero net salvage value of the discharged fuel.

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

Deferred income taxes are provided for differences between book and taxable income to the extent permitted for rate-making purposes.

Investment tax credits are deferred and amortized over the average life of the related plant.

Allowance for Funds Used During Construction
Allowance for funds used during construction (AFDC) is a cost accounting procedure whereby the approximate net composite interest and equity costs of capital funds used to finance construction are transferred from the income statement to construction work in progress (CWIP) in the balance sheet. This procedure is intended to remove the effect of the cost of financing construction activity from the income statement, and results in treating such cost in the same manner as construction labor and material costs. The rate used for calculating AFDC was 8% for 1979 and 1978 which was within the limits set by the FERC.

The BPU issued rate orders in 1975 allowing the Company to recover the financing cost on $250,000,000 of CWIP through current operating revenues and since then no AFDC has been accrued on that amount.

Pension Plan
Pension costs are accounted for on the basis of an acceptable actuarial method and are charged to operating expenses, utility plant and other accounts. The Company's policy is to fund pension costs accrued. Prior service costs are being funded over a period of 35 years which began January 1, 1967.

Statements of Income

For the Years Ended December 31,	1979	1978
Operating Revenues	*(Thousands of Dollars)*	
Electric	$1,689,857	$1,564,834
Gas	726,850	654,951
Total Operating Revenues	2,416,707	2,219,785
Operating Expenses		
Operation		
Fuel for Electric Generation and Interchanged Power–net	620,546	541,802
Gas Purchased and Materials for Gas Produced	384,759	327,990
Other Operation Expenses	287,389	268,769
Maintenance	149,027	127,423
Depreciation	162,989	158,248
Taxes Other than Federal Income Taxes	364,411	328,216
Federal Income Taxes (note 1)	123,965	146,937
Total Operating Expenses	2,093,086	1,899,385
Operating Income	323,621	320,400
Other Income		
Allowance for Funds Used During Construction–Equity	36,887	26,609
Miscellaneous Other Income–net	4,542	3,722
Earnings of Subsidiaries–net (note 2)	1,721	793
Total Other Income	43,150	31,124
Income Before Interest Charges	366,771	351,524
Interest Charges		
Long-Term Debt	146,673	133,605
Short-Term Debt	2,448	612
Other	4,027	3,217
Allowance for Funds Used During Construction–Debt	(19,706)	(14,696)
Net Interest Charges	133,442	122,738
Net Income	233,329	228,786
Dividends on Cumulative Preferred Stock and $1.40 Dividend Preference Common Stock	46,799	46,799
Earnings Available for Common Stock	$ 186,530	$ 181,987
Shares of Common Stock Outstanding		
End of Year	68,914,349	64,120,433
Average for Year	65,409,325	61,782,737
Earnings per average share of Common Stock	$2.85	$2.95
Dividends paid per share of Common Stock	$2.20	$2.08

See Summary of Significant Accounting Policies, Notes to Financial Statements and Management's Discussion and Analysis of the Statements of Income

Balance Sheets

December 31,	1979	1978
Assets		
Utility Plant–original cost	*(Thousands of Dollars)*	
Electric Plant	$3,922,891	$3,793,434
Gas Plant	918,249	869,615
Common Plant	80,281	73,586
Nuclear Fuel	22,300	20,314
Utility Plant in Service	4,943,721	4,756,949
Less Accumulated Depreciation and Amortization	1,589,046	1,447,035
Net Utility Plant in Service	3,354,675	3,309,914
Construction Work in Progress	1,360,651	1,033,249
Plant Held for Future Use	20,658	20,127
Net Utility Plant	4,735,984	4,363,290
Other Property and Investments		
Nonutility Property, net of accumulated depreciation–1979, $550; 1978, $508	4,858	6,193
Investments in and Advances to Subsidiaries (note 2)	184,294	152,549
Total Other Property and Investments	189,152	158,742
Current Assets		
Cash (note 3)	5,405	14,282
Working Funds	8,223	7,857
Pollution Control Bonds Escrow Funds (note 4)	11,248	
Accounts Receivable, net of allowance for doubtful accounts–1979, $5,778; 1978, $4,900	233,184	213,457
Unbilled Revenues	113,877	118,605
Fuel, at average cost	175,696	134,671
Underrecovered Electric Energy Costs	19,410	677
Materials and Supplies, at average cost	24,270	17,935
Prepayments	4,314	3,246
Current Portion of Deferred Debits	78,478	23,172
Total Current Assets	674,105	533,902
Deferred Debits		
Extraordinary Property Losses (note 5)	323,838	324,141
Gross Receipts Tax	51,012	63,976
Unamortized Electric Energy and Gas Fuel Costs	105,782	50,299
Unamortized Debt Expense	24,310	24,428
Total Deferred Debits	504,942	462,844
Total	$6,104,183	$5,518,778

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

	1979	1978
Liabilities		
Capitalization	*(Thousands of Dollars)*	
Common Equity:		
Common Stock (see statement, page 35)	**$1,106,824**	$1,014,184
Premium on Capital Stock	**557**	557
Paid-In Capital	**26,065**	26,065
Retained Earnings	**747,076**	704,909
Total Common Equity	**1,880,522**	1,745,715
Non-Redeemable Preferred Stock (see statement, page 35)	**554,994**	554,994
Redeemable Preferred Stock (see statement, page 35)	**31,500**	35,000
Long-Term Debt (see statement, page 36)	**2,256,919**	2,017,484
Total Capitalization	**4,723,935**	4,353,193
Current Liabilities		
Long-Term Debt due within one year	**24,199**	57,087
Preferred Stock to be redeemed within one year	**3,500**	
Commercial Paper (note 6)	**94,875**	
Accounts Payable	**121,316**	131,597
Taxes Accrued, including New Jersey gross receipts tax–1979, $322,696; 1978, $306,390	**362,650**	333,723
Deferred Income Taxes (note 1)	**90,576**	60,850
Overrecovered Gas Fuel Costs	**15,417**	10,614
Interest Accrued	**42,615**	33,795
Gas Purchased	**48,945**	39,383
Other	**37,942**	36,511
Total Current Liabilities	**842,035**	703,560
Deferred Credits		
Accumulated Deferred Income Taxes (note 1)	**430,405**	360,945
Accumulated Deferred Investment Tax Credits (note 1)	**106,275**	95,736
Other	**1,533**	5,344
Total Deferred Credits	**538,213**	462,025
Commitments and Contingent Liabilities (note 8)		
Total	**$6,104,183**	$5,518,778

Statements of Retained Earnings

For the Years Ended December 31,	1979	1978
	(Thousands of Dollars)	
Balance January 1	$704,909	$651,885
Add Net Income	233,329	228,786
Total	938,238	880,671
Deduct		
Cash Dividends:		
Preferred Stock, at required annual rates	44,954	44,918
$1.40 Dividend Preference Common Stock	1,881	1,881
Common Stock	144,146	128,485
Total Cash Dividends	190,981	175,284
Capital Stock Expenses	181	478
Total Deductions	191,162	175,762
Balance December 31	$747,076	$704,909

Statements of Changes in Financial Position

For the Years Ended December 31,	1979	1978
Source of Funds	*(Thousands of Dollars)*	
Net Income	$233,329	$228,786
Non-cash Items:		
Depreciation and Amortization	169,927	168,435
Provision for Deferred Income Taxes–Atlantic Project Abandonment		132,203
Provision for Deferred Income Taxes–Other–net	69,460	27,099
Investment Tax Credit Adjustments–net	10,539	(21,576)
Allowance for Funds Used During Construction (AFDC)	(56,593)	(41,305)
Other	(4,206)	(3,019)
Total Funds from Operations	422,456	490,623
Unamortized Energy Costs Recoverable Currently	64,502	10,289
Total Funds from Internal Sources	486,958	500,912
Net proceeds from sales of:		
Long-Term Debt	268,073	99,968
Common Stock	92,459	93,957
Total Security Sales	360,532	193,925
Miscellaneous	14,317	16,695
Total Funds Provided	$861,807	$711,532
Application of Funds		
Additions to Utility Plant, excluding AFDC	$481,542	$472,452
Atlantic Project Abandonment (note 5):		
Total Costs, including AFDC–$45,134		(329,467)
Extraordinary property loss		319,904
Other charges		9,563
Investments in and Advances to Subsidiaries	28,743	15,106
Reductions of Long-Term Debt	28,342	62,425
Cash Dividends	190,981	175,284
Deferral of Electric Energy Costs	119,985	
Miscellaneous	10,486	4,399
Total Funds Applied	860,079	729,666
Changes in Working Capital–Increase (Decrease):		
Short-Term Debt	(94,875)	96,892
Current Portion of Deferred Debits	55,306	2,024
Long-Term Debt due within one year	32,888	(51,271)
Accounts Payable	10,281	(64,471)
Other	(1,872)	(1,308)
Net Increase (Decrease) in Working Capital	1,728	(18,134)
Total Funds Applied and Changes in Working Capital	$861,807	$711,532

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

Statements of Capital Stock

December 31,	Outstanding Shares (note A)	Current Redemption Price Per Share	Refunding Restricted Prior to (note B)	1979	1978
Cumulative Preferred Stock (note C)				*(Thousands of Dollars)*	
Redeemable (note D)					
$100 par value					
12.25% Series	350,000	$112.00	2/1/85	$ 35,000	$ 35,000
Less amount to be redeemed within one year				3,500	
Redeemable Preferred Stock				$ 31,500	$ 35,000
Non-Redeemable (note E)					
$25 par value-Series:					
9.75%	1,600,000	$ 27.50	1/1/81	$ 40,000	$ 40,000
8.70%	2,000,000	27.00	10/1/81	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	104.00		25,000	25,000
9.62%	350,000	109.50	7/1/80	35,000	35,000
7.40%	500,000	106.00		50,000	50,000
7.52%	500,000	106.00		50,000	50,000
8.08%	150,000	106.00		15,000	15,000
7.80%	750,000	106.00		75,000	75,000
7.70%	600,000	106.56		60,000	60,000
8.16%	300,000	108.90	10/1/82	30,000	30,000
Non-Redeemable Preferred Stock				$554,994	$554,994
Dividend Preference Common Stock and Common Stock					
$1.40 Dividend Preference Common Stock (no par)–1,343,999 shares authorized, issued and outstanding; current redemption price $35.00 per share (note F)				$1,106,824	$1,014,184
Common Stock (no par)–authorized 100,000,000 shares (note G); issued and outstanding as of December 31, 1979, 68,914,349 shares (4,793,916 shares issued for $92,640 in 1979 and 4,314,517 shares issued for $94,432 in 1978)					

Notes:

A. In addition, there are 2,500,058 shares of $100 par value and 6,400,000 shares of $25 par value Cumulative Preferred Stock which are authorized and unissued, and which may possess either redeemable or non-redeemable characteristics upon issuance.

B. Prior to the date specified, none of the shares of each such series may be redeemed, other than through the operation of a sinking fund, through refunding of such shares by the incurring of debt or the issuance of Preferred Stock where the cost of such debt or such Preferred Stock is less than the cost to the Company of each such series.

C. As of December 31, 1979 the annual dividend requirement and embedded dividend cost were $4,288,000 and 12.70%, respectively, for Redeemable Preferred Stock and $40,629,000 and 7.38%, respectively, for Non-Redeemable Preferred Stock.

If dividends upon any shares of these stocks are in arrears to 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.

D. Redeemable Preferred Stock consists of the outstanding 12.25% series of nonparticipating cumulative preferred stock which, beginning on February 1, 1980, is subject to a mandatory annual sinking fund redemption of 17,500 shares, plus redemption of up to an additional 17,500 shares at the option of the Company at a redemption price of $100 per share. In addition, such Preferred Stock is also subject to redemption at the option of the Company upon payment of a higher redemption price plus in each case accumulated and unpaid dividends to the date fixed for redemption.

E. Non-Redeemable Preferred Stock is outstanding nonparticipating cumulative preferred stock which is subject to redemption solely at the option of the Company upon payment of the redemption price plus accumulated and unpaid dividends to the date fixed for redemption.

F. Each share of $1.40 Dividend Preference Common Stock is entitled to cumulative dividends, to two votes, and, on liquidation or dissolution, to twice as much as each share of Common Stock.

G. Includes 3,203,709 shares of Common Stock reserved for possible issuance under the Company's Automatic Dividend Reinvestment Plan, Tax Reduction Act Employee Stock Ownership Plan and Employee Stock Purchase Plan.

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

Statements of Long-Term Debt

December 31,	1979	1978
First and Refunding Mortgage Bonds Series (note A)	*(Thousands of Dollars)*	
2⅞% June 1, 1979	$	$ 53,242
2¾% May 1, 1980	18,443	18,648
3¼% October 1, 1983	22,079	22,313
3¼% May 1, 1984	50,000	50,000
4⅜% November 1, 1986	50,000	50,000
4⅞% September 1, 1987	60,000	60,000
4⅝% August 1, 1988	60,000	60,000
5⅛% June 1, 1989	50,000	50,000
4¾% September 1, 1990	50,000	50,000
4⅜% August 1, 1992	40,000	40,000
4⅜% June 1, 1993	40,000	40,000
4⅝% 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
7⅝% April 1, 1999	75,000	75,000
9⅛% March 1, 2000	98,000	98,000
8⅜% A May 15, 2001	69,300	69,300
7⅝% 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	10,730	11,730
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
8⅛% I September 1, 2007	59,900	59,900
9⅜% J November 1, 2008	100,000	100,000
9¾% K July 1, 2009	100,000	
12 % L November 1, 2009	125,000	
8 % June 1, 2037	7,463	7,463
5 % July 1, 2037	7,538	7,538
Pollution Control Bonds		
6.30% A October 1, 2006	14,300	14,300
6.90% B September 1, 2009	42,620	
6.90% C September 1, 2009	2,990	
Total First and Refunding Mortgage Bonds	$1,963,363	$1,747,434

	1979	1978
Debenture Bonds unsecured	*(Thousands of Dollars)*	
4¾% October 1, 1981	$ 31,289	$ 32,429
4⅝% October 1, 1983	26,595	27,113
5¾% June 1, 1991	43,782	44,540
7¼% December 1, 1993	30,659	31,596
9 % November 1, 1995	58,549	60,276
7¾% August 15, 1996	61,993	63,268
8¾% November 1, 1996	46,580	47,355
6 % July 1, 1998	18,195	18,195
Total Debenture Bonds	317,642	324,772
Other Long-Term Debt		
6½% Note due serially to November 15, 1983	2,160	2,640
Total Long-Term Debt		
Principal amount outstanding (note B)	2,283,165	2,074,846
Less amount due within one year (note C)	24,199	57,087
Long-Term Debt excluding amount due within one year (note C)	2,258,966	2,017,759
Net Unamortized Discount	(2,047)	(275)
Long-Term Debt less Net Unamortized Discount	$2,256,919	$2,017,484

C. The aggregate principal amount of requirements for sinking funds and maturities for each of the five years following December 31, 1979 is as follows:

Year	Sinking Funds	Maturities	Total
		(Thousands of Dollars)	
1980	$ 5,276	$ 18,923	$ 24,199
1981	9,550	31,480	41,030
1982	9,550	480	10,030
1983	8,450	46,820	55,270
1984	8,450	50,000	58,450
	$41,276	$147,703	$188,979

Notes:

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

B. As of December 31, 1979 the annual interest requirement on Long-Term Debt was $167,099,000 of which $144,261,000 was the requirement for First and Refunding Mortgage Bonds. The embedded interest cost on Long-Term Debt was 7.48%.

For sinking fund purposes, certain First and Refunding Mortgage Bond issues require annually the retirement of $19,400,000 principal amount of bonds or the utilization of bondable property additions at 60% of cost, and the portion expected to be met by property additions has been excluded from the table above. Also, the Company may, at its option, retire additional amounts up to $6,200,000 annually through sinking funds of certain debenture bonds. The election of any such option is included in long-term debt due within one year.

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

Notes to Financial Statements

1. 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% for 1979 and 48% for 1978 is as follows:

	1979	1978
	(Thousands of Dollars)	
Net Income	$233,329	$228,786
Federal income taxes included in:		
Operating income:		
Current provision	14,359	8,233
Provision for deferred income taxes–net*	99,187	159,941
Investment tax credit adjustments–net	10,419	(21,237)
Total included in operating income	123,965	146,937
Miscellaneous other income–net	1,952	3,012
Total Federal income tax provisions	125,917	149,949
Total	359,246	378,735
Earnings of subsidiaries–net	(1,721)	(793)
Pre-tax income	$357,525	$377,942
Tax expense at the statutory rate	$164,462	$181,412
Adjustments to pre-tax income, computed at statutory rates, for which deferred taxes are not provided under current rate-making policies:		
Tax depreciation (over) under book depreciation	11,357	7,454
Allowance for funds used during construction	(26,033)	(19,826)
Overhead costs capitalized	(6,935)	(6,351)
Other	(1,276)	(98)
Total	(22,887)	(18,821)
Amortization of deferred tax items	(15,658)	(12,642)
Total	(38,545)	(31,463)
Total Federal income tax provisions	$125,917	$149,949

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

Current Liabilities		
Unbilled revenues	$ (2,175)	$ 5,829
Under (Over) recovered fuel costs	6,604	(6,502)
Current portion of deferred debits	25,298	1,313
Total	29,727	640
Deferred Credits		
Atlantic Project Abandonment		132,203
Additional tax depreciation	32,287	33,257
Repair allowance property	6,701	5,782
Gross receipts tax	5,647	(5,547)
Unamortized fuel costs	25,232	(4,939)
Loss on reacquired debt	(571)	(415)
Other	164	(1,040)
Total	69,460	159,301
Total	$ 99,187	$159,941

The 1978 current provision for Federal income taxes is primarily due to the recapture of investment tax credits resulting from abandonment of the Atlantic Project.

The balance of investment tax credits not utilized as of December 31, 1979 in the amount of $96 million is available as a carryover to future years and will expire as follows: 1984-$10 million, 1985-$36 million, and 1986-$50 million. The carryover results principally from the abandonment of the Atlantic Project. The Tax Reduction Act of 1975 provides that for the year 1978 investment tax credits can be utilized to offset 80% of tax liability, and for 1979, 70% of tax liability before investment credit.

The Company has a Tax Reduction Act Employee Stock Ownership Plan (TRASOP) under provisions of the Tax Reduction Act of 1975, as amended. Such provisions permit the Company to elect an additional 1% investment tax credit if the Company transfers to the TRASOP an equivalent amount of its Common Stock or cash for the purchase of shares of Common Stock and thereby funds its TRASOP through a reduction in its Federal income tax payments. In 1978 the TRASOP was amended to permit the Company to claim an additional ½% investment tax credit for 1977 and subsequent tax years if it contributes an equivalent amount of Common Stock or cash, but only to the extent that such amount is matched by contributions by participants.

2. Investments in and Advances to Subsidiaries

Investments in and advances to subsidiaries (including the Company's equity in undistributed earnings or losses) are summarized as follows:

December 31,	1979	1978
	(Thousands of Dollars)	
Transport of New Jersey		
Investment*	$ 12,732	$ 10,909
Energy Development Corporation		
Investment	8,514	5,283
Advances	80,554	54,404
Other Subsidiaries, primarily LNG Project		
Investments	2,066	4,118
Advances	80,428	77,835
Total	$184,294	$152,549

*For information regarding possible sale, see page 28.

The major subsidiary included in "Other Subsidiaries" above is Energy Terminal Services Corporation (ETSC). The principal asset of ETSC is a Liquefied Natural Gas (LNG) terminal on Staten Island, in the New York City harbor area. Annual expenditures for protection and maintenance of the terminal, including local real estate taxes, are approximately $4,400,000.

The Company had originally intended to utilize the terminal for the importation of LNG. However, due to uncertainties and delays relating to the importation project, including lack of regulatory approvals and a supply of LNG, the terminal has not been placed in operation. The Company is now pursuing the utilization of the two storage tanks at the terminal to store supplies of domestic natural gas in order to meet the demands of its customers for gas on the coldest winter days. This will necessitate the construction of a liquefaction facility at the site. The additional construction will not proceed until the necessary permits are obtained from the appropriate federal, state and local regulatory agencies.

The ultimate realization of the carrying value of the investment may depend, among other things, upon the Company's ability to place the facilities in operation and the rate-making treatment granted by the regulatory agencies.

Any loss the Company may incur, if the above conditions are not resolved, is not presently determinable; however, in the opinion of the management of the Company, such loss, if any, would not have a material effect on the financial position of the Company or the results of its operations.

3. Compensating Balances

Cash at December 31, 1979 and December 31, 1978 consisted primarily of compensating balances under informal arrangements with various banks to compensate them for services and to support lines of credit of $199,900,000 and $198,150,000, respectively. There are no legal restrictions placed on the withdrawal or other use of these bank balances.

4. Pollution Control Bonds Escrow Funds

This balance represents proceeds received from the sale of Pollution Control Bonds which are released to the Company as reimbursement of costs for pollution control facilities during construction.

5. Abandonment of Atlantic Project

In December 1978, the Company cancelled its floating nuclear plant project and terminated its contract with Offshore Power Systems for the construction of four generating units. Total costs applicable to the project are accounted for as follows:

	(Thousands of Dollars)	
Total Atlantic Project costs, including AFDC of $45,134		$329,467
Less other charges:		
Nuclear fuel enrichment services:		
Assigned to Hope Creek 2	$5,015	
Sold	3,453	
Charged to various income, expense and property accounts	1,095	
Total other charges		9,563
Unrecovered costs charged to Extraordinary Property Losses, before tax reduction		$319,904*

*This amount plus $3,934 and $4,237 for other property losses represent the balances in Extraordinary Property Losses at December 31, 1979 and December 31, 1978, respectively.

The tax reduction associated with unrecovered Atlantic Project costs is $132,203,000 and is included in Accumulated Deferred Income Taxes.

In accordance with the rate order in May 1978, all legitimate costs applicable to the Atlantic Project, to be determined by the BPU after an appropriate investigation, are to be amortized over a period of 20 years, commencing with the effective date of the Company's next rate order but not sooner than March 1, 1980. The Company believes that all Project costs are legitimate costs, and, in its current rate proceeding, has requested that the net loss after tax reduction, $187.7 million, be amortized and recovered through rates. However, on February 6, 1980 the Administrative Law Judge in this proceeding issued an initial decision which would permit the recovery of $168.5 million of such costs through rates and leave $19.2 million of net unrecovered costs. The Company has filed exceptions to the initial decision. The actual amount of such costs to be recovered through rates will be determined by the BPU by its order in the proceeding. If any net Atlantic Project costs should not be permitted to be recovered through rates, the Company would be required to reduce Net Income in 1980 by that amount.

For additional tax information, see note 1.

6. Commercial Paper

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

	1979	1978
	(Thousands of Dollars)	
Maximum amount outstanding at any month-end	$94,875	$58,750
Daily average outstanding (A)	$20,658	$ 9,010
Weighted average annual interest rate (B)	11.85%	6.79%
Weighted average interest rate for commercial paper outstanding at year end	13.44%	

(A) Computed by multiplying the principal amounts of commercial paper by the days outstanding and dividing the sum of the products by the number of days in the year.

(B) Computed by dividing short-term interest expense by the daily average short-term borrowings.

7. Pension Plan

The Company has a non-contributory, trusteed plan covering all employees who complete one year of service. As of December 31, 1979, the unfunded prior service cost was approximately $288,893,000 and vested benefits were approximately $371,213,000. The market value of the plan assets, $204,638,000 at December 31, 1979, increased by $44,620,000 over the previous year as a result of contributions (net of pension payments), investment income, and a net appreciation in market value. The Company's annual contribution is actuarially determined to provide for full funding by December 31, 2001. Pension costs for the past two years were charged as follows:

	1979	1978
	(Thousands of Dollars)	
Operating Expenses	$34,452	$32,426
Utility Plant and Other Accounts	9,662	9,681
Total Pension Costs	$44,114	$42,107

8. Commitments and Contingent Liabilities

The Company has substantial commitments as part of its construction program as well as commitments to obtain sufficient sources of fuel for electric generation and adequate gas supplies. Construction expenditures, including AFDC, of $4.0 billion are expected to be incurred during the years 1980 through 1984.

Under the Price-Anderson liability provisions of the Atomic Energy Act of 1954, there is a limit of $560 million on each nuclear generating unit for public liability claims that could arise from a single nuclear incident. The Company is insured for each unit to the extent of its ownership against this liability to a maximum of $160 million by private insurance (the maximum amount presently available), and against

the balance of $400 million by a combination of a mandatory program of retrospective premiums to be assessed against owners of nuclear reactors after a nuclear incident (up to $5 million per incident but not more than $10 million in any calendar year for each licensed nuclear reactor in the United States), and indemnity agreements with the Nuclear Regulatory Commission. In the event of a nuclear incident involving any licensed reactor in the United States the Company could be assessed, on the basis of the three reactors now in service in which it owns a percentage interest, a maximum of $6.38 million for any such incident, but not more than $12.76 million in any year.

The Company is a member of Nuclear Mutual Limited (NML) which provides insurance coverages, up to $300 million, for property damage to nuclear generating facilities of member companies. In the event of losses at any plant covered by NML, the Company would be subject to a maximum assessment of fourteen times its annual premium. Such maximum assessment would currently amount to approximately $13.4 million.

The Company, under an agreement entered into in May 1972, agreed to provide a limited guaranty of not more than $76 million of the legal obligations of the Company's unconsolidated subsidiary, Transport of New Jersey (Transport), under its pension plan in the event Transport failed to meet such obligations, limited to pension benefits accrued to the date of the agreement. As of December 31, 1979 the actuarially computed value of the Company's obligation under the guaranty was approximately $46.6 million, which would be reduced by applicable pension fund assets. Under an interpretation of the Employee Retirement Income Security Act of 1974, the Company could be liable to the Pension Benefit Guaranty Corporation, a corporation established within the United States Department of Labor, for deficiencies in plan assets if the subsidiaries' pension plans were terminated. As of December 31, 1979, vested benefits of the Company's subsidiaries' pension plans exceeded fund assets by approximately $76 million. Any payments made under the guaranty would have the effect of reducing the Company's potential liability to the Pension Benefit Guaranty Corporation.

9. Jointly-Owned Facilities

The utility industry has long recognized the benefits of the construction, operation and financing of jointly-owned electric and gas facilities. The Company has been a participant and has ownership interests in a number of such facilities. In compliance with reporting requirements of the Securities and Exchange Commission, disclosure is made of certain data regarding the Company's interests in its jointly-owned projects in the annual report to the SEC on Form 10-K.

10. Accounting for Leases

The Company has certain leases for property and equipment which meet the criteria for capitalization, but in accordance with rate-making treatment are accounted for as operating leases. The capitalization of such leases would not have a significant effect on assets, liabilities or operating expenses.

11. Supplementary Information Concerning the Effects of Inflation (Unaudited)

The Company's financial statements are prepared in accordance with generally accepted accounting principles and are stated on the basis of historical costs, namely, the prices that were in effect when the underlying transactions occurred. The following supplementary financial information purports to show certain effects of general inflation on the Company's Utility Plant, Depreciation, and certain other data as prescribed by the Financial Accounting Standards Board in Statement No. 33, Financial Reporting and Changing Prices. As further prescribed, no adjustments were made to income tax expense. The general method used in developing this data is the Constant Dollar method which is based, fundamentally, on the Consumer Price Index for All Urban Consumers (1967 = 100). The effects of inflation are not recognized for income tax or ratemaking purposes.

The Company advises readers of the imprecise nature of this data and of the many subjective judgments required in the restatement of selected historical costs to constant dollars. This data should not be used to adjust the Company's primary financial statements and the related Earnings per average share of Common Stock other than that which is shown in the supplementary statements.

Supplementary Financial Data Adjusted for the Effects of General Inflation for the Year Ended December 31, 1979

	Historical Cost (Condensed from the Financial Statements)	Adjusted for Constant Dollar (In Average 1979 Dollars)
	(Thousands of Dollars)	
Operating Revenues	$2,416,707	$2,416,707
Operating Expenses		
Operation and Maintenance	1,441,721	1,441,721
Depreciation	162,989	318,782
Taxes	488,376	488,376
Total Operating Expenses	2,093,086	2,248,879
Operating Income	323,621	167,828
Other (including Interest Expenses)	(90,292)	(90,292)
Income from Continuing Operations (excluding Reduction of Utility Plant to Lower Recoverable Amount)	$ 233,329	$ 77,536*
Purchasing Power Gain on Net Monetary Liabilities Owed During the Year		$ 272,480
Reduction of Utility Plant at Historical Cost to Lower Recoverable Amount		413,526
Net		$ (141,046)

*Including the Reduction of Utility Plant to Lower Recoverable Amount, the Income (Loss) from Continuing Operations on a Constant Dollar basis for 1979 would have been $(335,990).

Supplementary Five-Year Comparison of Selected Financial Data Adjusted for General Inflation

(Historical figures are audited; all others are unaudited)

(000 omitted where applicable)

For the Years Ended December 31,	1979	1978	1977	1976	1975
			(Average 1979 Dollars)		
Operating Revenues					
Historical	$2,416,707	$2,219,785	$2,032,795	$1,869,535	$1,630,525
Adjusted	*$2,416,707*	*$2,469,710*	*$2,434,874*	*$2,383,794*	*$2,198,983*
Income From Continuing Operations (excluding Reduction of Utility Plant to Lower Recoverable Amount)					
Historical	$ 233,329				
Adjusted	*$ 77,536*				
Income From Continuing Operations per Average Common Share (excluding Reduction of Utility Plant to Lower Recoverable Amount)					
Historical	$ 2.85*				
Adjusted	*$ 0.47**				
Purchasing Power Gain on Net Monetary Liabilities Owed During the Year	*$ 272,480*				
Reduction of Utility Plant at Historical Cost to Lower Recoverable Amount	*413,526*				
Net	*$ (141,046)*				
Net Assets at Year End**					
Historical	$2,435,516				
Adjusted	*$2,303,094*				
Cash Dividends Declared per Common Share					
Historical	$ 2.20	$ 2.08	$ 1.92	$ 1.78	$ 1.72
Adjusted	*$ 2.20*	*$ 2.31*	*$ 2.30*	*$ 2.27*	*$ 2.32*
Market Price per Common Share at Year End					
Historical	$19.25	$20.25	$22.88	$23.00	$18.13
Adjusted	*$18.20*	*$21.70*	*$26.72*	*$28.69*	*$23.69*
Average Consumer Price Index (1967 = 100)	217.4	195.4	181.5	170.5	161.2

*After deducting the historical amounts of Cumulative Preferred Stock and $1.40 Dividend Preference Common Stock dividends.

**Reflects Common Equity and Non-Redeemable Preferred Stock.

General–Constant Dollar costs were determined by adjusting historical costs of Utility Plant and certain other items into dollars of the same general purchasing power by using the Consumer Price Index for All Urban Consumers (CPI-U). All adjusted figures are in average 1979 dollars. This method purports to show the effects of general inflation on the Company.

Income from Continuing Operations (excluding Reduction of Utility Plant to Lower Recoverable Amount)–As prescribed by the Financial Accounting Standards Board, items in the Income Statement, other than Depreciation, were not adjusted.

Depreciation–Depreciation expense calculated under the Constant Dollar method was determined using the rates and methods for computing book depreciation and applied to the historical depreciable Utility Plant balances. Such plant balances were first adjusted to reflect the decline in the purchasing power of the dollar by using the CPI-U.

Purchasing Power Gain on Net Monetary Liabilities Owed During the Year–The Company by holding monetary assets such as cash and receivables tends to lose purchasing power during periods of inflation because such monetary assets will buy fewer goods and services as the general price level rises. Conversely, by holding monetary liabilities, primarily long-term debt, future payments of such liabilities tend to be made with dollars having less purchasing power.

The Company has significant amounts of long-term debt outstanding, which, it is currently estimated, will be paid back in dollars having less purchasing power. During 1979 the Company's monetary liabilities (primarily long-term debt) exceeded monetary assets and therefore resulted in a net monetary gain. This gain, however, does not represent receipt of cash and should not be considered as providing funds to the Company.

Reduction of Utility Plant to Lower Recoverable Amount–The rate regulatory process of utilities in New Jersey limits the Company to the recovery of the historical cost of plant and equipment. However, the Financial Accounting Standards Board requires plant and equipment to be stated either in constant dollars or a lower recoverable amount. The Company's historical cost of Net Utility Plant, when restated to average 1979 dollars, would result in a lower recoverable amount.

Since the gain from the decline in purchasing power is primarily attributable to long-term debt which has

been used to finance utility plant, the Reduction of Utility Plant to a Lower Recoverable Amount is netted against the Purchasing Power Gain on Net Monetary Liabilities.

Replacement Cost (Unaudited)–It is anticipated that the actual cost of replacing productive capacity, when incurred, will be recovered through depreciation recognized, together with a return on the unrecovered investment thereon, in future rates allowed by regulatory bodies in the same manner that historic costs and returns on investments are being recovered in current rates. In compliance with reporting requirements of the Securities and Exchange Commission and Financial Accounting Standards Board, estimated replacement cost information is disclosed in the Company's annual report to the SEC on Form 10-K.

12. Financial Information by Business Segments

	Electric		Gas		Total	
For the Years Ended December 31,	1979	1978	1979	1978	1979	1978
			(Thousands of Dollars)			
Operating Revenues	$1,689,857	$1,564,834	$726,850	$654,951	$2,416,707	$2,219,785
Depreciation	122,953	119,346	40,036	38,902	162,989	158,248
Operating Income Before Income Taxes	369,409	386,054	78,468	81,288	447,877	467,342
Gross Additions to Utility Plant	484,356	472,795	53,779	40,962	538,135	513,757
December 31,						
Net Utility Plant	4,156,122	3,799,254	579,862	564,036	4,735,984	4,363,290
Gas Exploration Subsidiary and LNG Project			171,552	141,630	171,552	141,630
Other Corporate Assets					1,196,647	1,013,858
Total Assets					$6,104,183	$5,518,778

13. Selected Quarterly Data (Unaudited)

The information shown below in the opinion of the Company includes all adjustments, consisting only of normal recurring accruals, necessary to a fair presentation of such amounts. Due to the seasonal nature of the business, quarterly amounts vary significantly during the year.

Calendar Quarter Ended	March 31,		June 30,		September 30,		December 31,	
	1979	1978	1979	1978	1979	1978	1979	1978
				(Thousands)				
Operating Revenues	$664,707	$601,981	$517,813	$485,209	$592,069	$547,478	$642,118	$585,117
Operating Income	90,377	77,910	71,140	66,467	89,954	94,104	72,150	81,919
Net Income	68,055	56,052	49,312	46,054	68,210	70,814	47,752	55,866
Earnings Available for Common Stock	56,355	44,352	37,612	34,354	56,511	59,115	36,052	44,166
Earnings per Average Share of Common Stock	$.88	$.74	$.57	$.57	$.87	$.95	$.53	$.69
Average Shares of Common Stock Outstanding	64,143	59,808	64,531	60,134	64,973	63,362	67,954	63,765

Operating Statistics

(000 omitted where applicable)	1979	1978	% Annual Increase – 1979 compared with 1978	1969
Electric				
Revenues from Sales of Electricity (a)				
Residential	$ 545,049	$ 512,071	6.44	13.03
Commercial	625,596	574,557	8.88	15.48
Industrial	484,037	444,595	8.87	13.88
Public Street Lighting	31,437	29,925	5.05	9.72
Total Revenues from Sales to Customers	1,686,119	1,561,148	8.01	14.05
Interdepartmental	1,559	1,670	(6.65)	12.53
Total Revenues from Sales of Electricity	1,687,678	1,562,818	7.99	14.05
Other Electric Revenues	2,179	2,016	8.09	11.68
Total Operating Revenues	$1,689,857	$1,564,834	7.99	14.04
Energy Adjustment Revenues (included above)	$ 78,794	$ 12,583	526.19	8.93
Sales of Electricity–kilowatthours (a)				
Residential	7,777,369	7,760,868	.21	2.25
Commercial	10,336,445	10,152,827	1.81	4.91
Industrial	11,185,952	11,134,634	.46	.27
Public Street Lighting	260,915	260,922		1.21
Total Sales to Customers	29,560,681	29,309,251	.86	2.21
Interdepartmental	26,629	32,638	(18.41)	.61
Total Sales of Electricity	29,587,310	29,341,889	.84	2.21
Kilowatthours Produced and Interchanged–net	32,021,737	31,628,876	1.24	2.28
Load Factor	54.3%	54.6%		
Heat Rate–Btu of fuel per net kwh generated	10,566	10,599	(.31)	(.19)
Net Installed Generating Capacity at December 31–kilowatts	9,023	9,061	(.42)	3.90
Net Peak Load–kilowatts (60-minute integrated)	6,736	6,615	1.83	2.63
Cooling Degree Hours	7,201	7,188	.18	.08
Temperature Humidity Index Hours	14,545	13,899	4.65	.13
Average Annual Use per Residential Customer — kwh	5,233	5,378	(2.70)	1.38
Meters in Service at December 31	1,724	1,713	.64	.58
Gas				
Revenues from Sales of Gas (a)				
Residential	$ 415,157	$ 399,134	4.01	10.72
Commercial	179,970	163,931	9.78	13.61
Industrial	129,665	90,240	43.69	16.02
Street Lighting	274	248	10.48	13.39
Total Revenues from Sales to Customers	725,066	653,553	10.94	12.19
Interdepartmental	790	802	(1.50)	8.24
Total Revenues from Sales of Gas	725,856	654,355	10.93	12.18
Other Gas Revenues	994	596	66.78	32.63
Total Operating Revenues	$ 726,850	$ 654,951	10.98	12.20
Raw Materials Adjustment Revenues (included above)	$ 62,765	$ 25,554	145.62	16.22
Sales of Gas–therms (a)				
Residential	970,462	1,013,043	(4.20)	.22
Commercial	456,902	447,923	2.00	2.14
Industrial	410,605	306,672	33.89	.51
Street Lighting	350	367	(4.63)	(2.24)
Total Sales to Customers	1,838,319	1,768,005	3.98	.73
Interdepartmental	2,328	2,490	(6.51)	(3.95)
Total Sales of Gas	1,840,647	1,770,495	3.96	.72
Gas Produced and Purchased–therms	1,931,549	1,852,869	4.25	.77
Effective Daily Capacity at December 31–therms	18,639	18,639		2.65
Maximum 24-hour Gas Sendout–therms	13,349	12,235	9.11	2.53
Heating Degree Days (a)	4,677	5,317	(12.04)	(.88)
Average Annual Use per Residential Customer–therms	833	893	(6.72)	(.30)
Meters in Service at December 31	1,357	1,350	.52	.31

(a) Starting in 1973, revenues and sales by customer classification include accrued and unbilled dollar amounts and sales volumes from meter reading date to the end of the calendar year. To better reflect temperature effect on these recorded sales, heating degree days are also reported on a calendar-year basis effective with 1973. For 1969, heating degree days remain on a sales year basis.

1977	1976	1975	1974	1969
$ 492,473	$ 443,531	$ 413,005	$ 364,674	$ 160,159
531,118	474,791	429,428	377,184	148,359
414,058	367,470	341,749	336,250	131,900
27,622	25,863	23,375	20,473	12,437
1,465,271	1,311,655	1,207,557	1,098,581	452,855
1,916	1,585	1,573	1,183	479
1,467,187	1,313,240	1,209,130	1,099,764	453,334
2,931	2,837	4,358	1,201	722
$1,470,118	$1,316,077	$1,213,488	$1,100,965	$ 454,056
$ 257,902	$ 307,530	$ 419,154	$ 414,798	$ 33,507
7,769,629	7,711,953	7,598,964	7,514,365	6,226,250
9,747,908	9,514,574	8,994,855	8,687,964	6,398,908
10,627,734	10,472,054	10,144,917	11,244,117	10,890,176
259,277	259,151	256,755	253,395	231,264
28,404,548	27,957,732	26,995,491	27,699,841	23,746,598
38,331	34,996	39,910	31,072	25,055
28,442,879	27,992,728	27,035,401	27,730,913	23,771,653
30,771,719	30,376,187	29,255,628	29,730,774	25,554,653
50.9%	55.9%	53.3%	53.7%	56.2%
10,677	10,593	10,582	10,779	10,766
9,247	8,741	8,829	8,892	6,154
6,895	6,190	6,270	6,316	5,195
8,269	6,513	6,543	7,501	7,147
14,883	12,701	13,612	13,154	14,363
5,403	5,395	5,348	5,312	4,562
1,704	1,697	1,689	1,683	1,627
$ 344,444	$ 342,524	$ 259,095	$ 220,364	$ 149,897
137,811	140,809	102,656	86,463	50,237
78,474	68,341	54,369	46,971	29,341
178	159	116	94	78
560,907	551,833	416,236	353,892	229,553
572	476	647	481	358
561,479	552,309	416,883	354,373	229,911
1,198	1,149	154	535	59
$ 562,677	$ 553,458	$ 417,037	$ 354,908	$ 229,970
$ 113,787	$ 154,526	$ 106,795	$ 62,448	$ 13,957
980,570	1,045,627	968,487	977,994	949,154
432,810	468,761	447,600	459,074	369,731
329,211	307,949	344,987	407,840	390,256
376	389	404	428	439
1,742,967	1,822,726	1,761,478	1,845,336	1,709,580
2,064	1,764	3,204	3,088	3,482
1,745,031	1,824,490	1,764,682	1,848,424	1,713,062
1,811,019	1,895,041	1,823,191	1,913,826	1,788,981
18,933	19,449	19,575	19,324	14,350
14,006	12,803	11,077	11,763	10,400
5,155	5,349	4,653	4,629	5,111
862	924	862	872	858
1,350	1,354	1,355	1,352	1,316

Financial Statistics

(000 omitted where applicable)	1979		1978	
Condensed Statements of Income (a)	**Amount**	**%**	Amount	%
Operating Revenues				
Electric	**$1,689,857**	**70**	$1,564,834	70
Gas	**726,850**	**30**	654,951	30
Total Operating Revenues	**2,416,707**	**100**	2,219,785	100
Operating Expenses				
Fuel for Electric Generation and Interchanged Power–net	**620,546**	**26**	541,802	24
Gas Purchased and Materials for Gas Produced	**384,759**	**16**	327,990	15
Other Operation Expenses	**287,389**	**12**	268,769	12
Maintenance	**149,027**	**6**	127,423	6
Depreciation	**162,989**	**7**	158,248	7
Taxes Other than Federal Income Taxes	**364,411**	**15**	328,216	15
Federal Income Taxes	**123,965**	**5**	146,937	7
Total Operating Expenses	**2,093,086**	**87**	1,899,385	86
Operating Income				
Electric	**269,443**	**11**	266,513	12
Gas	**54,178**	**2**	53,887	2
Total Operating Income	**323,621**	**13**	320,400	14
Allowance for Funds Used During Construction (Debt and Equity)	**56,593**	**3**	41,305	2
Other Income–net	**6,263**		4,515	
Interest Charges	**(153,148)**	**(6)**	(137,434)	(6)
Net Income	**233,329**	**10**	228,786	10
Preferred and Preference Stock Dividends	**46,799**	**2**	46,799	2
Earnings Available for Common Stock	**$ 186,530**	**8**	$ 181,987	8
Shares of Common Stock Outstanding				
End of Year	**68,914**		64,120	
Average for Year	**65,409**		61,783	
Earnings per average share of Common Stock	**$2.85**		$2.95	
Dividends Paid per Share	**$2.20**		$2.08	
Payout Ratio	**77%**		71%	
Rate of Return on Average Common Equity (b)	**10.39%**		11.00%	
Ratio of Earnings to Fixed Charges Before Income Taxes (c)	**3.36**		3.77	
Book Value per Common Share (d)	**$26.26**		$26.13	
Utility Plant	**$6,325,033**		$5,810,329	
Accumulated Depreciation and Amortization	**$1,589,049**		$1,447,039	
Capitalization				
Mortgage Bonds	**$1,940,513**	**41**	$1,692,642	39
Debenture Bonds	**314,726**	**7**	322,682	7
Other Long-Term Debt	**1,680**		2,160	
Total Long-Term Debt	**2,256,919**	**48**	2,017,484	46
Redeemable Preferred Stock	**31,500**		35,000	1
Non-Redeemable Preferred Stock	**554,994**	**12**	554,994	13
$1.40 Dividend Preference Common Stock and Common Stock	**1,106,824**	**23**	1,014,184	23
Premium on Capital Stock	**557**		557	
Paid-In Capital	**26,065**	**1**	26,065	1
Retained Earnings	**747,076**	**16**	704,909	16
Total Common Equity	**1,880,522**	**40**	1,745,715	40
Total Capitalization	**$4,723,935**	**100**	$4,353,193	100

(a) See Summary of Significant Accounting Policies, page 29, and Notes to Financial Statements, page 37.

(b) Balance available for $1.40 Dividend Preference Common Stock and Common Stock divided by the average of beginning and end-of-year Total Common Equity.

1977		1976		1975		1974		1969	
Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
$1,470,118	72	$1,316,077	70	$1,213,488	74	$1,100,965	76	$ 454,056	66
562,677	28	553,458	30	417,037	26	354,908	24	229,970	34
2,032,795	100	1,869,535	100	1,630,525	100	1,455,873	100	684,026	100
536,801	27	484,174	27	478,312	30	456,439	32	84,670	12
257,897	13	261,190	14	198,653	12	144,020	10	77,851	11
253,831	12	227,395	12	201,865	12	192,168	13	125,087	18
124,876	6	99,617	5	83,494	5	91,467	6	53,180	8
147,652	7	133,087	7	122,634	8	106,683	7	74,105	11
293,796	14	275,254	15	240,967	15	213,576	15	95,504	14
120,969	6	100,380	5	54,368	3	21,061	1	30,772	5
1,735,822	85	1,581,097	85	1,380,293	85	1,225,414	84	541,169	79
250,385	13	236,359	12	217,429	13	187,593	13	110,870	16
46,588	2	52,079	3	32,803	2	42,866	3	31,987	5
296,973	15	288,438	15	250,232	15	230,459	16	142,857	21
49,540	2	43,547	3	43,325	3	56,027	4	9,605	1
1,447		2,654		1,758		(2,037)		994	
(133,718)	(7)	(130,615)	(7)	(136,709)	(8)	(130,609)	(9)	(62,380)	(9)
214,242	10	204,024	11	158,606	10	153,840	11	91,076	13
45,065	2	41,257	2	36,008	2	31,813	3	9,304	1
$ 169,177	8	$ 162,767	9	$ 122,598	8	$ 122,027	8	$ 81,772	12
59,806		58,976		56,523		52,531		32,704	
59,243		58,308		54,513		51,918		31,102	
$2.86		$2.79		$2.25		$2.35		$2.63	
$1.92		$1.78		$1.72		$1.72		$1.64	
67%		64%		76%		73%		62%	
10.96%		11.18%		9.01%		9.68%		11.72%	
3.52		3.34		2.56		2.33		2.96	
$25.57		$24.71		$24.02		$24.25		$21.19	
$5,654,097		$5,255,286		$4,920,768		$4,636,344		$2,810,313	
$1,314,916		$1,194,467		$1,078,124		$ 965,160		$ 639,517	
$1,647,445	40	$1,549,579	39	$1,418,854	36	$1,422,525	38	$884,377	42
330,812	8	341,511	9	380,619	10	389,640	10	333,306	16
2,640		3,120		153,600	4	153,600	4		
1,980,897	48	1,894,210	48	1,953,073	50	1,965,765	52	1,217,683	58
35,000	1	35,000	1	35,000	1				
554,994	13	524,994	13	474,994	12	434,994	12	149,994	7
919,752	22	900,384	22	855,874	22	797,386	21	374,538	18
557		550		550		550		252	
26,065		26,065	1	26,065	1	26,065	1	26,065	1
651,885	16	596,745	15	540,041	14	515,267	14	349,093	16
1,598,259	38	1,523,744	38	1,422,530	37	1,339,268	36	749,948	35
$4,169,150	100	$3,977,948	100	$3,885,597	100	$3,740,027	100	$2,117,625	100

(c) Net Income plus Income Taxes, Deferred Income Taxes, Investment Tax Credits and Fixed Charges divided by Fixed Charges. Fixed Charges include Interest on Long-Term and Short-Term Debt and Other Interest Expense.

(d) Total Common Equity divided by year-end Common Stock shares plus double the $1.40 Dividend Preference Common Stock shares.

Management's Discussion and Analysis of the Statements of Income

The following is a summary of the year-to-year changes followed by a discussion of those items which had a significant effect on the Company's results of operations.

	Increase or (Decrease)			
	1979 vs. 1978		1978 vs. 1977	
	Amount	%	Amount	%
	(Thousands of Dollars)			
Electric Operating Revenues	$125,023	8.0	$ 94,716	6.4
Gas Operating Revenues	71,899	11.0	92,274	16.4
Fuel for Electric Generation and Interchanged Power—net	78,744	14.5	5,001	.9
Gas Purchased and Materials for Gas Produced	56,769	17.3	70,093	27.2
Maintenance	21,604	17.0	2,547	2.0
Taxes Other than Federal Income Taxes	36,195	11.0	34,420	11.7
Federal Income Taxes	(22,972)	(15.6)	25,968	21.5
Allowance for Funds Used During Construction	15,288	37.0	(8,235)	(16.6)
Interest Charges	15,714	11.4	3,716	2.8

Electric Operating Revenues

Revenues increased 8% in 1979 and 6% in 1978. The components of these changes are highlighted in the table below:

	Increase or (Decrease)	
	1979 vs. 1978	1978 vs. 1977
	(Millions of Dollars)	
Rate changes including recoveries of energy costs through base rates	$ 37	$81
Recoveries of energy costs through levelized energy adjustment charges (1)	77	(19)
Increased kilowatthour sales	11	33
	$125	$95

(1) Represents revenues received as recovery of energy costs in excess of amounts included in base rates.

Growth in 1979 sales was limited to 1% by a lackluster New Jersey economy and the continuing conservation efforts by customers. In 1978, commercial and industrial sales rose 4% and 5%, respectively, responding to an improved economy. The 1978 improvement was restrained by the effect of a greater portion of sales being in the lower revenue per kilowatthour classes of business.

Gas Operating Revenues

Revenues rose 11% in 1979 and 16% in 1978. The principal factors are shown below:

	Increase or (Decrease)	
	1979 vs. 1978	1978 vs. 1977
	(Millions of Dollars)	
Rate changes including recoveries of gas costs through base rates	$ 9	$10
Recoveries of gas costs through levelized adjustment charges (1)	49	70
Increased Therm sales	14	12
	$72	$92

(1) Represents revenues received as recovery of gas costs in excess of amounts included in base rates.

The 1979 increase was slightly tempered by the effect of a greater portion of sales being in the lower revenue per therm classes of business. The increased sales, mainly in the interruptible and off-peak category, generated $26 million in additional revenue. The sharp reduction in the days of interruptions, 13 in 1979 against 136 in 1978, as well as the favorable price of gas compared to alternate fuels were the prime factors. However, gas sales to the remaining classes of customers decreased, reflecting both continued conservation and a less severe winter.

The higher gas sales in 1978 reflect improvement in the State's economy as well as the colder weather experienced during the year. Although total gas sales increased slightly, interruptible sales declined sharply as the result of the 136 days of curtailments, a 33% rise over the previous year, and because a number of interruptible customers turned to less expensive sources of fuel.

Fuel for Electric Generation and Interchanged Power– net

The Company belongs to the Pennsylvania-New Jersey-Maryland Interconnection (PJM) and is thereby able to optimize its generation-interchange mix, using the lowest cost energy available in the interconnection system at any given time. Energy costs are adjusted to match revenues recovered through the operation of the levelized electric energy adjustment clause. Total energy costs increased 15% and 1% in 1979 and 1978, respectively, as described below:

	Increase or (Decrease)	
	1979 vs. 1978	1978 vs. 1977
	(Millions of Dollars)	
Prices paid for fuel supplies and interchanged power	$218	$(45)
Increased kilowatthour output	7	16
Adjustment of actual costs to match recoveries through revenues	(146)	34
	$ 79	$ 5

The substantial price increases in 1979 reflect the spiralling fuel prices, most notably oil, and the reduced availability of lower cost nuclear generation both in the Company's capacity and in the PJM system. The lower energy prices in 1978 demonstrated the advantage of greater nuclear capacity and utilization.

Gas Purchased and Materials for Gas Produced

Gas costs are adjusted to match revenues recovered through the operation of the levelized gas adjustment clause. Costs were 17% higher in 1979 and 27% higher in 1978. Contributing factors are shown below:

	Increase or (Decrease)	
	1979 vs. 1978	1978 vs. 1977
	(Millions of Dollars)	
Higher prices paid for gas supplies	$54	$24
Refunds from pipeline suppliers	(12)	7
Increased therm sendout	14	7
Adjustment of actual costs to match recoveries through revenues	1	32
	$57	$70

Maintenance
The 17% increase during 1979 is primarily due to higher cost of maintenance at certain of the Company's steam and nuclear generating stations. Additional expenses were incurred in order to restore service following Tropical Storm David and in maintaining the distribution system.

Taxes Other than Federal Income Taxes
Taxes Other than Federal Income Taxes consists principally of New Jersey gross receipts tax which varies in direct proportion to electric and gas operating revenues. The $36 million or 11% rise experienced during 1979 was primarily attributable to an increase of $26 million in such gross receipts taxes and to an additional $7 million resulting from a revision of the Pennsylvania Public Utility Realty Tax which subjected additional jointly-owned property of the Company to the Act's provisions and imposed a one-time surtax payable in 1979. The $34 million rise in 1978 consists principally of a $26 million increase in gross receipts taxes and to a reversal in 1977 of $6 million of accrued Pennsylvania Public Utility Realty tax.

Federal Income Taxes
Federal income taxes decreased 16% in 1979 due to a decline in pre-tax operating income and the change in the statutory tax rate from 48% to 46%. The 22% increase experienced in 1978 was attributable to greater pre-tax operating income and a decrease in tax depreciation in excess of book depreciation for which deferred taxes are not provided. (See note 1 of Notes to Financial Statements.)

Allowance for Funds Used During Construction
The $15 million or 37% rise in total AFDC experienced during 1979 is principally attributable to higher levels of Construction Work in Progress. The 17% decrease in 1978 resulted primarily from the suspension of accruals on the Atlantic Project effective June 1, 1978 and the discontinuance of AFDC on Salem 1 due to its transfer to Utility Plant in Service on June 30, 1977.

Interest Charges
The increase in 1979 is principally due to the issuance of mortgage bonds and increased short-term borrowings at significantly higher rates.

Form 10-K Available
The Company is required by Securities and Exchange Commission (SEC) regulations to file with that agency a Form 10-K annual report containing certain detailed financial and other data. There are no accounting differences between the financial statements presented in this Annual Report to Stockholders and those in the Form 10-K report, but it does provide other information as required by SEC regulations.

Stockholders or other interested persons who wish to have a copy of the Company's Form 10-K report may obtain one without charge after March 31, 1980, by writing to the Vice President and Treasurer, Public Service Electric and Gas Company, 80 Park Place, Newark, New Jersey 07101. The copy so obtained will be without exhibits. Exhibits may be purchased for a specified fee.

Independent Accountants' Opinion

Deloitte Haskins+Sells

Certified Public Accountants
550 Broad Street
Newark, New Jersey 07102

To the Stockholders and Board of Directors of Public Service Electric and Gas Company:

We have examined the balance sheets and statements of capital stock and long-term debt of Public Service Electric and Gas Company as of December 31, 1979 and 1978 and the related statements of income, retained earnings, and changes in financial position for the years then ended. 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 financial statements, appearing on pages 29 to 41, inclusive, present fairly the financial position of Public Service Electric and Gas Company as of December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

February 15, 1980

Board of Directors

John F. Betz
President and Chief Operating Officer of the Company

Member of Executive and Finance Committees

Reynold E. Burch, M.D.
The private practice of medicine in the specialty of obstetrics and gynecology, East Orange, New Jersey; Clinical Associate Professor of Obstetrics and Gynecology, New Jersey Medical School, Newark, New Jersey.

Member of Audit Committee

C. Malcolm Davis
Chairman of the Board and director, Fidelity Union Bancorporation, Newark, New Jersey

Member of Executive and Finance Committees and Chairman of Nominating Committee

W. Robert Davis
Chairman of the Board, Chief Executive Officer and director, Bancshares of New Jersey, Moorestown, New Jersey; Chairman of the Board and director, The Bank of New Jersey, Camden, New Jersey

Chairman of Audit Committee and Member of Nominating Committee

Edward R. Eberle
Former Chairman of the Board of the Company

Member of Finance and Nominating Committees

Margery Somers Foster
Emeritus Professor of Economics and former Dean of Douglass College, Rutgers, The State University, New Brunswick, New Jersey

Member of Audit Committee

D. Wayne Hallstein
Director and former President, Ingersoll-Rand Company (diversified manufacturer of machinery, equipment and tools), Woodcliff Lake, New Jersey

Member of Finance Committee and Organization and Compensation Committee

James C. Pitney
Partner of the firm of Pitney, Hardin & Kipp, counsellors-at-law, Newark and Morristown, New Jersey

Member of Audit Committee

Kenneth C. Rogers
President, Stevens Institute of Technology, Hoboken, New Jersey

Member of Nominating Committee and Organization and Compensation Committee

William E. Scott
Executive Vice President–Finance of the Company

Member of Executive Committee and Chairman of Finance Committee

Robert I. Smith
Chairman of the Board and Chief Executive Officer of the Company

Chairman of Executive Committee and Member of Finance Committee

Robert V. Van Fossan
Chairman of the Board, Chief Executive Officer and director, The Mutual Benefit Life Insurance Company, Newark, New Jersey

Member of Executive and Finance Committees and Chairman of Organization and Compensation Committee

Nathan H. Wentworth
Former Chairman of the Board, The Continental Corporation (property and casualty, life and accident and health, and other types of insurance, and other financial services) and The Continental Insurance Companies, New York, New York

Member of Audit and Finance Committees and Organization and Compensation Committee

Officers

Robert I. Smith
Chairman of the Board and Chief Executive Officer

John F. Betz
President and Chief Operating Officer

Edward G. Outlaw
Executive Vice President–Corporate Planning

William E. Scott
Executive Vice President–Finance

James B. Randel, Jr.
Senior Vice President of the Company and President of Energy Development Corporation

Harold W. Sonn
Senior Vice President of the Company and President of PSE&G Research Corporation

Richard M. Eckert
Senior Vice President–Energy Supply and Engineering

Charles H. Hoffman
Senior Vice President–System Planning and Interconnections

Robert W. Lockwood
Senior Vice President–Administration

John F. McDonald
Senior Vice President–Governmental Affairs

Everett L. Morris
Senior Vice President–Customer Operations

Donald A. Anderson
Vice President–Computer Systems and Services

Frederick M. Broadfoot
Vice President–Law

Malcolm Carrington, Jr.
Vice President and Secretary

Robert M. Crockett
Vice President–Fuel Supply and President of Eascogas LNG, Inc.

Fredrick R. DeSanti
Vice President–Rates and Load Management

Gifford Griffin
Vice President–Interconnections

Carroll D. James
Vice President–Administrative Planning

Edward J. Lenihan
Vice President–Public Relations

Charles E. Maginn, Jr.
Vice President–Human Resources

Wallace A. Maginn
Vice President and Treasurer

Stephen A. Mallard
Vice President–System Planning

Winthrop E. Mange, Jr.
Vice President–Corporate Services

Thomas J. Martin
Vice President–Engineering and Construction

Parker C. Peterman
Vice President and Comptroller

Louis L. Rizzi
Vice President–Customer and Marketing Services

Frederick W. Schneider
Vice President–Production

Robert J. Selbach
Vice President–Transmission and Distribution

Changes in Organization

The Board of Directors, at a meeting held on September 18, 1979, adopted a resolution increasing the number of Directors from twelve to thirteen and, effective the same date, elected James C. Pitney a Director. Mr. Pitney, an attorney, is a partner of the law firm of Pitney, Hardin & Kipp of Newark and Morristown, New Jersey.

Robert C. Lydecker, Vice President and Assistant to the Chairman of the Board, retired on June 29, 1979, after more than 42 years of service.

Robert W. Hodge, Vice President–Commercial and Consumer Affairs, retired effective January 2, 1980, after nearly 34 years with the Company. Louis L. Rizzi, General Manager of Consumer Affairs, was elected to succeed him, effective January 2, 1980. Mr. Rizzi was designated Vice President-Customer and Marketing Services, effective January 15, 1980, in conformance with a change in the designation of the department.