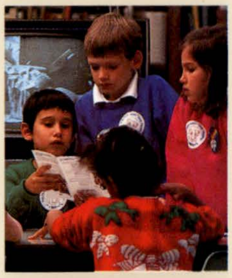
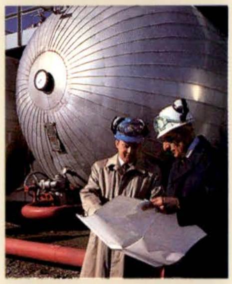
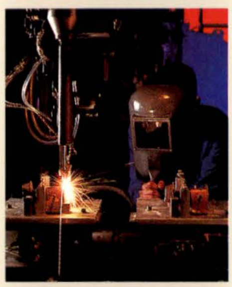
Public Service Enterprise Group Incorporated Annual Report for 1990







Our World

PSEG

Public Service Enterprise Group Incorporated (Enterprise) is a diversified public utility holding company. Public Service Electric and Gas Company (PSE&G), the principal subsidiary of Enterprise, is a regulated utility providing electric and gas service to more than two million customers and more than five and a half million residents of New Jersey. It is the state's largest utility and one of America's largest combined electric and gas companies.

Enterprise Diversified Holdings Incorporated, a subsidiary of Enterprise, is the parent company of Enterprise's nonutility businesses. These activities include investments, oil and gas exploration and production, cogeneration and small-power production, and commercial real estate investment and development.

Cover

PSE&G employees are a living part of the communities they serve, sharing the same aspirations as all New Jerseyans. Their contribution of over 250,000 hours of volunteer time extends from Scouting and Little League to volunteer fire and first aid squads, church activities, hospital aides, fund-raising efforts and appointed positions. They bring the same enthusiasm, expertise and organizational skills to their communities as they display on their jobs.

Contents

Text printed on recycled paper.

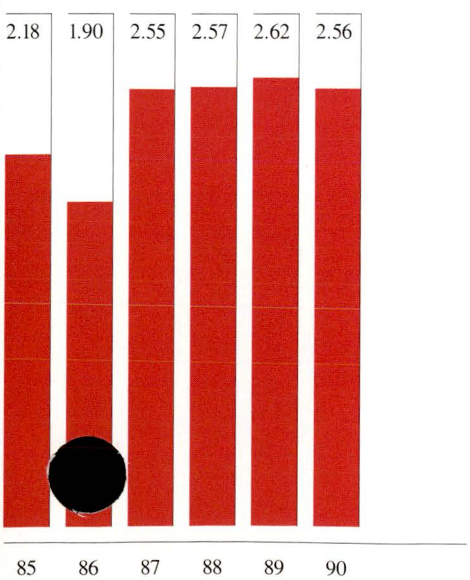
Financial Highlights

(Thousands of Dollars where applicable)	1990	1989	% Change
Total Operating Revenues	**$ 4,800,135**	$ 4,804,852	
Total Operating Expenses	**$ 3,826,655**	$ 3,865,042	(1)
Net Income	**$ 542,278**	$ 542,137	
Common Stock			
Shares Outstanding — Average (Thousands)	**211,981**	206,879	2
Shares Outstanding — Year-end (Thousands)	**218,472**	211,100	3
Earnings Per Average Share	**$ 2.56**	$ 2.62	(2)
Dividends Paid Per Share	**$ 2.09**	$ 2.05	2
Book Value Per Share — Year-end	**$20.44**	$19.85	3
Market Price Per Share — Year-end	**$26.375**	$29.25	(10)
Ratio of Earnings to Fixed Charges	**2.50**	2.66	
Ratio of Earnings to Fixed Charges — PSE&G	**3.10**	3.21	
Gross Additions to Utility Plant	**$ 968,023**	$ 674,214	44
Total Utility Plant	**$13,836,874**	$12,960,093	7

See Notes to Consolidated Financial Statements.

Earnings Per Share of Common Stock

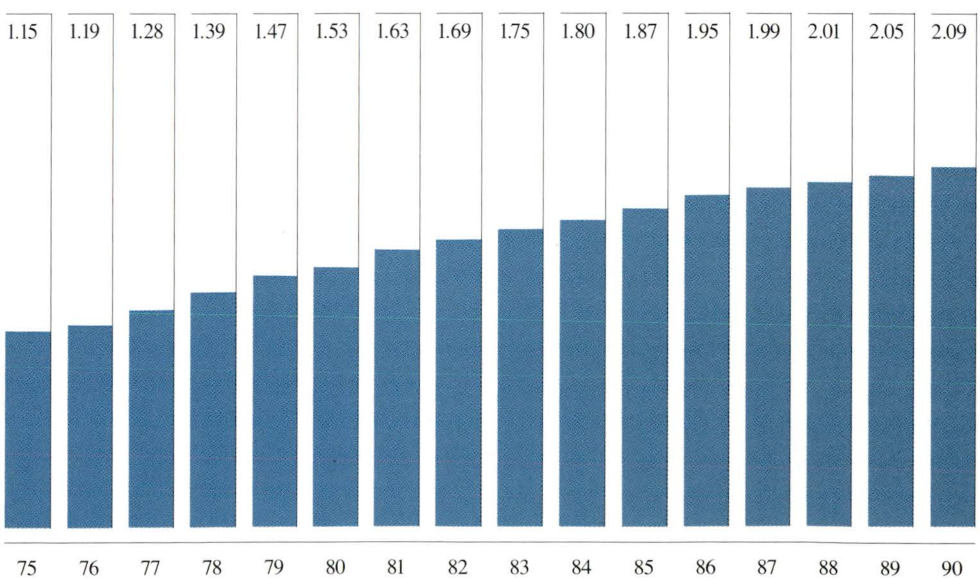
In Dollars*



*adjusted to reflect 3 for 2 common stock split effective July 1, 1987

Annual Dividend Payout Increased 15 Consecutive Years

In Dollars*



*adjusted to reflect 3 for 2 common stock split effective July 1, 1987

Dear Shareowner

Public Service Enterprise Group enjoyed a successful 1990 despite declines in electric and gas sales due to a softening economy and the warmest year in New Jersey since meteorologists began keeping records in 1895. The weather particularly had an impact on the sales and profitability of the company's natural gas distribution business.

Earnings in 1990 were $542.3 million, modestly above 1989's record level of $542.1 million. Earnings per share dropped 6 cents, to $2.56 in 1990 from $2.62 per share in 1989, due to the issuance of additional shares over the past 12 months. The year was especially satisfying in that we were able to achieve these results while holding down the rates of both our gas and electric customers. In fact, we have not filed a major base rate case in over five years, and our average electricity and gas prices today are below those of 1985.

Chairman E. James Ferland (c.) examines the status of improvements at Mercer Generating Station with Plant Manager Al Rudge (r.) and Ray Tripodi, Manager, Environmental Affairs. Unique construction of a new precipitator will enable the plant to comply with new air quality standards.

The talent and effort of our employees that made these results possible will be severely tested during the coming year, since we expect the current economic downturn to continue for at least the first half of the year and we continue to experience mild winter weather. The cumulative effects of five years of inflation on our costs acting in combination with a soft economy may make it necessary for our utility, Public Service Electric and Gas Company (PSE&G), to file for higher gas and electric rates in 1991.

Despite these challenges, we were able to achieve satisfactory financial performance in 1990, without sacrificing the quality or reliability of our services. An independent customer survey completed during 1990 indicated that more than 90 percent of our customers rate PSE&G as good or excellent at supplying electric and gas service, with especially high marks for reliability and prompt response to calls for service.

Reflecting its confidence in the company's financial condition, in November the Enterprise Board of Directors declared a modest increase in our common stock dividend — from 52 to 53 cents per quarter, an increase of approximately two percent. It was the 15th consecutive annual dividend increase.

Nuclear Operations

Our nuclear generating facilities enjoyed their most productive year ever. The Salem and Hope Creek units that we operate at Artificial Island in southern New Jersey, and the Peach Bottom units in Pennsylvania in which we have an ownership interest, had an aggregate capacity factor for the year of 74.8%, compared to an industry average of 66%. This reflects the commitment to excellence that we have made at our Salem and Hope Creek nuclear operations, as well as the significant progress that has been made by Philadelphia Electric Company in the operations of Peach Bottom. As a result, during 1990 almost 47% of the electricity supplied to PSE&G customers was produced from nuclear generation.

Both regulators and industry experts have recognized the significant improvement in PSE&G's operation of its Salem nuclear facility, and the continuing excellent performance at Hope Creek.

Nuclear power will continue to be a significant contributor to our electric business well into the next century. Not only do these plants produce low-cost energy, they do so without adding greenhouse gases or other emissions to the atmosphere.

Especially significant is the fact that these nuclear plants help to maintain New Jersey's energy independence at a time when events in the Persian Gulf have generated large fluctuations in the price levels of petroleum-based fuels.

Nonutility Earnings

Enterprise's four nonutility businesses produced earnings during 1990 of $33.7 million, up 25.8 percent from 1989. This contribution is significant, amounting to 6.2 percent of the earnings of Enterprise.

While Energy Development Corporation (EDC), our oil and gas exploration and production company, recorded an increase in earnings resulting in part from higher oil prices, our other major nonutility subsidiary, Public Service Resources Corporation (PSRC), which makes passive investments, fell short of its planned results largely due to 1990's depressed securities markets and the effects of a declining economy on the subsidiary's other investments.

Our nonutility companies will be challenged to contribute 10 percent of Enterprise earnings in 1991 — a long-standing target for these companies. The continuing weakness in natural gas prices affecting EDC, the increased competition for attractive investments for PSRC, and the soft real estate market for Enterprise Group Development Corporation, our real estate subsidiary, call for significant efforts on our part to reach this target.

New Initiatives

The future we envision for PSE&G includes continued improvement in supplying traditional gas and electric service, along with business expansion into closely related areas that will allow us to use our experience and market knowledge to best advantage.

A good example of our success in traditional markets was our aggressive campaign in 1990 to market oil-to-gas conversions to the industrial and commercial sectors of our market. Aided by sharply fluctuating oil prices and strict environmental regulations governing oil storage tanks, our marketing efforts resulted in the conversion of over 50 million therms of annual consumption from oil to natural gas.

Closely related to our gas business is our parts replacement program. Under this program, gas customers insure themselves against the cost of parts required to repair their natural gas house heaters and water heaters. Since we first introduced this service in 1983, this popular offering counted almost 240,000 customers under contract by last December.

For industrial electric customers, PSE&G initiated a pilot electric substation maintenance program in 1990. Customer substations reduce electrical voltage from transmission line voltages to levels suitable for use at a given location. These customer-owned substations require periodic, expert maintenance. This PSE&G service offering supplies the required expertise and has proved popular with customers who place reliability at the top of their priority list.

We continued to focus on changing our way of thinking about our businesses and our corporate culture to help us become better attuned to the new competitive world evolving around us.

Culture change is a demanding process that requires commitment, patience and a clear understanding of objectives to be attained. The management initiatives we are implementing and the programs we are developing, from new budgeting systems to new suggestion programs, involve all of our employees and are positive steps in a process that is already starting to show results. The ability to drive initiative and accountability down to lower operating levels, and to engender greater teamwork across departmental lines, were among the keys to our success in 1990, and will continue to be important elements for our success in the years to come.

External Issues

In addition to the unusual weather patterns and the economic downturn that affected our utility sales, there were a number of other external factors affecting our business during 1990.

Of vital importance is the need to ensure that all our operations are conducted in an environmentally sound manner, meeting or exceeding all regulatory standards.

While we are committed to full compliance, we believe that environmental measures should produce meaningful benefits for our customers and for the State of New Jersey. For this reason, we strongly oppose a preliminary recommendation by the State Department of Environmental Protection (DEP) that we construct cooling towers at our Salem Nuclear Generating Station.

The DEP asserts that the towers are necessary to eliminate possible future harm to the aquatic life in the Delaware River. We are convinced, after careful study of

22 years of river data, that Salem's operations have not harmed and will not harm the estuary. Constructing the cooling towers would impose an unnecessary and expensive burden on millions of ratepayers in New Jersey, Pennsylvania and Delaware while producing no meaningful improvement in the ecology of the river.

PSE&G estimates indicate that the cost of constructing these towers combined with the cost of replacing the power produced by the Salem plants during the extended shutdown necessary during cooling tower construction would range upward from $1 billion for the Salem co-owners.

While PSE&G and the DEP disagree on the cooling tower issue, all of our interactions are characterized by a spirit of cooperation, a determination to correct problems and a commitment to protect our environment.

With the concurrence of the DEP, for example, PSE&G made good progress in 1990 toward the cleanup of former gas manufacturing sites. Some of these sites are more than a century old and most ceased gas manufacturing operations decades ago. A preliminary assessment of 28 sites has been completed and remedial activities are underway at 13 sites.

In another area, PSE&G has received national recognition as a leader in responding to public concerns over possible health effects associated with electric and magnetic fields (EMF). Company representatives have appeared at public forums to speak about EMF in various municipalities and at state and national seminars devoted to the issue. And PSE&G has kept customers informed through a series of advertorial messages in newspapers throughout its service territory. We intend to continue our efforts in this area.

Strategic Summary

While making appropriate short-term adjustments to evolving economic and business conditions, Enterprise relies on strategic consistency to guide our planning for the long term.

Many of our strategies were explored in last year's annual report, but a few bear repeating:

Over the balance of this decade, Enterprise will continue to strive to be the low-cost provider of energy in the northeastern area of the country. We intend to continue to be a major factor in the generation segment of the electric business, and we intend to compete efficiently and successfully against all competitors.

PSE&G recognizes the important role that conservation must play in meeting New Jersey's energy needs now and in the future. We will continue to support effective conservation efforts, with particular emphasis on the development of financial incentives that benefit those utilities that are successful at stimulating conservation among their customers.

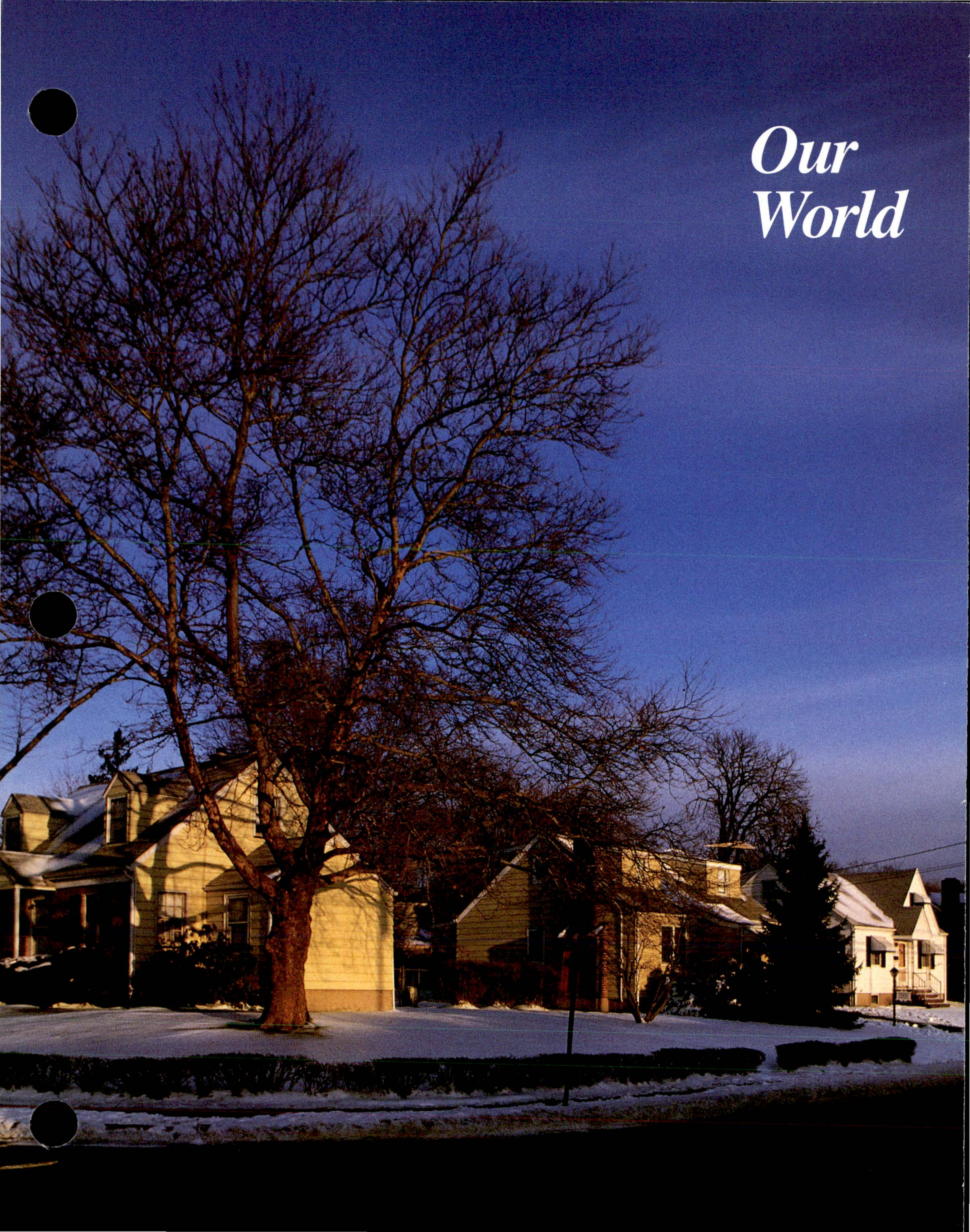
Through Enterprise Diversified Holdings Incorporated, we will continue our diversification program, which is aimed at long-term growth of shareowner value by engaging in businesses related to the energy industry, where our years of experience and know-how can be utilized most efficiently.

We intend to place continuing emphasis on empowering all Enterprise employees to fully utilize their ingenuity, experience and initiative in supplying the kinds of products and services that our customers want at competitive prices. We will stay close to our customers through our outreach efforts and surveys, to be sure we understand — and, in fact, anticipate — their changing needs.

Finally, we remain sharply focused on our com[illegible]nt to provide our shareowners with a fair return on th[illegible] investment and to enhance the value of Enterprise.

E. James Ferland
Chairman of the Board, President
and Chief Executive Officer
February 15, 1991

Our World



Our World: Dealing With a Changing Environment

Just as our company is significantly different than it was ten years ago, the world in which we operate is very different too. It is a world of continuing change and numerous constituencies, including the public at large, customers, investors, elected government officials, regulators, competitors, environmentalists and many others. Collectively and individually these constituencies have the ability to impact the company significantly either directly or indirectly.

Two trends signifying marked change over the past decade are the emergence of competition with other energy suppliers and the development of a heightened level of concern over the quality of our physical environment. These trends developed as a result of public concern, which eventually manifested itself in legislation and regulatory initiatives of considerable effect on our business.

Meeting the challenges posed by a changing world has required us to re-examine many fundamental assumptions. While in the past we may have been successful with a more reactive approach — not taking action until we were certain there was a problem — success today and tomorrow requires new and different approaches. One such approach is our effort to work in partnership with our public and private constituents to identify areas of agreement and focus on achieving results in ways that benefit all parties.

Critical to success in our dealings with the public sector is a sensitivity to evolving or new values, rising expectations and changing public perceptions. We must know and understand more about what is going on in the world than ever before. This means anticipating change and emerging issues better than before and adapting ourselves and our policies to deal with them in a positive and effective manner. It also means developing a keener appreciation of customer needs and how those needs can be satisfied by a company whose employees understand a changing society.

Knowledge of customer needs and public concerns is gained through interaction with these constituents. Whether they are private citizens, major industrial customers, elected officials, environmental groups or charitable organizations, more than ever before, it is essential that we all work together as partners in achieving common goals.

Satisfying Customer Expectations

Not only are we working effectively in our traditional markets, but we have initiated new services to meet customer needs. One benchmark of success in a service business is customer satisfaction. Based on a 1990 customer survey, more than 90% of our customers rate PSE&G as being good or excellent in supplying electric and gas service. While we are very pleased with the results, we are not content. We understand the need to continue providing the high quality of electric and gas services that our customers want at affordable rates, and at the same time to anticipate and develop new and improved services to match their future needs.

Safety education plays an important role in the utility's communications efforts. Joe Duh, Safety Coordinator, is one of 6 employees who regularly demonstrate electric safety principles to school children. Literature and educational materials on the safe use of gas and electricity are offered to all customers through PSE&G's bill inserts and advertising.

In cooperation with Campbell Soup, other Camden-area corporations and the State government, PSE&G has contributed staff time, expertise and financial support to the Cooper's Ferry project, part of Camden's economic redevelopment. Bill Fenimore, (r.) Manager, Public Affairs–South, discusses the progress of construction of the new aquarium with Ernie Miller, assistant project manager for the contractor.

PSE&G is presently investigating new electrotechnologies to help customers conserve energy and use it more efficiently. For example, we have achieved positive results for commercial and industrial customers using infrared drying, laser welding, waterjet and laser cutting, and induction processes. We have innovative programs for the use of alternate fuel vehicles to provide clean, more efficient fleet operations to help business and industry in New Jersey meet the new requirements under the Clean Air Act Amendments of 1990. And, we have customized services to support the manufacturing and distribution operations of industrial and commercial customers.

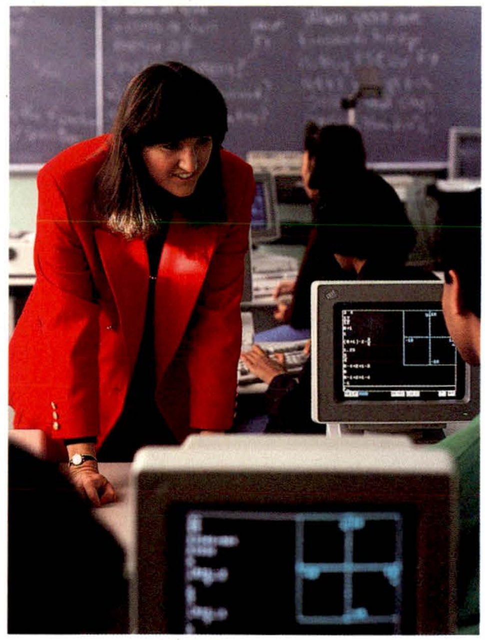
We intend to be sensitive to all of our customers' needs to ensure our continuing ability to provide the best possible services to them.

Corporate Citizenship

In addition to being responsive to customers, it is also essential today to be a good corporate citizen. This means working in partnership with state, county and local authorities and many other public and private organizations in ways that are beneficial to the interests of the state and its citizens, and consistent with company interests.

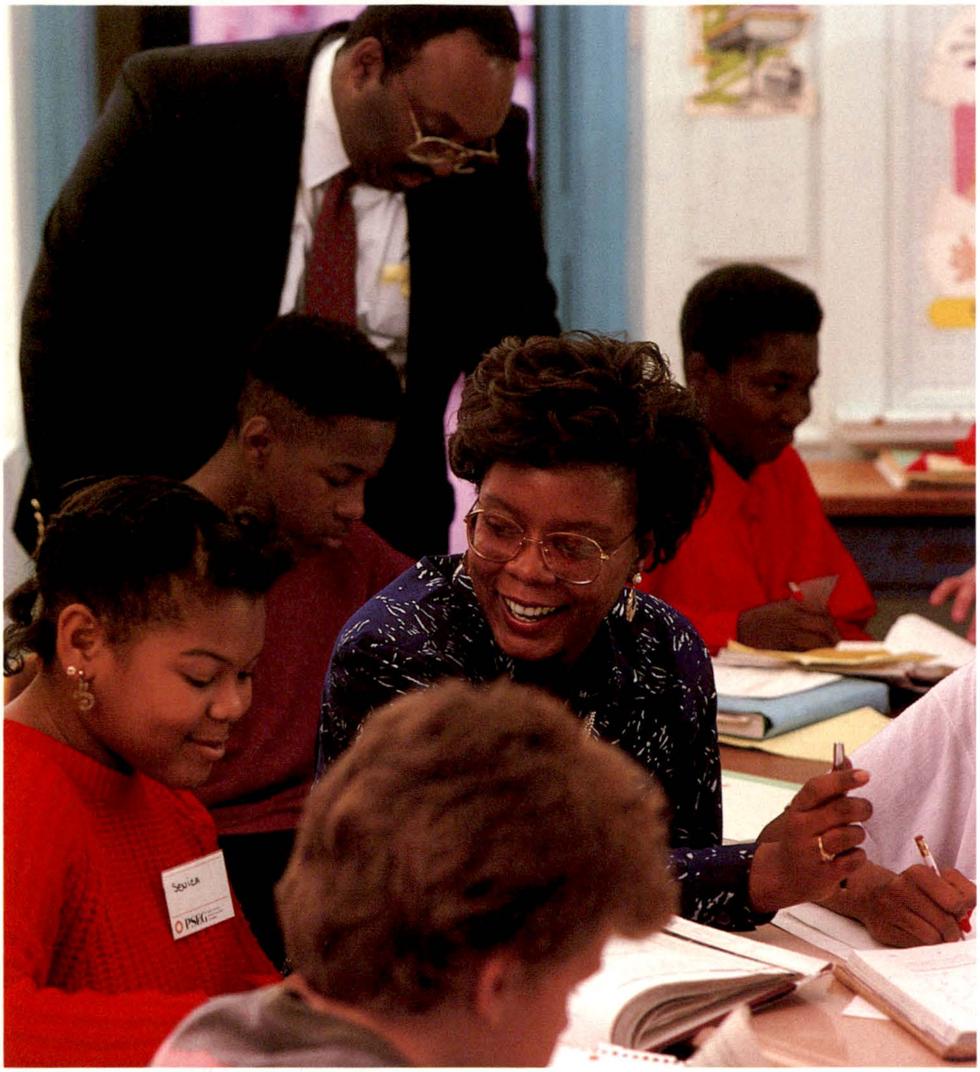
We have worked for many years to foster economic development within New Jersey, particularly in our service territory, collaborating with the state, local governments, the development community and others to retain business already here and to attract new companies.

We have focused on rebuilding the state's cities and provided leadership for an urban revitalization campaign that highlighted development opportunities in Newark, Jersey City, Camden and Trenton. Our aim is to bring economic vitality and jobs to these older cities in which PSE&G has a large investment in electric and gas distribution facilities. Generating new revenues here helps us to offset increasing costs that could force us to seek rate relief sooner than we might otherwise.



Sixty teachers from four communities currently participate in a program developed by Stevens Institute of Technology and supported by PSE&G to enhance mathematics education. Students improve their skills through the use of mathematics software as part of the program.

Our efforts in the community also include working with the educational establishment to help improve the skill levels of the current and future work forces. We are concerned about the ability of the work force of tomorrow to meet increasing employer demand for good skills. Among the many educational programs we support is the Ready Scholars program in Newark, which provides mentoring and counseling



Leslie Wright and Sam Jones, volunteers from PSE&G's Nuclear Department, assist with tutoring pupils at the Salem Middle School. Employees from Salem and Hope Creek generating stations have annually been leaders in the March of Dimes Walkathons, too.

to selected grade school children. The Public Service in Public Education program in Camden is directed at boosting students' science and math scores.

We work with state and local agencies and real estate interests to promote affordable housing, and with transportation officials to encourage development of an adequate transportation infrastructure. Our involvement can also include direct assistance in the form of company personnel serving as directors on the boards of civic organizations.

The company also participates in philanthropic efforts that affect the social and economic health of the state. We have concentrated our resources on three specific areas: *children's issues,* where we are working in education, drug awareness and child care — our award winning ChildWatch and Yoo Hoo programs are leading examples of child-related activities; *the environment,* where we are supporting organizations involved in public education, such as our video on the Living Tidal Marsh; and *economic development,* where we are working on urban revitalization and affordable housing.

Finally, good corporate citizenship includes corporate as well as individual integrity. More than ever before, it is critical to success in our dealings with all constituencies.

Volunteerism

Another key to corporate citizenship is having employees who are aware of what is going on in the world around us and committed and involved both on and off the job. The vast majority of PSE&G's employees live in New Jersey. They too are concerned about this state and their communities.

(Right) Through her volunteer work with AIDS-infected babies at St. Clare's Home in Jersey City, Rosemary Jefferson, Accounting Assistant, exemplifies the volunteer spirit of PSE&G employees. Her example has inspired others to join her in dealing with this tragic problem. (Above) Mike Young, Customer Service Outreach Representative, presents the Energy Bingo program to seniors in Allendale. Many special programs have been designed to assist the elderly. The company's outreach efforts have been recognized by an award from the National Council on Aging.

They breathe the same air, drink the same water, send their children to the same schools, and share the same hopes and dreams as all New Jerseyans. They are proud of New Jersey and work hard to make it a better place to live.

PSE&G has more than 2,400 employees who are involved in a multitude of volunteer activities. Some work in nursing homes; some coach Little League; some provide shelter to the homeless; some are volunteer firemen; and some provide recreation opportunities and tutoring for children who might otherwise be on the street.

The list of volunteer activities is lengthy. In addition to the volunteer activities that our employees perform on their own, there is also PSE&G EPIC — Employee Participation In The Community. This program provides employees with information about the many volunteer opportunities available in New Jersey, and matches willing workers with needy causes.

All told, PSE&G volunteers donated more than 250,000 hours to their communities in 1990. The number of employees who are engaged in volunteer activities is growing. Our employees have caught the volunteer spirit.

Many of the pictures on these pages show our volunteers in action. They deserve the credit. They do it on their own with no reward except the satisfaction of helping and the heartfelt thanks of those they assist. We are proud of their accomplishments.

Governmental Relations

Yet another area vital to success in our changing world is maintaining communications with elected and appointed officials who represent our customers at the federal, state and local levels.

Obviously, the facilities and operations of an electric and gas utility are critical to the welfare of the community. Problems can and do arise and, frequently, government officials are called upon to assist citizens. When this occurs, we are anxious to work with those officials in order to resolve their concerns. This is particularly important in the areas of locating sites for our new facilities and gaining approval for expansion when needed to meet increased customer demand. This has become an increasingly difficult challenge, and our goal is to anticipate concerns or issues and devise fair and acceptable solutions.

In the legislative area at all levels of government, there is a steady flow of proposed legislation that can have an impact on our business. At the end of 1990, more than 500 such items were pending, requiring a substantial effort to track, analyze and understand potential implications. Because of the impact many of these proposed bills would have on our customers in the form of higher costs, much of our energy is devoted to protecting our customers' interests.

Occasionally, there are times when it is desirable to propose legislation that can advance company and public interests. Examples of legisla-

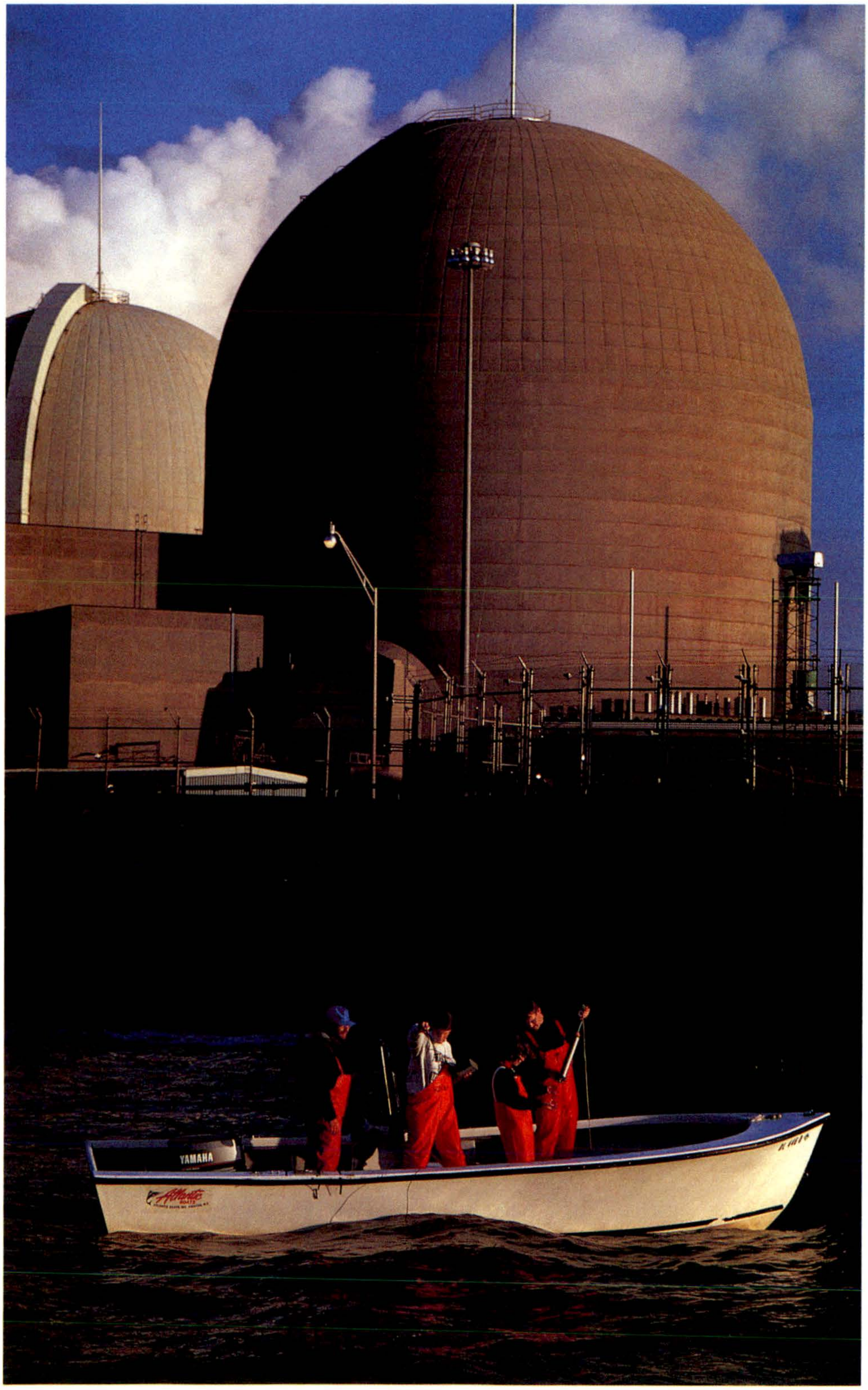
New Jersey's roads and highways are among the busiest in the nation, contributing to a deteri[...]f air quality. Vehicles fueled by clean natural gas may be a solution. This message was emphasiz[...] fleet owners through corporate sponsorship at the Marlboro Grand Prix last summer. Research into electric vehicles is also supported.

tion that PSE&G advocates include the development of electric and natural gas vehicle technology and reform of gross receipts and franchise taxes.

The Environment

A final area of critical importance is the physical environment. With the high level of public consciousness and concern for the quality of air, water and other resources, PSE&G works hard to be certain that all of its operations are conducted in a manner that respects the environment and meets all standards and regulations. We strive to ensure that environmental considerations are factored into all our planning and operations. This concern is included in our corporate goals, and every employee is expected to contribute to meeting this goal.

The energy on which our modern world depends cannot be created without affecting the environment in some way. Providing the gas and electricity to power our state's industry and to light, heat and cool our homes requires that we make environmentally sensitive decisions every day of the year. Our commitment is, however, to make those decisions based not only on meeting today's standards and expectations for environmental protection, but also with the expectation that tomorrow's standards probably will be stricter. At the same time, we must balance this goal with our obligation to provide reliable energy services at competitive rates to ensure a strong economy in New Jersey. Accomplishing these dual goals will be a major challenge in the 1990s.



The environment is one of PSE&G's key areas of concern and commitment. Monitoring water quality and marine life offshore from our nuclear stations is a constant activity designed to assure that plant operations do not cause adverse environmental impact. All stations have environmental engineers assigned to them to ensure that we continue to meet or exceed New Jersey's strict environmental standards.

Activities aimed at meeting our environmental goals include:

〉converting a portion of our motor vehicle fleet to natural gas and installing natural gas refilling stations at our facilities and those of NJ TRANSIT (NJT) for refueling their natural gas-powered buses that are used in northern New Jersey;
〉testing the use of electric vans in a pilot program designed to demonstrate the value of electric vehicles to governmental agencies and other potential customers;
〉purchasing cleaner fuels and installing new technologies to reduce emissions from our generating plants;
〉upgrading wastewater treatment and discharge facilities at many operating locations;
〉a communication and outreach program on electric and magnetic fields (EMF) to inform customers and the public about possible health effects from electric transmission and distribution facilities as well as electric appliances;
〉remediation programs at former manufactured gas plant sites;
〉introduction of long-range strategic environmental goals as a vital element in all our business planning operations; and,
〉recycling programs at many company sites to reduce waste flows consistent with state goals and objectives.

Concern for the environment is shared by employees, many of whom are voluntarily engaged in projects in their own communities. Neil Patel (left), Associate Engineer in Distribution, works with others to protect the sensitive ecology of the wetlands at Cheesequake Park in Monmouth County and teach visitors about plants and wildlife found in the park.

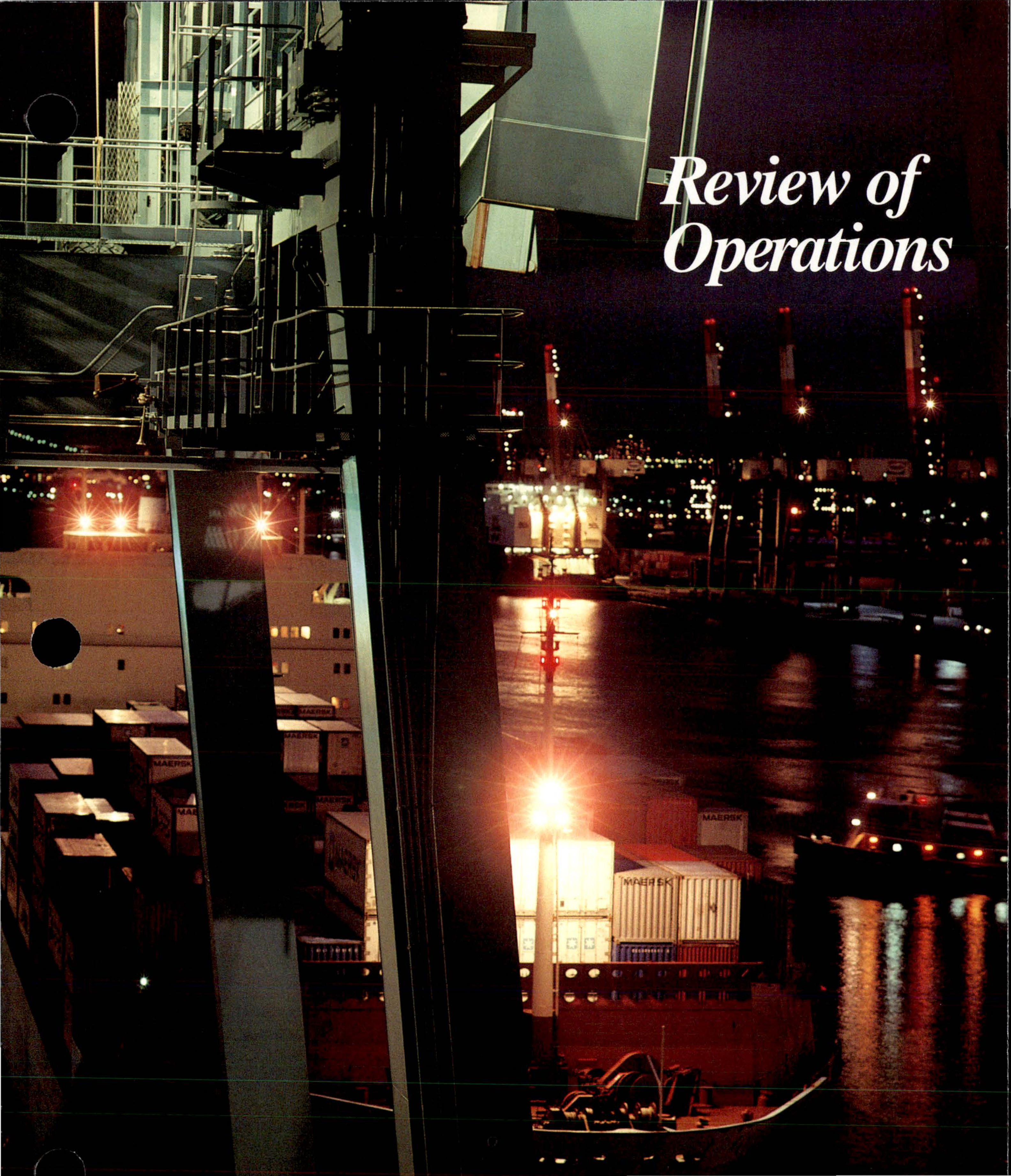
Soil testing at former gas plant sites, some of which are now used for residential or commercial purposes, is being conducted as part of PSE&G's gas plant remediation program.

Key to Success

We believe that our future success is dependent on our ability to be sensitive and responsive to changing customer and public needs. Success can only be achieved when these constituencies — the communities we serve and our customers — also realize their objectives.

Therefore, we realize we must work in harmony with those constituencies. That is always a challenge, but our future success depends

Review of Operations



1990 Financial Results

A combination of efficient internal operations and prudent cost cutting by PSE&G, together with earnings growth from nonutility businesses, kept Enterprise's earnings at record levels. This was especially significant because electric and gas sales by PSE&G were adversely affected by record-setting warm weather in the first and fourth quarters of the year and by the slackening of New Jersey's economy, primarily in the industrial area.

Consolidated earnings for the year were \$542.3 million, or \$2.56 per share of common stock, based on 212 million average shares outstanding. Earnings for the previous year were \$542.1 million, or \$2.62 per share, based on 206.9 million average shares outstanding.

Enterprise continued to produce a strong cash flow and to maintain a sound capital structure, ending 1990 with a common equity ratio of 46.4%. The year-end book value of common stock was \$20.44 per share, up three percent from \$19.85 at the end of 1989, when there were 7.4 million fewer shares outstanding.

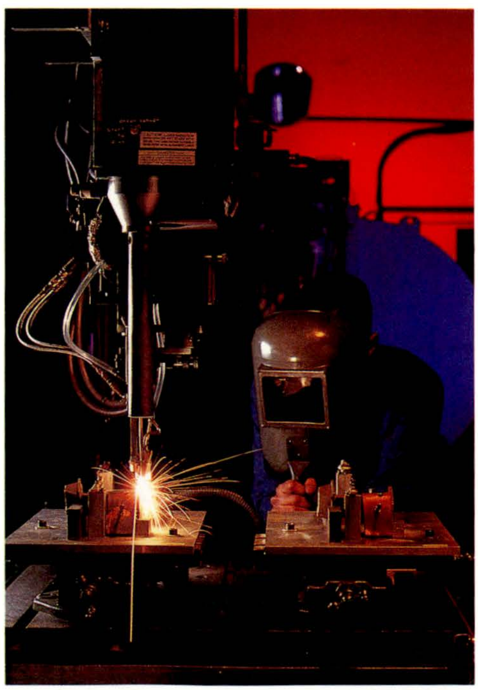
PSE&G's earnings to fixed charges coverage ratio was 3.10 times. The utility met most of its construction expenditures, approximately \$765 million, through internally generated funds.

The nonutility businesses of Enterprise Diversified Holdings Incorporated (Holdings) produced 6.2% of overall earnings, or approximately 16 cents per share, an increase of 25.8% and three cents per share over 1989. However, this earnings growth was below expectations due largely to lower return on investments of PSRC.

Overall consolidated revenues in 1990 were \$4.8 billion, about equal to 1989 revenues. PSE&G's electric revenues accounted for \$3.3 billion and gas revenues accounted for \$1.2 billion, with the balance coming from Holdings' nonutility businesses.

PSE&G's overall electric sales decreased 1.5 % from 1989 sales. Electric sales in the residential and industrial markets decreased 0.8% and 5.8%, respectively, while commercial sales were up 0.6% from 1989 sales.

Gas sales for 1990 were down 7.9%. Residential, commercial and industrial sales were down 12.5%, 4.0%, and 0.4%, respectively from 1989, while gas transportation service increased 21.7% from the previous year. Total gas sold or transported decreased 6.3%.



Engineers from marketing and the electric business work closely with industrial customers, like Quantum Laser, to take advantage of emerging technologies, keeping New Jersey's companies more competitive. This is one of many marketing and customer contact programs strengthening service and understanding of customer needs.

Earnings for the year were positively impacted when the Board of Public Utilities approved adjustments in PSE&G's electric and gas base rates to reflect the completion of deferred tax refunds to customers due to the reduction of federal corporate income taxes resulting from the 1986 Tax Reform Act. On the electric side, annual base rates increased by about \$23 million in 1990 and will increase another \$30 million in 1991. On the gas side, annual base rates increased by about \$5 million in 1990 and will increase another \$6 million in 1991.

In the fourth quarter, the Board of Directors increased the comm[illegible] stock dividend from 52 cents t[illegible] cents per share, indicating a change in the annual dividend rate from \$2.08 to \$2.12 per share. This increase of approximately 2% marked the 15th consecutive year in which the dividend was raised.

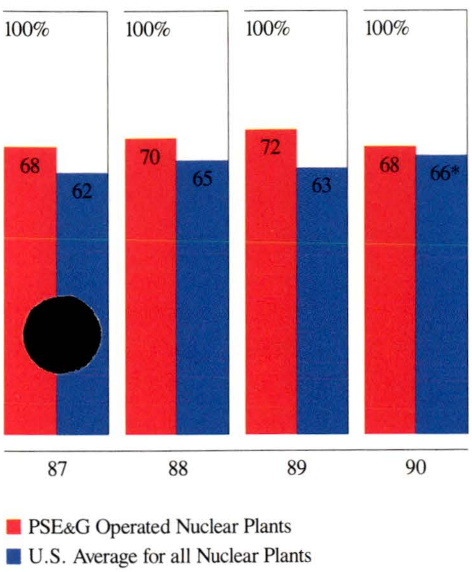
In December, Enterprise raised approximately \$126 million of new equity capital through a public offering of five million shares of common stock. The proceeds from the sale were used by Enterprise for general corporate purposes, principally to make additional equity investments in its subsidiaries, Holdings and PSE&G. The subsidiaries used the money to repay portions of their short-term debt.

Electric

The electric business in 1990 continued its journey toward accom[illegible]ing its long-range goal of achi[illegible]ing national recognition for PSE&G as the premier electric company in the Northeast.

Nuclear Performance

Percent Capacity Factor



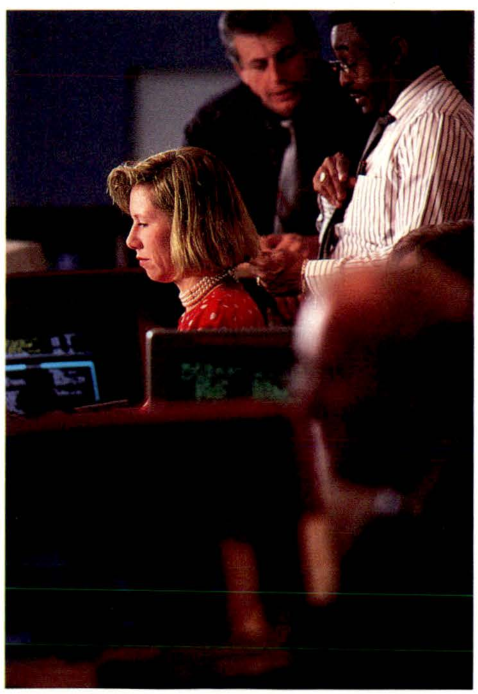
*U.S. Average is through October, 1990

The nuclear department led the way toward that vision of excellence with improved results at both Hope Creek and Salem nuclear generating stations as evaluated by the Nuclear Regulatory Commission (NRC).

The PSE&G-operated nuclear units, combined with the Peach Bottom units, posted their best generation year in 1990 with a 74.8% capacity factor, up from 72% in 1989.

Hope Creek surpassed its previous on-line record of 175 continuous days of operation on September 19 and continued for a record run of 221 days.

In the most recent Systematic Assessment of Licensee Performance (SALP) report from the NRC, Hope Creek received the highest possible marks in six of seven categories and the second highest mark in the category of maintenance and surveillance.



Electric production and transmission decisions, including integration with the PJM grid, are guided by the powerful "artificial intelligence" of computers interconnected by fiberoptic cable. New software capability can process 43,000 "facts" on the power system every three seconds for analysis and response.

With respect to Salem, the NRC concluded that Salem continued to operate in a safe manner. The NRC gave Salem the highest ratings in the areas of emergency preparedness and security, while all other areas received satisfactory ratings.

PSE&G is committed to further improving Salem's SALP scores and has instituted many system and personnel performance improvements to achieve that goal. In addition, major financial commitments were made at Salem to further enhance and revitalize the plant.

In 1990 the electric business:

› Updated its electric systems operations center, the command center which interlaces production and transmission of electric energy with energy from the Pennsylvania/Jersey/Maryland Interconnection to insure reliable distribution of the lowest-cost power throughout our service area.

› Continued pioneering work within the power industry on the application and development of robotics for testing and maintenance work. PSE&G received its first royalty check for contributions to the development of the CECIL Robot, which is used to inspect and to remove sludge and foreign materials from nuclear plant steam generators.

› Demonstrated innovative thermal storage techniques for air conditioning systems, which shift electrical demand from daytime peak periods to evening off-peak periods and thereby reduce energy costs to our customers. The program provides a one-time cash rebate for customers who install such storage systems.

› Completed replacement of Unit #9 at PSE&G's Essex Generating Station with a 77 MW industrial gas turbine unit. This was accomplished in record time. The new unit represents state-of-the-art technology incorporating the latest environmental protection features. Experience gained from this successful project will be useful in upgrading other generating facilities.

› Completed construction of a 2,000-ton electrostatic precipitator at the Mercer generating station, which will remove fly ash from the stack emissions at the station. Using a highly innovative technique, PSE&G built the precipitator outside of the station structure and then rolled it into position using four 200-ton hydraulic jacks. This procedure resulted in savings in construction costs of $4 million, and in savings to our customers of $5 million in replacement power costs by reducing outage time for the unit.

› Completed an underground storage tank replacement program, with 70 tanks replaced or retrofitted. All new tanks are equipped with sensitive electronic leak detection systems, overfill protection tubs, and vapor recovery devices on all pumps. The project was completed two years ahead of federal compliance deadlines.

Gas

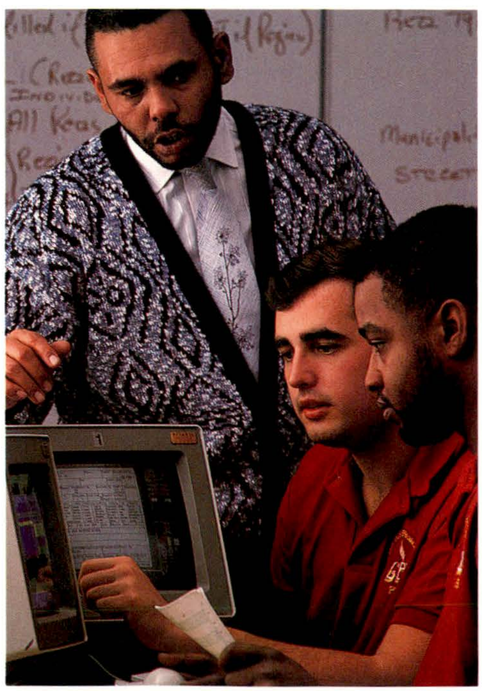
During 1990, PSE&G's gas business responded to the challenges and opportunities generated by the quickening pace of environmental awareness in the nation and the growing national concern regarding energy supplies.

The gas business intensively marketed the advantages of natural gas heat for the home, converting from oil heat 14,319 additional residences in its service area. In addition, 2,745 business conversions were completed.

PSE&G also actively promoted the potential of natural gas vehicles as an alternative to gasoline and diesel-powered vehicles, to improve the air we breathe and to reduce America's reliance on foreign oil.

In addition to converting 30 PSE&G service vans to natural gas use, the gas business designed and constructed a natural gas refueling station, which has just become operational at its New Brunswick gas district. PSE&G service personnel use the vans in the New Brunswick area during the workday. The vans are refueled overnight.

The gas business also designed and constructed a refueling station at NJ TRANSIT's Orange, N.J., garage. The station will be used to fuel five new natural gas buses that NJT will put into operation early in 1991. The station and buses are part of a joint PSE&G/NJT pilot project designed to test the long-term energy and environmental effects of natural gas-powered transportation vehicles.



A unique computer "game" speeds training of gas street workers at the Edison Training Center. This computerized gas leak simulator provides instant feedback on decisions, enabling trainees to correct their mistakes and reinforces correct answers. Other utilities have expressed interest in the program.

Among other operational gas business highlights were:

› Recognizing a substantial growth market for gas sales, PSE&G has agreed to provide gas service to four large electric cogeneration facilities. When completed, these facilities will consume, on average, approximately 245 million cubic feet of natural gas per day.

› PSE&G has begun work to completely rebuild and automate its liquefied propane air/gas plants in Harrison and Edison. These construction projects will enable the company to improve reliability.

› In order to meet expanding market needs, PSE&G initiated nine new gas supply projects, such as the Texas Gas/CNG/TRANSCO expansion project, and new service from Columbia Gas Transmission Corporation, which will provide additional pipeline supply in southern New Jersey. The nine proposed projects represent approximately 23 percent of the peak day sendout as experienced during December, 1989.

› And, during November PSE&G received its first firm supply of Canadian natural gas delivered through three U.S. pipeline systems — National Fuel, Tennessee Gas Pipeline Company and TRANSCO.

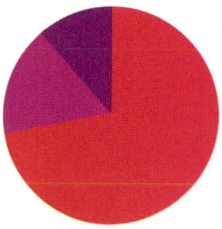
Enterprise Diversified Holdings Incorporated

The nonutility businesses of Enterprise Diversified Holdings Incorporated (Holdings) continued their planned program of measured growth. They contributed $33.7 million or 16 cents per share to 1990 consolidated earnings, an increase of $6.9 million or three cents per share compared to 1989.

Assets of the nonutility businesses increased from approximately $1.8 billion at year-end 1989 to approximately $2.4 billion at the end of 1990. They represented about 17% of Enterprise's overall assets at the end of 1990.

Allocation of Assets
December 31, 1990
Percent

Total Assets
$14.0 Billion



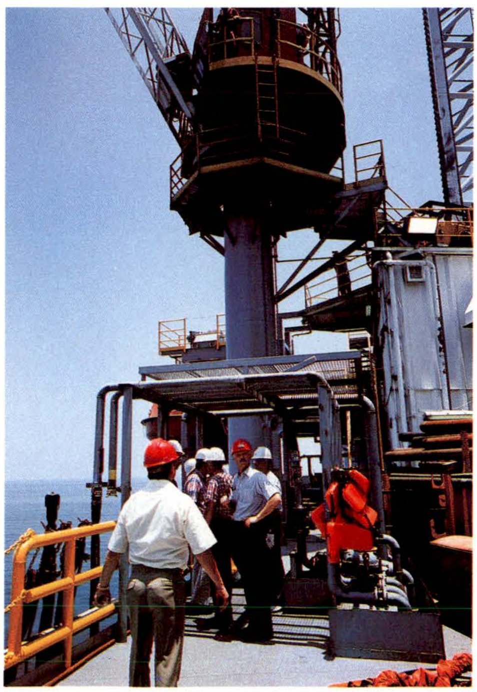
Pub[illegible]e
Ente[illegible]roup
Incorporated

- Electric 72%
  $10.1 Billion
- Nonutility 17%
  $2.4 Billion
- Gas 11%
  $1.5 Billion

Total Assets
$2.4 Billion

Enterprise
Diversified Holdings
Incorporated

- PSRC 47%
  $1,131 Million
- EDC 40%
  $950 Million
- EGDC 9%
  $215 Million
- CEA 4%
  $93 Million



In June, members of the Board of Directors visited offshore facilities of EDC in the Gulf of Mexico. EDC increased its reserves by 40% in 1990.

Public Service Resources Corporation

Public Service Resources Corporation (PSRC) makes diversified passive investments to provide funds for future growth as well as incremental earnings for Enterprise. It has passive investments in diverse sectors such as leveraged leases, venture capital funds, leveraged buyout funds, project financing, marketable securities and real estate.

Its leveraged lease portfolio includes investments ranging from commercial aircraft to nuclear power plants. One energy-related leveraged lease investment involved the Midland Cogeneration Facility in Michigan, which was originally planned as a nuclear unit and was subsequently converted to a natural gas-fired cogeneration station.

During 1990, PSRC assets increased about 41% to $1.13 billion.

Energy Development Corporation

Energy Development Corporation (EDC), an oil and gas exploration and production company based in Houston, Texas, continued to expand its proven reserve base in 1990 through a combination of acquisitions and exploratory and development drilling. The properties are located onshore and offshore in the Gulf of Mexico area. In 1990, EDC acquired proven reserves in Louisiana at a price of about $220 million, increasing its reserves by about 40%.

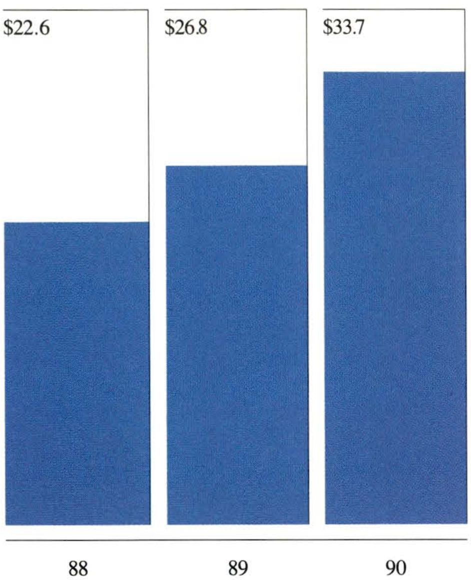
During 1990, EDC's assets rose about 34 percent to $950.5 million.

Community Energy Alternatives Incorporated

At year-end 1990, Community Energy Alternatives Incorporated (CEA), a developer of cogeneration

Combined Net Income of Nonutility Subsidiaries

Millions



and small-power projects, had invested in 22 projects, of which 18 had begun operation and four were under development. These projects are all undertaken as joint ventures.

One joint-venture project placed into service during the year was the Eagle Point Cogeneration Facility in West Deptford, N.J., which is fueled by natural gas and has a capacity of 225 megawatts.

Also in 1990, CEA, in partnership with a subsidiary of Brooklyn Union Gas Company, was selected by the Port Authority of New York and New Jersey to develop a natural gas-fired cogeneration facility to provide electric power and thermal energy to New York's John F. Kennedy International Airport.

At the end of the year, CEA's assets totalled $93.1 million.

Vertical boring equipment was used to extend a 20-inch gas main in West Deptford to the Eagle Point Cogeneration Plant. PSE&G will provide 2.2 million cubic feet of natural gas daily to this 225-megawatt facility, 50% owned by CEA. Over 140 megawatts of power are now provided to PSE&G by cogenerators.

Enterprise Group Development Corporation

Enterprise Group Development Corporation (EGDC) is a real estate development and investment business that invests in commercial office, retail and industrial properties over a wide geographical area.

In 1990, EGDC closed on two projects with a net investment of about $17 million. It now has interests in 13 properties including office buildings, warehouses and shopping centers.

At year's end, EGDC's assets totalled $214.7 million.

PSEG Capital Corporation; Enterprise Capital Funding Corporation

PSEG Capital Corporation (Capital) and Enterprise Capital Funding Corporation (Funding) are financing subsidiaries of Enterprise Diversified Holdings Incorporated. They were created to serve the needs of Holdings' nonutility businesses through the issuance and sale of debt obligations.

At the end of the year, Capital, whose debt is supported by Enterprise, had $750 million of long-term debt outstanding, $80 million of which was due within one year.

Funding, which was created in 1989 and whose debt is guaranteed by Holdings, had $272 million of short-term debt and $245 million of long-term debt obligations outstanding at year-end.

Financial Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations

Following are the significant factors affecting the consolidated financial condition and the results of operations of Public Service Enterprise Group Incorporated (Enterprise) and its subsidiaries. This discussion refers to the consolidated financial statements and related notes of Enterprise and should be read in conjunction with such statements and notes.

Overview

Enterprise has two wholly-owned subsidiaries, Public Service Electric and Gas Company (PSE&G) and Enterprise Diversified Holdings Incorporated (Holdings). Enterprise's principal subsidiary, PSE&G, is an operating public utility providing electric and gas service in certain areas in the State of New Jersey. Enterprise has claimed an exemption from regulation by the Securities and Exchange Commission (SEC) as a registered holding company under the Public Utility Holding Company Act of 1935, except for Section 9 (a)(2) which relates to the acquisition of voting securities of an electric or gas utility company. PSE&G, but not Enterprise, is subject to regulation by the New Jersey Board of Public Utilities (BPU) and the Federal Energy Regulatory Commission (FERC). Holdings was incorporated on June 20, 1989, and on July 1, 1989 it became the parent of Enterprise's nonutility businesses: Public Service Resources Corporation (PSRC), which makes diversified passive investments; Energy Development Corporation (EDC), an oil and gas acquisition, exploration, development and production company; Community Energy Alternatives Incorporated (CEA), an investor in and developer of cogeneration and small power production facilities; Enterprise Group Development Corporation (EGDC), a diversified nonresidential real estate investment and development company; and PSEG Capital Corporation (Capital), which provides up to $750 million of privately placed debt financing for the nonutility subsidiaries on the basis of a support agreement from Enterprise. Holdings' other financing subsidiary, Enterprise Capital Funding Corporation (Funding), currently provides privately placed debt financing for the nonutility subsidiaries on the basis of the consolidated financial position of Holdings without direct support from Enterprise.

Consolidated Tax Benefits

The BPU does not directly regulate Enterprise's nonutility activities. However, in a case to which Enterprise and PSE&G are not parties, the BPU is currently considering whether Federal income tax losses generated by the nonutility businesses of a holding company should be utilized by the BPU to benefit customers of the regulated utility in setting retail utility rates. The Internal Revenue Service (IRS) has issued for comment a proposed rule which effectively would provide that the tax benefits of a utility's nonregulated affiliates may be treated as a reduction of the utility's rate base for ratemaking purposes. If the utility's rate base is reduced by the BPU, a utility's revenues and net income would be reduced. Although the net effect of any such loss of revenue would not be material to Enterprise in the short-term, no assurances can be given as to the effect of such losses on a long-term basis. Enterprise is monitoring the BPU and IRS proceedings to determine what action it, or any of its affiliates, should take.

Factors Affecting PSE&G's Electric and Gas Sales

New Jersey recorded its warmest year in 1990 since meteorologists began keeping records in 1895. New Jersey set a record for warm weather during the first four months of 1990 and ended 1990 with its second warmest December on record. This significantly reduced 1990 gas sales. In addition, although the period from May through November 1990 was warm, there were no exceptional periods of hot or cold weather and the summer months of 1990 were cooler than 1989 and 1988. As a result, 1990 residential electric and gas sales were below 1989 sales. In addition to such adverse effect of weather, sales were negatively impacted, commencing in the third quarter of 1990, by the general economic slowdown in New Jersey, which is expected to continue at least through the second quarter of 1991.

PSE&G Energy and Fuel Adjustment Clauses

PSE&G has fuel and energy tariff rate adjustment clauses which are designed to permit adjustments for changes in electric energy and gas raw materials costs, as approved by the BPU, when compared to levels included in base rates. Charges under the clauses are based upon energy and gas supply costs which are normally projected over twelve-month periods. The changes in the Levelized Gas Adjustment Clause (LGAC), formerly the gas Raw Materials Adjustment Clause (RMAC), and the electric Levelized Energy Adjustment Clause (LEAC) do not directly affect earnings because the costs of gas, fuel and net interchanged and purchased power are adjusted monthly to match amounts recovered through revenues. However, the carrying of underrecovered fuel costs ultimately increases financing costs. Under the clauses, if actual costs differ from the costs recovered, the amount of the underrecovery or overrecovery is deferred and is reflected in the average cost used to determine the fuel and energy tariff rate adjustment for the period in which it is recovered or repaid. In addition, actual costs otherwise includable in the LEAC are subject to adjustment by the BPU in accordance with its nuclear performance standard.

Competition — Electric

PSE&G is experiencing competition from cogeneration and small power production projects being constructed pursuant to the Public Utility Regulatory Policy Act of 1978 and otherwise from nonutility generation suppliers. The projects generally supply electric and steam energy to existing or new PSE&G industrial and commercial customers and excess electricity is sold to PSE&G and others. If large volume electric customers gain access to nonutility sources, a significant decrease in PSE&G's electric revenues and earnings could result. During 1990, PSE&G did not lose any large volume customers to nonutility sources. Nonutility generation is expected to account for a substantial portion of PSE&G's planned capacity additions through 1996. It can be expected that competition will increase in the electric industry.

Competition — Gas

In 1987 FERC issued Order 500 which allows gas pipeline companies and producers enhanced access to certain PSE&G customers for the purpose of supplying gas service in competition with PSE&G. As of December 31, 1990, 204 former large scale gas customers purchased gas directly from producers and other sellers and arranged for the transportation of gas from the wellhead through PSE&G's gas mains. This procedure allows the producer or other seller of natural gas to avoid the New Jersey Gross Receipts Taxes of approximately 13%. However, such gas is transported within New Jersey by PSE&G under rates that provide PSE&G with substantially the same margin as if PSE&G had sold the gas itself. This regulatory framework has increased competition in the gas market by encouraging pipelines to act as nondiscriminatory transporters of natural gas. Transportation service gas accounted for 7.4% of PSE&G's total gas sold or transported and 1.3% of total gas revenues as of December 31, 1990. Aggressive competition in the gas supply business can be expected to continue.

New Jersey Gross Receipts Taxes

PSE&G, as well as all other electric and gas utilities in New Jersey, pays Gross Receipts Taxes that, in effect, add approximately 13% to the bills of most customers. Such taxes are not paid by vendors of other energy forms nor by nonutility suppliers of electricity and natural gas, thereby putting utilities at a competitive disadvantage. On February 19, 1991, the New Jersey Division of Taxation adopted an amendment to a regulation which increases utility revenues subject to this tax and which could have a material adverse effect upon PSE&G's financial condition if PSE&G were not permitted by the BPU to recover such increased taxes from customers on a timely basis. PSE&G cannot predict what action the BPU might take.

Earnings

Earnings per share of common stock were $2.56 in 1990, $2.62 in 1989 and $2.57 in 1988. Per share earnings and the increases (decreases) in earnings are summarized as follows:

	1990 vs. 1989		1989 vs. 1988	
(Millions of Dollars except per share amounts)	Amount	Cents per Share	Amount	Cents per Share
PSE&G				
Revenues (net of fuel costs and gross receipts taxes)	$ 32	$ .15	$ 68	$ .33
Capacity deficiency credit	11	.05		
Other operation expenses	(55)	(.26)	(5)	(.03)
Maintenance expenses	30	.15	33	.16
Depreciation and Amortization expenses	(17)	(.08)	(24)	(.11)
Interest charges	(10)	(.05)	(20)	(.10)
Federal income taxes	4	.02	(44)	(.21)
Other expenses	(2)	(.01)	2	.01
Total	(7)	(.03)	10	.05
Holdings	7	.03	4	.02
Effect of issuing additional shares of Enterprise common stock		(.06)		(.02)
Total	$ —	$(.06)	$ 14	$.05

The Average Shares of Common Stock Outstanding were 211,981,434 for 1990, 206,878,500 for 1989 and 205,350,418 for 1988.

PSE&G

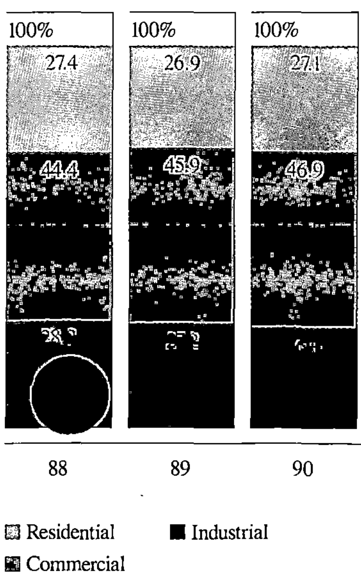
The decrease in PSE&G's net income during 1990 compared to 1989 was due primarily to lower electric kilowatthour sales of 1.5% resulting principally from the cooler summer weather, when compared to 1989, and a decrease in firm gas sales of 10.7% due to the record-setting warm weather during the winter and spring of 1990 in New Jersey; a deterioration of New Jersey's economy, primarily in the industrial area; increasing competition from nonutility suppliers of electricity (which resulted in the loss of two large industrial customers in 1989); and a temporary shutdown of a major electric customer's facility from April to July 1990. In addition, earnings were reduced in 1990 by higher labor and pension costs, uncollectible customer accounts, interest and depreciation. Partially offsetting the decrease in net income were lower maintenance expenses at Hope Creek, Peach Bottom and Hudson generating stations, the retention of $10.5 million of revenues approved by the BPU on February 7, 1990 in the LEAC Stipulation relating to the sale of capacity to Atlantic Electric Company and Potomac Electric Company, previously recorded as a reduction in PSE&G's energy costs, and the termination as of December 31, 1989 of revenue credits attributable to the 1987–1989 outage of the Peach Bottom units. (See Revenues — PSE&G – Electric below and Note 2 — Rate Matters of Notes to Consolidated Financial Statements.)

PSE&G's higher depreciation expense on its investment in plant and equipment and greater operating costs, which include higher uncollectible customer accounts, may be expected to continue to adversely affect earnings to the extent that they are not recovered through timely rate relief or offset by sales growth, neither of which can be assured. PSE&G's present base rates have been in effect for four years, with only minor adjustments to reflect tax changes and LEAC and LGAC adjustments. Further, it is anticipated that PSE&G's electric and gas sales and collection of receivables will be adversely affected by deteriorating economic conditions in New Jersey. As a result, PSE&G may find it necessary to request base rate in[illegible] for either or both electric and gas services during 1991. (S[illegible]idity and Capital Resources.)

As [illegible] December 31, 1990, PSE&G's financial statements include $41.3 million as a deferred balance remaining from a write down of $134.5 million, or $70.5 million net of taxes, of the value of EDC's reserves when EDC was removed from PSE&G's gas rate base for ratemaking purposes. This balance is continuing to be amortized at approximately $7 million per year. Recovery of the full amount associated with the write-down of reserves will be considered in PSE&G's next gas base rate case. Denial of the recovery of any

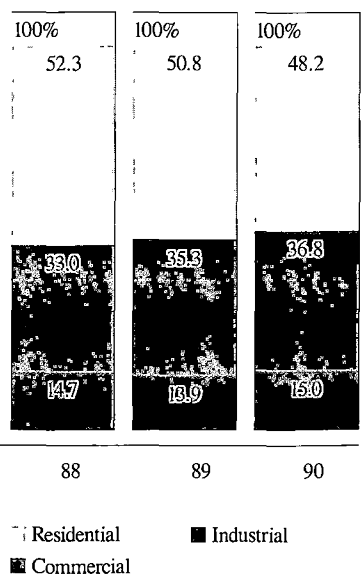
Electric Kilowatthour Sales

Percent



Gas Therm Sales

Percent



unamortized balance by the BPU would require an immediate write-off. (See Note 11 — Commitments and Contingent Liabilities, Oil and Gas Property Write-Down, of Notes to Consolidated Financial Statements.)

As of December 31, 1990, PSE&G comprised 82.8% of Enterprise's assets, 95.2% of Enterprise's revenues and 93.8% of Enterprise's net income.

The increase in earnings in 1989 compared to 1988 was primarily due to higher electric kilowatthour and gas therm sales, an increase in electric and gas customers and reduced 1989 operating expenses, principally maintenance expenses and labor costs.

Holdings

The net income of the diversified businesses was $34 million in 1990, an increase of $7 million over 1989, representing 6.2% of Enterprise's 1990 net income. Holdings' net income increased during 1990 compared to 1989 primarily due to EDC's higher production and sales of natural gas resulting from its acquisition of Pelto Oil Company in November 1989 and the acquisition of producing natural gas wells in late 1990, partially offset by voluntary curtailments of gas production and sales by EDC due to low gas prices during mid-1990 and by lower net income of PSRC due to a lower return on investments and higher interest expense.

EDC sells gas and oil at prices that are largely dependent upon prevailing market conditions. Low gas prices during portions of 1990, and in the early part of 1991, have therefore had a direct adverse impact on earnings. In addition, low gas prices have in the past and may in the future cause EDC to voluntarily curtail gas production and sales, further impacting earnings.

PSRC's investments are diversified among a number of market segments, including aircraft and other leases, marketable securities, including bank debt and equity, and real estate partnerships. Earnings of PSRC could be affected by the ability of PSRC to produce expected returns due to the financial condition of the assets underlying the investment or the entity with which certain investments were made, and any additional capital contributions by PSRC that could be required. (For information regarding PSRC's $31 million investment in Second National Federal Savings Bank, see Note 11 — Commitments and Contingent Liabilities, Public Service Resources Corporation, of Notes to Consolidated Financial Statements.)

The projects in which EGDC has invested include a number of buildings in various stages of completion, some of which were undertaken without prior lease commitments from tenants for such buildings. Deterioration of the real estate markets in which those buildings are located may result in EGDC or the joint venture which owns those buildings receiving lower net operating income than they expected, requiring EGDC or the joint venture to make additional investments in the projects. No assurances can be given that EGDC's joint venture partners would be willing or able to contribute if additional investment is required. Further, the deterioration of the real estate market has made lenders generally reluctant to lend on real estate projects. No assurances can be given that EGDC or the joint venture partners will be able to extend existing loans on certain of their respective projects or to obtain replacement loans in the amount of the existing loans when existing loans mature. Any additional investments made by EGDC, and the current general deterioration of the real estate market, may reduce future prices upon any ultimate sale of properties and current cash flows and returns from such properties.

The net income of the diversified businesses was $27 million in 1989 and $23 million in 1988, representing 4.9% and 4.3% of Enterprise's net income, respectively. The growth in Holdings' net income during 1989 was principally due to the activities of EDC and PSRC.

The future earnings of Holdings will be affected by its ability to achieve continued growth of its businesses. Earnings and/or growth of Holdings could be limited in the near term as a result of general economic conditions, availability of credit at reasonable rates and terms, the market price at which EDC is able to sell its gas, the availability of additional attractive investment opportunities for PSRC, operating losses of EGDC resulting from a weak real estate market, and other factors. (For additional information, see Liquidity and Capital Resources.) The outcome of the proceedings involving CEA's investment in the Hanford Plant discussed in Note 11 — Commitments and Contingent Liabilities, Community Energy Alternatives Incorporated, of Notes to Consolidated Financial Statements, may also have an adverse effect on Enterprise's earnings.

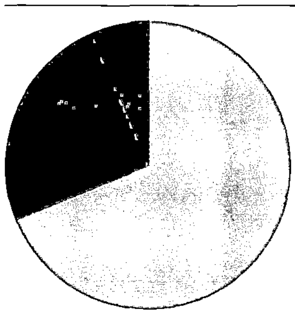
Dividends

The ability of Enterprise to declare and pay dividends is contingent upon its receipt of dividend payments from its subsidiaries. PSE&G has made regular cash payments to Enterprise in the form of dividends on outstanding shares of its common stock since Enterprise was formed in 1986. Dividends paid to holders of Enterprise's Common Stock increased $18.5 million during 1990 compared to 1989 and $11 million during 1989 compared to 1988. The increase in 1990 dividend payments over 1989 was due to the fourth quarter 1989 increase in dividends per share paid in December 1989 (see below), the issuance of 5,750,000 shares of common stock in September 1989, the issuance of 1,673,238 shares of common stock through Enterprise's Dividend Reinvestment and Stock Purchase Plan (DRIP) from June 1990 through November 30, 1990 and the higher fourth quarter 1990 common stock dividend payment which rate was increased to 53 cents from 52 cents per share. On December 13, 1990, Enterprise sold 5,000,000 shares of its Common Stock through a public offering and on December 21, 1990 and December 31, 1990, issued 24,706 shares and 673,843 shares, respectively through the DRIP. The purchasers of Common Stock through the public offering and the DRIP issued in December were not entitled to the fourth quarter 1990 dividend payment, but will be entitled to 1991 common stock dividends if and when declared and paid.

The increase in 1989 dividend payments over 1988 was due to the higher quarterly dividend rate which was increased to 52 cents from 51 cents per share in the fourth quarter of 1989 and the issuance and sale of 5,750,000 shares of Enterprise Common Stock in September 1989.

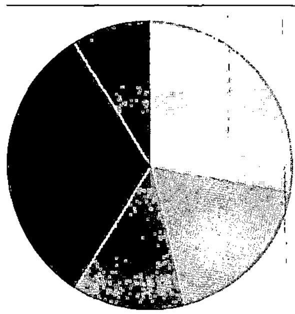
Sources and Distribution of 1990 Revenue

Per Dollar



□ .69 Electric Revenues
■ .26 Gas Revenues
■ .05 Diversified Revenues

Source



□ .28 Fuel, Purchased Power & Gas
□ .18 Taxes
■ .13 Materials & Services
■ .13 Reinvested in Business
■ .10 Dividends
■ .09 Salaries & Wages
■ .09 Interest

Distribution

Revenues

PSE&G — Electric

Revenues increased $53 million or 1.6% during 1990; 1989 revenues increased $189 million or 6.1% as compared to 1988. The significant components of these changes follow:

	Increase or (Decrease)	
(Millions of Dollars)	1990 vs. 1989	1989 vs. 1988
Kilowatthour sales	$(16)	$ 53
Peach Bottom revenue credits	50	(21)
TRA-86	16	[illegible]
Changes in base rates	8	[illegible]
Recovery of energy costs	(4)	[illegible]
Gross receipts taxes	5	23
Other revenues	(6)	9
Total Electric Revenues	$ 53	$189

The number of customers increased by 14,192 or 0.8% during 1990.

1990 — Revenues increased in 1990 compared to 1989 as a result of completion of refunds of revenue credits to customers in 1989 in accordance with a 1989 BPU Stipulation applicable to the extended outage of the Peach Bottom generating station, the end of revenue credits attributable to the Tax Reform Act of 1986 (TRA-86) and the increase in base rates, effective September 5, 1990. (See Note 2 — Rate Matters of Notes to Consolidated Financial Statements.)

1989 — Revenues increased in 1989 primarily due to the rise in kilowatthour sales and the increase in LEAC rates approved by the BPU in June 1988. Partially offsetting this increase were revenue credits attributable to the extended Peach Bottom outage which were greater in 1989 than in 1988.

Changes in kilowatthour sales by customer category are described below:

	Increase or (Decrease)	
	1990 vs. 1989	1989 vs. 1988
Residential	(0.8)%	0.1%
Commercial	0.6	5.7
Industrial	(5.8)	(1.4)

1990 — Total kilowatthour sales declined 1.5% in 1990 co[illegible]d to 1989. The major factor for the decrease was the loss of w[illegible] sensitive sales due to warmer winter weather and cooler su[illegible] weather during 1990. The temperature humidity index impacting air-conditioning sales was down 6.9% from 1989.

The industrial sector decrease reflects the slowdown of New Jersey's economy, the loss of two large customers to cogeneration competitors in July and September 1989, the temporary scheduled shutdown of a major customer's facility from April to July 1990 and the loss of one wholesale customer. Modest increases in residential and commercial wholesale sales attributable to increased customers were reduced and/or offset by the weather conditions described above.

1989 — Electric kilowatthour sales increased 2.2%. Customer growth enhanced sales in the residential and commercial sectors and higher customer usage and the strength of the economy also bolstered sales in the commercial sector. Offsetting this positive activity was increased competition from cogeneration facilities which adversely affected industrial sales coupled with the loss of some industrial customers. Cooler weather during the 1989 cooling season relative to 1988 also negatively impacted sales.

PSE&G — Gas

Revenues decreased $126 million or 9.2% during 1990; 1989 revenues increased $159 million or 13.2% as compared to 1988. The significant components of these changes follow:

	Increase or (Decrease)	
(Millions of Dollars)	1990 vs. 1989	1989 vs. 1988
Therm sales	$ (31)	$ 27
TRA-86		5
Change in base rates		(2)
Recovery of fuel costs	(87)	110
Gross receipts taxes	(20)	15
Other operating revenues	12	4
Total Gas Revenues	$(126)	$159

The number of customers, including transportation customers, increased by 16,130 or 1.1% during 1990. Current forecasts indicate that the average annual compound rate of growth in customers through 1995 is expected to approximate 1%.

1990 — Revenues declined during 1990 as a result of 6.3% lower therms sold or transported due to the record-setting warm weather in 1990. Partially offsetting this decrease in therm sales was an increase in other operating revenues primarily resulting from the sale of gas to two cogeneration plants and an increase in customers.

1989 — Revenues increased in 1989 primarily due to higher therm sales and the increased LGAC rates approved by the BPU in January 1989 and December 1989. (See Note 2 — Rate Matters of Notes to Consolidated Financial Statements.)

Changes in therm sales by customer category are described below:

	Increase or (Decrease)	
	1990 vs. 1989	1989 vs. 1988
Residential	(12.5)%	5.5%
Commercial	(4.0)	16.6
Industrial	(0.4)	3.0
Transportation Service	21.7	7.9

1990 — Total therm sales, including transportation service, decreased 6.3%. Residential and commercial sales for 1990 were reduced from last year due to the record-setting warm winter weather. Degree days, the lowest on record, impacting heating sales were down 20.6%. The industrial sales decrease was due to the slowdown in the manufacturing sector of New Jersey's economy and the movement of some customers to transportation service. Industrial cogeneration sales increased 65.1% and comprised 27.6% of industrial sales in 1990.

1989 — Therm sales increased 8.8%. The rise was attributable to customer growth, higher customer usage, the strength of the economy within the commercial sector, partially reduced by lower sales resulting from the warmer weather as reflected by a decrease in degree days of 0.8%. The record one day sendout of 18,159 kilotherms was achieved on December 22, 1989, during the coldest December in seventy years.

Nonutility Activities

Revenues from the diversified businesses increased $68.5 million in 1990 over 1989 and $62 million in 1989 over 1988. The increase in revenues during 1990 was due primarily to EDC's increased sales of natural gas resulting from its acquisition of Pelto Oil Company in November 1989 and the acquisition of producing oil and gas leases in Louisiana in October 1990, and PSRC's higher limited partnership income as well as dividend and interest income. The increase in EDC's revenues was partially offset by voluntary curtailments of natural gas production and sales by EDC due to low gas prices during mid-1990 resulting from weak market prices of natural gas. (See Liquidity and Capital Resources.)

The increase in revenues during 1989 compared to 1988 was the result of higher revenues from PSRC and EDC. PSRC realized higher revenues from increased investments. EDC's increased revenue was primarily the result of increased production from the oil and gas properties acquired in 1989.

Electric Energy Costs

Electric energy costs decreased $23 million or 3% in 1990 compared to 1989 and increased $98 million or 15% in 1989 compared to 1988. Contributing factors are shown below:

	Increase or (Decrease)	
(Millions of Dollars)	1990 vs. 1989	1989 vs. 1988
Change in prices paid for fuel and power purchases	$(55)	$ (11)
Kilowatthour generation	(13)	11
Nuclear Performance Penalty		(25)
Adjustment of actual costs to match recoveries through revenues (A)	45	123
Total Electric Energy Costs	$(23)	$ 98

(A) Reflects over(under)recovered energy costs, which in the years 1990, 1989 and 1988 amounted to $80 million, $35 million and $(88) million, respectively. (See PSE&G Energy and Fuel Adjustment Clauses.)

As a member of the Pennsylvania-New Jersey-Maryland Interconnection (PJM) and through various two-party power purchase and interchange agreements with neighboring utilities, PSE&G is able to optimize its mix of internal and external energy sources using the lowest cost energy available at any given time.

1990 — The decrease in electric energy costs during 1990 compared to 1989 was primarily due to less demand for electricity by customers due to the 1990 weather, the economic slowdown in New

Jersey and the 19% decrease in usage of all fossil-fueled generation. A total of 39.4 million megawatthours was generated, purchased and interchanged in 1990, a 2% decrease from 1989. PSE&G was able to optimize its mix of internal energy sources during 1990, further reducing costs due principally to the return to service of Peach Bottom nuclear generating station. Nuclear generation during 1990 increased by 33% over what was generated in 1989.

The higher recovery of electric fuel costs during 1990 over 1989 was primarily due to an increase in LEAC rates approved by the BPU on February 7, 1990 of $24.1 million for the period ending June 30, 1991.

1989 — The increase in electric energy costs in 1989 compared to 1988 was primarily due to higher kilowatthour generation and higher LEAC rates, effective June 17, 1988, reflecting the recovery of increased energy costs. A record total of 40.1 million megawatthours were generated, purchased and interchanged during 1989, a 2% increase over 1988. The increased electric production came largely from greater nuclear and coal-fired generation. Peach Bottom 2 started generating electricity in April 1989 and returned to service July 1, 1989. Because of the return to service of Peach Bottom 2, PSE&G decreased its reliance on more costly oil and natural gas and purchased less power from the PJM. Peach Bottom 3 began producing electricity in December 1989 and returned to service January 1, 1990. (See Note 2 — Rate Matters of Notes to Consolidated Financial Statements.)

Gas Fuel Costs

Gas fuel costs decreased $84 million or 12% in 1990 compared to 1989 and increased $110 million or 18% in 1989 compared to 1988. Contributing factors are shown below:

	Increase or (Decrease)	
(Millions of Dollars)	1990 vs. 1989	1989 vs. 1988
Change in prices paid for gas supplies	$(18)	$ 31
Therm sendout	(69)	51
Refunds from pipeline suppliers	(9)	(11)
Adjustment of actual costs to match recoveries through revenues (A)	12	39
Total Gas Fuel Costs	$(84)	$110

(A) Reflects over(under)recovered gas costs, which in the years 1990, 1989 and 1988 amounted to $26 million, $14 million and $(25) million, respectively. (See PSE&G Energy and Fuel Adjustment Clauses.)

1990 — Gas fuel costs declined during 1990 compared to 1989 as the result of a 9% decline in therm sendout due to the warmer weather during the winter and spring of 1990 and a 9% decrease in the cost of natural gas. The increase in recovered gas fuel costs is due to the BPU approved LGAC rate increases which became effective December 6, 1989, and October 31, 1990. On October 31, 1990, the BPU approved a Stipulation in PSE&G's LGAC for an increase of $46.1 million for the eleven-month period ending September 30, 1991. (See Note 2 — Rate Matters of Notes to Consolidated Financial Statements.)

1989 — The increase in gas fuel costs in 1989 compared to 1988 was primarily due to increased therm sendout at a higher cost. The increase in recovered gas fuel costs for 1989 is due to the BPU approved LGAC rate increases of $42.7 million effective January 11, 1989 for the nine-month period ending September 30, 1989 and $23.7 million effective December 6, 1989, for the ten-month period ending September 30, 1990.

Liquidity and Capital Resources

Overview

Enterprise's liquidity is affected by maturing debt, Holdings' investments and acquisition activities and the capital requirements of PSE&G's construction program. Capital resources available to meet such requirements depend upon general and regional economic conditions, PSE&G's customer growth, the adequacy of timely rate relief to PSE&G and continued access to the capital markets.

Capital Requirements

PSE&G

For 1990, PSE&G had utility plant additions, excluding allowance for funds used during construction, of $933.8 million, an increase of $289.6 million over 1989 additions of $644.2 million. 1989 additions were an increase of $107 million over 1988 additions of $537.2 million. The increase in 1990 reflects the acquisition of a 42.49% undivided interest in nuclear fuel for Peach Bottom by PSE&G's wholly-owned subsidiary, PSE&G Fuel Corporation (Fuelco), for $156.7 million on June 29, 1990. (See Note (C) of Cash Flows from Financing Activities below.) Allowance for funds used during construction for 1990 and 1989 amounted to $34.2 million and $30 million, respectively. The remaining construction funds were used to continue to improve PSE&G's existing power plants, transmission and distribution system, gas system and common facilities.

(Millions of Dollars)	1990	19[illegible]	[illegible]88
Cash Flows from PSE&G's Investing Activities:			
Additions to Utility Plant, excluding AFDC	$ 934	$644	$537
Net increase in Long-Term investments	11	7	1
Net increase in Decommissioning and Other Special Funds	24	58	8
Cost of Plant Removal — net	92	49	21
Other	10	(50)	(13)
Net cash used in investing activities	$1,071	$708	$554

Based on PSE&G's current electric supply and demand forecast and changes in PSE&G's construction program, construction expenditures from 1991 through 1995 are expected to aggregate $4.6 billion. (See Construction, Investments and Other Capital Requirements and Environment below.)

PSE&G expects that it will be able to generate internally a majority of its capital requirements including construction expenditures over the next five years. External financing is expected to provide the balance of such requirements.

Construction, Investments and Other Capital Requirements

The estimated construction, investments and other capital requirements of PSE&G and Holdings for 1991 through 1995 are based on expected project completion dates and include anticipated escalation due to inflation of approximately 4% for utility projects and are as follows:

(Millions of Dollars)	1991	1992	1993	1994	1995	Total
PSE&G						
Electric						
Nuclear Production Facilities	$ 126	$ 141	$ 126	$ 100	$ 101	$ 594
Nuclear Fuel	66	106	109	103	126	510
Transmission and Distribution	231	255	255	249	245	1,235
Other Production	194	231	326	317	254	1,322
Total Electric	617	733	816	769	726	3,661
Gas						
Production Facilities	16	3	4	5	2	30
Transmission and Distribution	132	136	127	124	123	642
Total Gas	148	139	131	129	125	672
Miscellaneous Corporate	59	60	61	59	66	305
Total Construction Requirements of PSE&G (including AFDC) (A)	824	932	1,008	957	917	4,638
Holdings Investments of Non-utility Subsidiaries	549	462	502	642	758	2,913
Mandatory Retirement of Securities:						
PSE&G	38	246	216	215	100	815
Holdings	80	15	190	118	235	638
	118	261	406	333	335	1,453
Working Capital and Other — net	(40)	(40)	(200)	(122)	(153)	(555)
Total Capital Requirements	$1,451	$1,615	$1,716	$1,810	$1,857	$8,449
(A) PSE&G's Allowance for Funds Used During Construction (included above)	$ 39	$ 52	$ 73	$ 87	$ 97	$ 348

Holdings' net cash used in investing activities including property, plant and equipment were $654.0 million during 1990, compared to $750.7 million during 1989 and $507.5 million during 1988. (See Consolidated Statements of Cash Flows.) On October 31, 1990, EDC acquired interests in oil and gas leases in Louisiana for approximately $220 million.

Over the next several years, Holdings is expected to meet a majority of its capital requirements for its expansion plans from external sources. Further, Holdings will be required to refinance maturing debt. Holdings and each of its subsidiaries are subject to restrictive business and financial covenants contained in existing debt agreements. For example, Holdings and its subsidiaries are required to not exceed various debt to equity ratios which vary from 3:1 to 2:1. Holdings is also required to maintain a twelve months earnings before interest and taxes coverage ratio (EBIT) of at least 1.35:1. As of December 31, 1990, 1989, and 1988, Holdings had debt to equity ratios of 1.98:1, 1.98:1 and 2.52:1 and, for the years ended on those dates, EBIT ratios of 1.42:1, 1.41:1 and 1.66:1, respectively. Compliance with applicable financial covenants will depend upon future levels of earnings, among other things, as to which no assurance can be given. (See Earnings — Holdings.)

Internal Generation of Cash from Operations

Enterprise's net cash provided by operating activities increased $148.9 million to $1.3 billion for 1990 from 1989. This increase was primarily due to increased collections of accounts receivable and the greater recovery of electric energy and gas costs through PSE&G's LEAC and LGAC clauses. Partially offsetting these cash inflows were increases in fuel and materials and supplies inventories, decreases in accrued taxes, and decreased proceeds from PSRC's leasing activities.

Enterprise's net cash provided by operating activities increased $173.8 million to $1.1 billion for 1989 from 1988. This increase was primarily due to increases in accounts payable and greater recovery of electric energy and gas costs through PSE&G's LEAC and LGAC clauses. Partially offsetting these cash inflows were increases in fuel and materials and supplies inventories, decreases in deferred income taxes and increases in accounts receivable.

External Financings

Cash Flows from Financing Activities

(Millions of Dollars)	1990	1989	1988
Enterprise:			
Issuance of Common Stock (A)	$ 185	$ 148	$ —
Cash Dividends paid on Common Stock	(442)	(424)	(413)
PSE&G: (B)			
Net increase (decrease) in Short-Term Debt	159(C)	138	(60)
Issuance of Long-Term Debt	250(D)	100	350
Redemption of Long-Term Debt and Other Obligations	(57)(E)	(59)	(173)
Redemption of Preferred Stock			(33)
Other	6	6	2
Total PSE&G	358	185	86
Holdings:			
Net increase (decrease) in Short-Term Debt (F)	56	88	(18)
Issuance of Long-Term Debt (G)	245(H)	286	464
Other		4	3
Total Holdings	301	378	449
Net cash provided by financing activities	$ 402	$ 287	$ 122

(A) Effective March 1, 1990, the Dividend Reinvestment and Stock Purchase Plan (DRIP) of Enterprise was amended to provide for the issuance and sale, at its sole discretion, of up to 5,000,000 new issue shares of Common Stock with the proceeds to be used by Enterprise to make additional equity investments in its subsidiaries and/or for general corporate purposes. The sale of DRIP shares commenced June 1990 and as of December 31, 1990, 2,628,213 shares remained to be issued. The net proceeds from the sales of common stock under DRIP were $59.2 million for 1990 and were used by Enterprise to make additional equity investments in Holdings.

On December 13, 1990, Enterprise sold 5,000,000 shares of its Common Stock through a public offering for $126.2 million. The net proceeds from the sale were used by Enterprise to make additional equity investments in its subsidiaries, PSE&G and Holdings, which utilized such investments to repay a portion of their respective short-term debt obligations then outstanding.

At December 31, 1989, book value per share of common stock amounted to $20.44 compared to $19.85 at December 31, 1989. The market value of common shares expressed as a percentage of book value was 129% and 147.4% at year-end 1990 and 1989, respectively.

(B) At December 31, 1990, PSE&G could issue an additional $2.406 billion of Mortgage Bonds at a rate of 9.75% or $2.446 billion of Preferred Stock at a rate of 8.5% under the terms of PSE&G's Mortgage and Restated Certificate of Incorporation.

PSE&G has received authorization from the BPU to issue and have outstanding not more than $500 million of its short-term obligations at any one time, consisting of commercial paper and other unsecured borrowings from banks and other lenders. (This authorization does not include commercial paper issued by Fuelco, described in note (C) below.) PSE&G has requested authority from the BPU to issue and sell through 1992 not more than $1 billion principal amount of its first and refunding mortgage bonds (Bonds) and through 1993, 1,700,000 shares of its Cumulative Preferred Stock (par value $100 per share) or 6,800,000 shares of Cumulative Preferred Stock — $25 par value, in one or more series. The proceeds from any sale of the Bonds and Preferred Stock would be used by PSE&G for its general corporate purposes, including payment of a portion of its construction expenditures, short-term debt and funding of all or part of redemptions, refundings and purchases of its first and refunding mortgage bonds and maturing bonds.

(C) Includes commercial paper issued by Fuelco and guaranteed by PSE&G to finance the acquisition of a 42.49% undivided interest in the nuclear fuel acquired for Peach Bottom.

PSE&G has a $75 million revolving credit agreement with a group of foreign banks which expires in 1992. As of December 31, 1990, there is no short-term debt outstanding under this agreement.

(D) On July 24, 1990, PSE&G issued an aggregate principal amount of $250 million First and Refunding Mortgage Bonds. The net proceeds were used by PSE&G for the payment of its then outstanding unsecured short-term obligations, and for its general corporate purposes.

(E) Includes $50 million of PSE&G's First and Refunding Mortgage Bonds, 4¾% Series, retired at maturity on September 1, 1990.

(F) During 1989, Funding established a $350 million commercial paper program supported by a commercial bank letter of credit and a credit facility which expires in August, 1991. Funding presently expects this credit facility to be renewed upon expiration. As of December 31, 1990, Funding had $272 million of short-term debt outstanding under this program.

(G) During 1990, Funding established a $300 million three-year revolving credit facility which currently terminates in 1993, with repayments due thereafter in four equal semiannual payments. Funding presently expects this credit facility to be renewed upon expiration. As of December 31, 1990, Funding had $150 million of long-term debt outstanding under this facility.

(H) On February 27, 1990, Funding privately placed $60 million of its 9.43% Series A Guaranteed Senior Notes due 1993 and $35 million of its 9.54% Series B Guaranteed Senior Notes due 1995. The proceeds from the sale were used to reduce outstanding short-term debt.

PSE&G's Customer Accounts Receivable

At December 31, 1990 and 1989, PSE&G's customer accounts receivable were $373 million and $402 million, excluding unbilled revenues. These amounts represent 84% and 89% of Enterprise's customer accounts receivable, respectively, with the remainder spread over Holdings' subsidiaries. The net write-off of PSE&G's uncollectible accounts in 1990 was $26 million, an increase of $6 million over the previous year. The net write-off per $100 of revenues was up 14 cents to 57 cents compared to 1989, primarily as a result of the deteriorating economic situation in New Jersey and lower availability of Low Income Home Energy Assistance Funds and other subsidized funding for low income customers than in previous years. The increase in PSE&G's 1990 LEAC and LGAC rates, the continued economic slowdown in New Jersey and a BPU requirement prohibiting the termination of electric and gas service during winter months to financially needy customers is expected to continue to have an adverse impact upon the level of receivables, uncollectible accounts and net write-offs.

Environment

Clean Air Act of 1990

On November 15, 1990, the revised federal Clean Air Act (CAA) was signed into law imposing more stringent emission requirements which could result in scrubbers being installed at Conemaugh station as early as 1995 and Keystone station by the year 2000. Both plants are jointly-owned coal-fired mine-mouth generating stations, located in Pennsylvania and operated by Pennsylvania Electric Company. (See Note 14 — Jointly-Owned Facilities.) Various alternatives for meeting the CAA requirements are being studied by the Conemaugh and Keystone owners, including the construction of scrubbers by the owners themselves. PSE&G's share of the related capital costs is preliminarily estimated at $90 million per station. PSE&G's two wholly-owned and operated coal-fired generating stations in New Jersey are not presently expected to require scrubbers, and are expected to be able to meet CAA requirements with the expenditure of only modest amounts of capital. PSE&G expects to request the BPU to allow the recovery of all such CAA costs for all of its electric generating stations from electric customers. Substantially all such amounts as may be necessary to comply with the revised CAA requirements through 1995 are included in PSE&G's estimate of construction expenditures. (See Note 11 — Commitments and Contingent Liabilities, Construction and Fuel Supplies, of Notes to Consolidated Financial Statements.) In addition, the revised CAA requirements will increase the cost of produc[illegible]c-tricity for the Pennsylvania and Ohio Valley Region genera[illegible]its supplying electricity to New Jersey. All of PSE&G's current p[illegible]chased power costs are included in PSE&G's LEAC. (See PSE&G's Energy and Fuel Adjustment Clauses and Note 2 — Rate Matters of Notes to Consolidated Financial Statements.)

Cooling Towers at Salem Nuclear Generating Station

As required by the Federal Water Pollution Control Act (FWPCA), over the past 15 years, PSE&G has submitted to the United States Environmental Protection Agency and NJDEP its Discharge to Surface Water demonstrations which concluded that structural modifications including cooling towers are not required at Salem Generating Station to achieve satisfactory environmental effects. However, on October 3, 1990, the NJDEP issued a Draft Permit which incorporated numerous new and more stringent terms and conditions into the water discharge permit for Salem. The Draft Permit, if adopted as proposed, would require the immediate shutdown of both Salem Units pending retrofitting the Station with cooling towers. The Draft Permit does not provide a schedule allowing for a phased implementation of the recirculating cooling towers. PSE&G will seek a stay of this condition if it is included in the Final Permit. A public hearing was held on November 8, 1990, and the public comment period ended on January 14, 1991.

In its written comments submitted on January 14, 1991, PSE&G and its consultants concluded that Salem's operation is not having an adverse environmental effect on the Delaware River within the meaning of the FWPCA and that, even if there is an adverse environmental effect, cooling towers are not needed and canno[illegible] legally required. Nevertheless, if cooling towers are ultima[illegible] required, PSE&G estimates that it would take at least four y[illegible], assuming an immediate shutdown and very favorable permitting and good construction progress, to design, license and build cooling towers at Salem. In analyzing such a scenario, PSE&G assumed construction of three mechanical draft towers for each Salem unit (for a total of six cooling towers) at a capital cost of approximately $627 million in 1990 dollars. PSE&G's share would be 42.59% of this amount. Replacement power costs for PSE&G during such a four-year outage would amount to at least $120 million per year. Further, the loss of both Salem units for a four-year period would pose serious reliability problems for PSE&G and the PJM region, and could result in the loss of load (blackout) during such four-year period. It is estimated that brownouts would occur during such period. PSE&G also analyzed a construction period of eight years to minimize outage times and the cost of retrofitting Salem with cooling towers with a design similar to those existing at the Hope Creek station. The capital cost of such towers would amount to approximately $490 million in 1990 dollars, of which PSE&G's share would be 42.59%. In this scenario PSE&G estimates that a six to eight month outage would be required for each Salem unit at the end of the construction period to tie the new system into the plant, resulting in replacement energy cost of at least $60 to $80 million. PSE&G's comments conclude that under neither such scenario would the Salem station be able to comply with the NJDEP's proposed limits. If the Salem station were backfitted with cooling towers, PSE&G estimates that there would be a permanent loss of approximately 5% of the Station's capacity (approximately 120 megawatts) and increased operating and maintenance costs during the balance of the life of the plant. The costs of constructing cooling towers at Salem generating station are not included in PSE&G's estimate of construction requirements described above. (See Liquidity and Capital Resources, Construction, Investments and Other Capital Requirements.)

PSE&G would request the BPU to allow the recovery in rates from electric customers of all costs associated with constructing cooling towers at Salem. PSE&G intends to vigorously defend its demonstrations, as submitted. PSE&G also is prepared to pursue all available legal remedies, including exercising its right to seek a stay, pending further administrative and judicial review, of any conditions that may be imposed by the Final Permit. Enterprise and PSE&G cannot predict the outcome of this matter.

Power Line Emissions — Electric and Magnetic Fields (EMFs)
Public concern of possible health effects due to EMFs is an emerging national issue and has resulted in some states considering setting limits on EMF. On September 19, 1990, the New Jersey Commission on Radiation Protection (CORP) decided against setting a limit on magnetic fields produced by high-voltage power lines citing the lack of convincing evidence required to determine dangerous levels. Proposed power regulations are currently under study by CORP to cover new power lines and allow existing power lines to continue to function regardless of new rule changes. As revised, the new rules would authorize the NJDEP to screen all new power line projects of 100 kilovolts or more using a principle "as low as reasonably achievable", to demonstrate that all steps within reason, including modest cost, were taken to reduce EMFs. The outcome of EMF study and/or regulations and the public concerns will affect PSE&G's design and location of future electric power lines and facilities and the cost thereof. Such amounts as may be necessary to comply with these new EMF rules and address public concerns cannot be determined at this time, but such amounts could be material.

PSE&G Gas Plant Sites
As of December 31, 1990, PSE&G has accrued approximately $23.7 million associated with the cleanup of former manufactured gas plant sites in accordance with a BPU Order allowing such deferral. The overall costs of this investigation and cleanup cannot be estimated with certainty, but experience to date indicates that costs of approximately $20 million per year could be incurred over a period of more than 20 years and the overall costs of the investigation and cleanup could be material. PSE&G is seeking recovery of such costs from its insurers and will also seek recovery through rates. Absent insurance recovery, denial of the recovery of any unamortized balance of such costs by the BPU would require an immediate write-off. (For additional information see Note 11 — Commitments and Contingent Liabilities, PSE&G Gas Plant Sites, of Notes to Consolidated Financial Statements.)

Effect of Inflation

During the past four years the rate of increase in the Average Consumer Price Index (CPI) has steadily moved from 1.9% in 1986 to 5.2% in 1990. In an inflationary period the purchasing power of the dollar declines. As a result of this inflationary period there is a negative impact on the operations of Enterprise as the cost of replacing PSE&G's utility plant would be higher than historical cost, the amount permitted to be recovered under the rate regulatory process. The historical costs reported in current financial statements represent dollars of varying purchasing power as such financial statements combine dollars spent at various times in the past with dollars currently being spent. PSE&G cannot readily increase its rates to keep pace with inflation. The regulatory process factors in a time lag during which increased operating expenses are not fully recovered. PSE&G anticipates recovery of the increased cost of facilities when replacement actually occurs.

Other Matters

For information concerning financial accounting standards that have been issued or proposed by the Financial Accounting Standards Board but not yet adopted by Enterprise, see Note 1 — Organization and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements.

Financial Statement Responsibility

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

The firm of Deloitte & Touche, independent certified public accountants, is engaged to audit Enterprise's consolidated financial statements and related notes and issue a report thereon. Deloitte & Touche's audit is conducted in accordance with generally accepted auditing standards and includes a review of internal accounting controls and tests of transactions. Management has made available to Deloitte & Touche all the corporation's financial records and related data, as well as the minutes of directors' meetings. Furthermore, management believes that all representations made to Deloitte & Touche during their audit were valid and appropriate.

Management has established and maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded, and transactions are executed in accordance with management's authorization and recorded properly for the prevention and detection of fraudulent financial reporting so as to maintain the integrity and reliability of the financial statements. The system is designed to permit preparation of consolidated financial statements and related notes in accordance with generally accepted accounting principles. The concept of reasonable assurance recognizes that the costs of a system of internal accounting controls should not exceed the related benefits. Management believes the effectiveness of this system is enhanced by an ongoing program of continuous and selective training of employees. In addition, management has communicated to all employees its policies on business conduct, assets and internal controls.

The Internal Auditing Department conducts audits and appraisals of accounting and other operations and evaluates the effectiveness of cost and other controls and recommends to management, where appropriate, improvements thereto. Management has considered the internal auditors' and Deloitte & Touche's recommendations concerning the corporation's system of internal accounting controls and has taken actions that are cost-effective in the circumstances to respond appropriately to these recommendations. Management believes that, as of December 31, 1990, the corporation's system of internal accounting controls is adequate to accomplish the objectives discussed herein.

The Board of Directors carries out its responsibility of financial overview through the Audit Committee, which presently consists of six directors who are not current employees of Enterprise. The Audit Committee meets periodically with management as well as with representatives of the internal auditors and Deloitte & Touche. The Committee reviews the work of each to ensure that their respective responsibilities are being carried out and discusses related matters. Both the internal auditors and Deloitte & Touche periodically meet alone with the Audit Committee and have free access to the Audit Committee, and its individual members, at any time.

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

Everett L. Morris
Vice President
Principal Financial Officer

Richard E. Hallett
Vice President and Comptroller
Principal Accounting Officer

February 15, 1991

Report of Independent Public Accountants

Deloitte & Touche

Certified Public Accountants
Newark, New Jersey 07102

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

We have audited the accompanying consolidated balance sheets of Public Service Enterprise Group Incorporated and its subsidiaries as of December 31, 1990 and 1989, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1990. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Public Service Enterprise Group Incorporated and its subsidiaries at December 31, 1990 and 1989 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

Deloitte & Touche

February 15, 1991

Consolidated Statements of Income

(Thousands of Dollars) For the Years Ended December 31,	**1990**	1989	1988
Operating Revenues (note 2)			
Electric	**$3,332,417**	$3,279,913	$3,090,609
Gas	**1,236,747**	1,362,470	1,203,435
Nonutility Activities	**230,971**	162,469	100,648
Total Operating Revenues	**4,800,135**	4,804,852	4,394,692
Operating Expenses			
Operation			
Fuel for Electric Generation and Net Interchanged Power	**717,370**	740,665	642,811
Gas Purchased and Materials for Gas Produced	**626,156**	710,549	600,643
Other	**802,594**	730,707	727,709
Maintenance	**285,871**	316,200	349,931
Depreciation and Amortization (note 4)	**561,484**	524,514	477,426
Taxes			
Federal Income Taxes (note 8)	**208,385**	208,261	162,144
New Jersey Gross Receipts Taxes	**558,642**	574,145	534,789
Other	**66,153**	60,001	57,235
Total Operating Expenses	**3,826,655**	3,865,042	3,552,688
Operating Income	**973,480**	939,810	842,004
Other Income			
Allowance for Funds Used During Construction — Equity	**16,987**	16,664	14,926
Miscellaneous — net (note 4)	**10,519**	9,490	37,565
Total Other Income	**27,506**	26,154	52,491
Income Before Interest Charges and Dividends on Preferred Stock	**1,000,986**	965,964	894,495
Interest Charges (note 5)			
Long-Term Debt	**404,289**	370,643	311,970
Short-Term Debt	**37,845**	19,598	17,194
Other	**20,091**	21,565	18,464
Total Interest Charges	**462,225**	411,806	347,628
Allowance for Funds Used During Construction — Debt and Capitalized Interest	**(32,529)**	(16,991)	(13,055)
Net Interest Charges	**429,696**	394,815	334,573
Preferred Stock Dividend Requirements	**29,012**	29,012	31,336
Net Income	**$ 542,278**	$ 542,137	$ 528,586
Shares of Common Stock Outstanding			
End of Year	**218,472,205**	211,100,418	205,350,418
Average for Year	**211,981,434**	206,878,500	205,350,418
Earnings per Average share of Common Stock	**$2.56**	$2.62	$2.57
Dividends paid per share of Common Stock	**$2.09**	$2.05	$2.01

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(Thousands of Dollars) December 31,	**1990**	1989
Assets		
Utility Plant — Original cost		
Electric	**$10,609,121**	$10,215,942
Gas	**1,777,285**	1,661,724
Common	**392,987**	357,327
Total	**12,779,393**	12,234,993
Less Accumulated Depreciation and Amortization	**3,739,673**	3,465,899
Net	**9,039,720**	8,769,094
Nuclear Fuel in Service, net of accumulated amortization — 1990, $196,098; 1989, $127,559	**190,092**	149,529
Net Utility Plant in Service	**9,229,812**	8,918,623
Construction Work in Progress, including Nuclear Fuel in Process — 1990, $174,975; 1989, $62,759	**576,904**	353,466
Plant Held for Future Use, net of accumulated depreciation — 1990, $27,322; 1989, $30,000	**67,065**	64,546
Net Utility Plant	**9,873,781**	9,336,635
Investments and Other Property		
Long-Term Investments (note 6)	**1,291,356**	925,307
Oil and Gas Property, Plant and Equipment, net of accumulated depreciation and amortization — 1990, $500,527; 1989, $416,893	**794,819**	608,689
Real Estate Property and Equipment, net of accumulated depreciation — 1990, $4,873; 1989, $2,426	**130,513**	121,040
Other Plant, net of accumulated depreciation and amortization — 1990, $3,701; 1989, $3,663	**24,625**	25,277
Nuclear Decommissioning and Other Special Funds	**98,801**	69,732
Other Investments — net	**62,316**	36,028
Total Investments and Other Property	**2,402,430**	[illegible]
Current Assets		
Cash and Cash Equivalents (note 7)	**60,491**	83,250
Accounts Receivable, net of allowance for doubtful accounts — 1990, $19,642; 1989, $16,202	**509,150**	516,262
Unbilled Revenues	**203,879**	255,092
Fuel, at average cost	**242,515**	169,833
Materials and Supplies, at average cost (note 4)	**279,422**	235,810
Prepayments	**62,012**	55,162
Total Current Assets	**1,357,469**	1,315,409
Deferred Debits (note 4)		
Property Abandonments — net	**200,704**	230,741
Oil and Gas Property Write-Down (note 11)	**78,431**	91,876
Underrecovered Electric Energy and Gas Costs — net		68,481
Unamortized Debt Expense	**54,206**	57,541
Deferred Take-or-Pay Gas Costs (note 2)	**23,939**	
Unrecovered Environmental Costs (note 11)	**23,729**	18,883
Unamortized Loss on Sale of Naphtha (note 2)	**6,300**	10,405
Other	**2,321**	3,390
Total Deferred Debits	**389,630**	481,317
Total	**$14,023,310**	$12,919,434

See Notes to Consolidated Financial Statements.

(Thousands of Dollars) December 31,	**1990**	1989
Capitalization and Liabilities		
Capitalization (notes 3 and 5)		
Common Equity		
Common Stock	**$ 3,043,402**	$ 2,857,974
Retained Earnings	**1,421,611**	1,332,739
Total Common Equity	**4,465,013**	4,190,713
Subsidiaries' Securities and Obligations		
Preferred Stock Without Mandatory Redemption	**429,994**	429,994
Long-Term Debt (note 5)	**4,668,024**	4,388,578
Capital Lease Obligations (note 9)	**54,073**	54,513
Total Capitalization	**9,617,104**	9,063,798
Current Liabilities		
Long-Term Debt and Capital Lease Obligations due within one year	**118,741**	54,599
Commercial Paper and Loans (note 10)	**758,859**	449,324
Accounts Payable	**489,380**	418,095
New Jersey Gross Receipts Taxes Accrued	**527,575**	555,182
Deferred Income Taxes on Unbilled Revenues (note 8)		15,155
Other Taxes Accrued	**39,155**	43,645
Interest Accrued	**133,755**	113,597
Other	**95,205**	119,755
Total Current Liabilities	**2,162,670**	1,769,352
Deferred Credits		
Accumulated Deferred Income Taxes (note 8)		
Depreciation and Amortization	**1,217,586**	1,084,749
Leasing Activities	**178,836**	135,131
Property Abandonments (note 4)	**94,870**	106,560
Oil and Gas Property Write-Down (note 11)	**37,304**	43,698
Deferred Electric Energy and Gas Costs — net	**(13,551)**	23,271
Unamortized Debt Expense	**14,864**	17,940
Other	**22,580**	22,757
Accumulated Deferred Investment Tax Credits (note 8)	**484,489**	501,038
Deferred Take-or-Pay Gas Costs (note 2)	**23,939**	
Overrecovered Electric Energy and Gas Costs — net	**37,511**	
Other (note 4)	**145,108**	151,140
Total Deferred Credits	**2,243,536**	2,086,284
Commitments and Contingent Liabilities (note 11)		
Total	**$14,023,310**	$12,919,434

Consolidated Statements of Cash Flows

(Thousands of Dollars) For the Years Ended December 31,	**1990**	1989	1988
Cash Flows from Operating Activities:			
Net Income	**$ 542,278**	$ 542,137	$ 528,586
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and Amortization	**561,484**	524,514	477,426
Amortization of Nuclear Fuel	**89,031**	63,394	72,532
Recovery (Deferral) of Electric Energy and Gas Costs — net	**105,992**	60,023	(87,966)
Amortization of Discounts on Property Abandonments and Disallowance	**(13,566)**	(15,443)	(69,966)
Provision for Deferred Income Taxes — net	**74,678**	70,541	140,078
Investment Tax Credits — net	**(16,549)**	(24,424)	(22,478)
Allowance for Funds Used During Construction — Debt and Equity and Capitalized Interest	**(49,516)**	(33,655)	(27,981)
Proceeds from Leasing Activities	**14,785**	56,561	27,421
Deferred Environmental Costs	**(4,846)**	(15,424)	(3,459)
Recovery (Deferral) of Loss on Sale of Naphtha	**4,105**	(10,405)	
Changes in certain current assets and liabilities			
Net decrease (increase) in Accounts Receivable and Unbilled Revenues	**63,348**	(134,070)	(84,812)
Net increase in Inventory — Fuel and Materials and Supplies	**(116,294)**	(53,851)	(8,642)
Net increase (decrease) in Accounts Payable	**70,223**	72,543	(3,502)
Net (decrease) increase in Accrued Taxes	**(47,252)**	33,262	10,483
Net change in Other Current Assets and Liabilities	**(11,006)**	3,009	687
Other	**16,064**	(4,669)	11,844
Net cash provided by operating activities	**1,282,959**	1,134,043	960,251
Cash Flows from Investing Activities:			
Additions to Utility Plant, excluding AFDC	**(933,803)**	(644,218)	[illegible]208)
Additions to Oil and Gas Property, Plant and Equipment, excluding Capitalized Interest	**(285,438)**	(384,335)	[illegible]38)
Net increase in Long-Term Investments and Real Estate Property and Equipment	**(339,601)**	(337,909)	[illegible]03)
Increase in Decommissioning and Other Special Funds	**(23,861)**	(57,952)	(8,474)
Cost of Plant Removal — net	**(91,627)**	(49,327)	(21,360)
Other	**(32,968)**	53,528	12,235
Net cash used in investing activities	**(1,707,298)**	(1,420,213)	(1,076,748)
Cash Flows from Financing Activities:			
Net increase (decrease) in Short-Term Debt	**214,535**	225,717	(77,770)
Issuance of Long-Term Debt	**495,000**	386,270	814,000
Redemption of Long-Term Debt and Other Obligations	**(56,852)**	(59,430)	(173,265)
Issuance of Common Stock	**185,428**	147,631	
Redemption of Preferred Stock			(32,616)
Cash Dividends Paid on Common Stock	**(442,466)**	(423,958)	(412,767)
Other	**5,935**	10,781	4,155
Net cash provided by financing activities	**401,580**	287,011	121,737
Net increase (decrease) in Cash and Cash Equivalents	**(22,759)**	841	5,240
Cash and Cash Equivalents at Beginning of Year	**83,250**	82,409	77,169
Cash and Cash Equivalents at End of Year	**$ 60,491**	$ 83,250	$ 82,409
Income Taxes Paid	**$ 135,804**	$ 93,783	$ 43,337
Interest Paid	**$ 397,785**	$ 370,573	$ 312,414

See Notes to Consolidated Financial Statements.

Consolidated Statements of Retained Earnings

(Thousands of Dollars) For the Years Ended December 31,	**1990**	1989	1988
Balance January 1	**$1,332,739**	$1,213,260	$1,096,933
Add Net Income	**542,278**	542,137	528,586
Total	**1,875,017**	1,755,397	1,625,519
Deduct			
Cash Dividends on Common Stock (A)	**442,466**	423,958	412,767
Adjustments to Retained Earnings (note 6)	**10,940**	(1,300)	(508)
Total Deductions	**453,406**	422,658	412,259
Balance December 31	**$1,421,611**	$1,332,739	$1,213,260

(A) The ability of Enterprise to declare and pay dividends is contingent upon its receipt of dividend payments from its subsidiaries. PSE&G, Enterprise's principal subsidiary, has restrictions on the payment of dividends which are contained in its Charter, certain of the indentures supplemental to its Mortgage, and certain debenture bond indentures. However, none of these restrictions presently limits the payment of dividends out of current earnings. The amount of PSE&G's restricted retained earnings at December 31, 1990 was $10 million.

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization
Public Service Enterprise Group Incorporated (Enterprise) has two wholly-owned subsidiaries, Public Service Electric and Gas Company (PSE&G) and Enterprise Diversified Holdings Incorporated (Holdings). Enterprise's principal subsidiary, PSE&G, is a public utility operating in the State of New Jersey. Holdings was incorporated on June 20, 1989, and on July 1, 1989 became the parent of Enterprise's nonutility subsidiaries: Public Service Resources Corporation (PSRC), Energy Development Corporation (EDC), Community Energy Alternatives Incorporated (CEA), Enterprise Group Development Corporation (EGDC), and PSEG Capital Corporation (Capital). Enterprise Capital Funding Corporation (Funding), a wholly-owned subsidiary of Holdings, was also formed on June 20, 1989. PSE&G Fuel Corporation (Fuelco) was organized in June 1990, as a wholly-owned subsidiary of PSE&G.

Enterprise has claimed an exemption from regulation by the Securities and Exchange Commission as a registered holding company under the Public Utility Holding Company Act of 1935, except for Section 9(a)(2) which relates to the acquisition of voting securities of an electric or gas utility company. Also, Enterprise is not subject to regulation by the New Jersey Board of Public Utilities (BPU) or the Federal Energy Regulatory Commission (FERC).

Consolidation Policy
The consolidated financial statements include the accounts of Enterprise and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications of prior years' data have been made to conform with the current presentation.

Regulation — PSE&G
The accounting and rates of PSE&G are subject in certain respects to the requirements of the BPU and FERC. As a result, PSE&G maintains its accounts in accordance with their prescribed Uniform Systems of Accounts, which are the same. The applications of generally accepted accounting principles by PSE&G differ in certain respects from applications by nonregulated businesses.

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

For financial reporting purposes, depreciation is computed under the straight-line method. Depreciation is based on estimated average remaining lives of the several classes of depreciable property. These estimates are reviewed on a regular basis and necessary adjustments are made as approved by the BPU. Depreciation provisions stated in percentages of original cost of depreciable property were 3.48% in 1990 and 3.47% in 1989 and 1988.

Nuclear Decommissioning Funds — PSE&G
Depreciation applicable to nuclear plant includes estimated costs of decommissioning. At December 31, 1990 and 1989, the accumulated provision for depreciation and amortization included reserves for nuclear decommissioning of $133.0 million and $113.0 million. In accordance with orders from the BPU, PSE&G has established external nuclear decommissioning trust funds for all its nuclear units. The Internal Revenue Service (IRS) has ruled that payments into qualified funds are tax deductible. As of December 31, 1990 and 1989, PSE&G has contributed $77.9 million and $59.7 million into external qualified and nonqualified nuclear decommissioning trust funds.

Amortization of Nuclear Fuel — PSE&G
Nuclear energy burnup costs are charged to fuel expense on a units-of-production basis over the estimated life of the fuel. Rates for the recovery of fuel used at all nuclear units include a provision of one mill per kilowatthour of nuclear generation for spent fuel disposal costs, which is paid quarterly to the United States Department of Energy.

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

Rates include projected fuel costs for electric generation, purchased and interchanged power, gas purchased and materials used for gas production.

Any under or overrecoveries, together with interest, are deferred and included in operations in the period in which they are reflected in rates.

Oil and Gas Accounting — EDC
EDC follows the full-cost method of accounting. Under this method, all exploration and development costs for successful and unsuccessful wells are capitalized and amortized on the units-of-production basis.

Long-Term Investments — Holdings
PSRC has invested in marketable securities, which are valued at the lower of cost or market, and various leases and limited partnerships. (See Note 6 — Long-Term Investments.) EGDC has become a participant in the nonresidential real estate markets.

Income Taxes
Enterprise and its subsidiaries file a consolidated Federal income tax return and income taxes are allocated to Enterprise's subsidiaries based on taxable income or loss of each.

Deferred income taxes are provided for differences between book and taxable income. For PSE&G, deferred income taxes are provided to the extent permitted for ratemaking purposes.

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

In December 1987, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 96 (SFAS 96), "Accounting for Income Taxes," which requires the recognition of deferred tax liabilities adjusted for the effects of enacted changes in tax laws or rates. The effective date of SFAS 96 was for fiscal years beginning after December 15, 1988. However, the effective date has been deferred to fiscal years beginning after December 15, 1991. FASB is continuing its deliberations with the objective of issuing an exposure draft which could result in amending SFAS 96.

As a result of the accounting and ratemaking requirements of the BPU and FERC, the primary effect of adopting SFAS 96 upon Enterprise's financial reporting will be on the presentation of its financial position with minimal effect on its income statement.

Allowance for Funds Used During Construction (AFDC) and Capitalized Interest

PSE&G — AFDC represents the cost of debt and equity funds used to finance the construction of new utility facilities. The amount of AFDC capitalized is also reported in the Consolidated Statements of Income as a reduction of interest charges for the borrowed funds component and as other income for the equity funds component.

The rates used for calculating AFDC in 1990, 1989 and 1988 were 10.17%, 10.68% and 9.91%, respectively. These rates are within the limits set by the FERC formula.

Holdings — The operating subsidiaries of Holdings capitalize costs allocable to construction expenditures at the prevailing cost of borrowed funds.

Pension Plan and Other Post-Employment Benefits

The employees of PSE&G and participating affiliates completing one year of service are covered by a noncontributory trusteed pension [illegible] The policy is to fund pension costs accrued. PSE&G also pro[illegible]certain health care and life insurance benefits to active and retired employees. The current cost of these benefits is charged to expense when paid and is currently being recovered from ratepayers. (See Note 12 — Pension Plan and Other Post-Employment Benefits.)

In December 1990, FASB issued Statement of Financial Accounting Standards No. 106 (SFAS 106), "Employers' Accounting for Postretirement Benefits Other than Pensions" which requires employers to change from a "cash basis" to an "accrual basis" of accounting for post-employment benefits. SFAS 106 is effective for fiscal years beginning after December 15, 1992.

Because of existing accounting and ratemaking requirements of the BPU and FERC, which regulate PSE&G, the primary effect of adopting SFAS 106 on Enterprise's financial reporting is expected to be on the presentation of its financial position with minimal effect on its income statement.

2. Rate Matters

Electric

On February 16, 1990, the BPU approved a Stipulation providing for a $24.1 million annualized increase in the electric Levelized Energy Adjustment Clause (LEAC) for the period ending June 30, 1991. Additional issues included in the Stipulation provided for the retention of $10.5 million of revenues related to the sale of capacity to Atlantic Electric Company and Potomac Electric Company previously recorded as a reduction in PSE&G's energy costs and an aver[illegible]% reduction in street lighting customer rates. The collection [illegible]unts related to previously accrued interest on overcollections [illegible] deferred pending a decision by the BPU.

On June 1 and July 5, 1990, the BPU issued its decisions on the interest issues previously deferred: (1) interest on the nuclear performance penalty of 1987 was deferred to the generic proceeding concerning the nuclear performance standard; (2) interest on the $70 million of deferred replacement energy costs associated with the outages of the electric generators at both Salem units in 1983, 1984 and 1985 was denied; and (3) the previous decision by the BPU concerning interest on overrecoveries was reversed and the BPU decided to allow PSE&G to offset intraperiod interest on monthly overrecoveries with monthly underrecoveries. Based on these decisions $2.9 million of interest previously returned to customers was allowed to be recovered by PSE&G.

On August 29, 1990, the BPU issued its Order effective September 5, 1990 which granted PSE&G's original request of September 15, 1989 for a 1990 and 1991 increase in electric base rates reflecting the expiration of the TRA-86 amortization. PSE&G's original request provided for an increase of $23.3 million in electric base rates to be effective January 1, 1990, with an additional increase of $29.7 million to be effective January 1, 1991. As a result of the August 29, 1990 Order, the increase in electric base revenues plus interest for the period January 1, 1990, to September 5, 1990, will be recovered from customers in accordance with PSE&G's next LEAC rate adjustment which is expected to commence July 1, 1991.

Gas

On December 6, 1989, the BPU approved a Stipulation among the parties and granted an increase of $23.7 million, or 2% in the 1989–1990 LGAC for the period ending September 30, 1990. Additional issues on which settlement was reached included recovery of all take-or-pay charges for the 1989–90 LGAC period subject to refund (see paragraph below), changes in pricing of gas delivered to the electric department, recovery of a $10.7 million loss, without interest, on sale of naphtha over a three-year period without carrying charges resulting from the retirement of the Linden SNG plant in July 1989 and a name change for the gas Raw Materials Adjustment Clause (RMAC) to Levelized Gas Adjustment Clause (LGAC).

On January 17, 1990 the BPU approved a Stipulation entered into by PSE&G, the BPU staff, and the New Jersey Industrial Energy Users Association resolving all take-or-pay issues. Under the terms of the Stipulation all take-or-pay charges already collected were no longer subject to refund. The BPU permitted PSE&G to recover all take-or-pay costs. A portion of the payments will be recovered over a nine-year period which began in October 1987, without recovery of related carrying charges. PSE&G estimates that it may incur approximately $2 million in carrying charges pertaining to the nine-year recovery period related to certain payments, since it is required to meet its take-or-pay obligations over the next six years.

On October 31, 1990, the BPU approved a Stipulation of the parties in the LGAC proceeding for an increase of $46.1 million for the eleven-month period commencing November 1, 1990, and ending September 30, 1991. In addition to the LGAC increase, the BPU also approved PSE&G's proposal to directly credit firm customers' bills during the months of November and December 1990 and January 1991 with refunds totalling $80 million. On January 31, 1991, the BPU approved an additional one-month refund to customers of $28 million to be returned in February 1991. These credits are the result of the receipt by PSE&G of substantial refunds from its pipeline suppliers and an overcollection of actual gas costs.

On August 29, 1990, the BPU issued an Order granting PSE&G's request, effective September 5, 1990, for a 1990 and 1991 increase in gas base rates reflecting the expiration of the TRA-86 amortization. The increase in gas revenues of $4.8 million plus interest which were originally requested by PSE&G on September 15, 1989 to be effective January 1, 1990, are being recovered from customers under the LGAC which commenced November 1, 1990, and which remains in effect through September 30, 1991. The 1991 increase in gas base rates of $6.2 million is being recovered from customers beginning January 1, 1991.

3. Schedule of Consolidated Capital Stock

(Thousands of Dollars)	Outstanding Shares	Current Redemption Price Per Share	December 31, 1990	1989
Enterprise Common Stock				
Common Stock (no par) — authorized 500,000,000 shares (note A); issued and outstanding at December 31, 1990, 218,472,205 shares, at December 31, 1989, 211,100,418 shares, and at December 31, 1988, 205,350,418 shares (5,000,000 shares issued for $126,150,000 and 2,371,787 shares issued for $59,277,802 through Dividend Reinvestment and Stock Purchase Plan in 1990; 5,750,000 shares issued for $147,631,250 in 1989; no shares issued in 1988.)			**$3,043,402**	$2,857,974
Enterprise Preferred Stock (note B)				
PSE&G Cumulative Preferred Stock (note C)				
Without Mandatory Redemption (note D)				
$100 par value — Series				
4.08%	250,000	$103.00	$ **25,000**	$ 25,000
4.18%	249,942	103.00	**24,994**	24,994
4.30%	250,000	102.75	**25,000**	25,000
5.05%	250,000	103.00	**25,000**	25,000
5.28%	250,000	103.00	**25,000**	25,000
6.80%	250,000	102.00	**25,000**	25,000
7.40%	500,000	101.00	**50,000**	50,000
7.52%	500,000	101.00	**50,000**	50,000
8.08%	150,000	101.00	**15,000**	15,000
7.80%	750,000	101.00	**75,000**	75,000
7.70%	600,000	100.79	**60,000**	60,000
8.16%	300,000	104.82	**30,000**	30,000
Total Preferred Stock Without Mandatory Redemption			$ **429,994**	$ 429,994

Notes to Schedule of Consolidated Capital Stock

(A) Total authorized and unissued shares include 3,678,503 shares of Enterprise Common Stock reserved for issuance through the Dividend Reinvestment and Stock Purchase Plan and various employee benefit plans.

(B) Enterprise has authorized a class of 50 million shares of Preferred Stock without par value, none of which is outstanding.

(C) There are 3,200,058 shares of $100 par value and 10,000,000 shares of $25 par value Cumulative Preferred Stock which are authorized and unissued, and which upon issuance may or may not provide for mandatory sinking fund redemption.

If dividends upon any shares of Preferred Stock are in arrears in an amount equal to the annual dividend thereon, voting rights for the election of a majority of PSE&G's 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.

As of December 31, 1990 and 1989 there were no shares of Preferred Stock with mandatory redemption outstanding.

(D) At December 31, 1990 the annual dividend requirement and embedded dividend cost for Preferred Stock without mandatory redemption were $29,012,000 and 6.75%, respectively.

4. Deferred Items

Statement of Financial Accounting Standards No. 90

The Amortization of Discount on Property Abandonments and Disallowances were $7.7 million for 1990; $8.7 million for 1989 and $38.8 million for 1988 and includes the effect on income of Statement of Financial Accounting Standards No. 90 (SFAS 90) "Regulated Enterprises — Accounting for Abandonments and Disallowances of Plant Costs", as amended by Technical Bulletin No. 87-2 (TB). The tax effects of discounting of abandonments were calculated using the tax rates applicable to related deferred tax balances.

Property Abandonments

The BPU has authorized PSE&G to recover the after-tax abandonment costs from its customers. The following table reflects the application of SFAS 90 and the TB on property abandonments for which no return is earned. The discount rate range used to calculate the present value of the abandoned property under SFAS 90 was between 8.545% and 14.446%. The net-of-tax discount rate used in accordance with the TB was between 4.443% and 7.801%.

(Thousands of Dollars) December 31,	1990		1989	
Property Abandonments	Discounted Cost	Taxes	Discounted Cost	Taxes
Atlantic Project	**$112,382**	**$47,238**	$121,723	[illegible]
Hope Creek Unit 2	**47,396**	**31,588**	63,031	[illegible]
LNG Project	**22,389**	**8,534**	25,697	9,826
Uranium Projects	**17,686**	**7,510**	19,181	8,129
Other	**851**		1,109	
	$200,704	**$94,870**	$230,741	$106,560

Under(Over)recovered Electric Energy and Gas Costs — Net

Recoveries of electric energy and gas costs are determined by the BPU. (See Note 2 — Rate Matters.)

The following table reflects the balances in PSE&G's deferred fuel recovery accounts:

(Millions of Dollars) December 31,	Cumulative Under(Over)Recovery 1990	1989
LEAC		
Deferred Fuel Cost	**$(10.0)**	$ 56.1
Deferred Replacement Power Costs — Salem	**23.1**	37.1
Total LEAC	**13.1**	93.2
LGAC Deferred Fuel Cost	**(50.6)**	(24.7)
Net Under(Over)Recovery	**$(37.5)**	$ 68.5

Unamortized Debt Expense

Costs associated with the issuance of debt by PSE&G are deferred and amortized over the lives of the related issues. Amounts shown in the Consolidated Balance Sheets consist of costs associated with PSE&G's reacquisition of First and Refunding Mortgage Bonds. The redemption costs of the tendered or redeemed debt have been deferred and are being amortized over the lives of the new securities issued to replace higher-cost securities. PSE&G expects to amortize $5.8 million of these costs in 1991.

Materials and Supplies Inventory

In January 1989, PSE&G changed its method of accounting for certain spare parts to the deferred (inventory) method, whereby all purchases of spare parts under inventory control are charged into the Materials and Supplies inventory account until such time that the items are used or consumed and are then charged to the appropriate expense or capital accounts. Prior to 1989, certain purchases of spare parts were being charged directly to expense at the time of purchase, with a current deduction being taken for tax purposes.

On October 4, 1988, PSE&G filed a request with the Internal Revenue Service (IRS) for a tax ruling concerning the change in accounting for spare parts. If the request is approved as submitted, this would allow PSE&G to account for the resulting adjustment for income tax purposes over a six-year period beginning January 1989.

PSE&G recorded an increase in its Materials and Supplies inventory account for the value placed on these spare parts, as of January 1, 1989. The associated income statement impact has been deferred and is being amortized over a six-year period beginning January 1, 1989. As of December 31, 1990, the unamortized balance of this deferred credit was $51.7 million.

5. Schedule of Consolidated Long-Term Debt

(Thousands of Dollars) Interest Rates	Due	December 31, 1990	1989
PSE&G			
First and Refunding Mortgage Bonds (note A)			
4¾%	1990	$	$ 50,000
4⅜%–8¾%	1992	**240,000**	240,000
4⅜%–9⅛%	1993	**190,000**	190,000
4⅝%–8¾%	1994	**210,000**	210,000
4¾%	1995	**60,000**	60,000
6¼%–9¾%	1996–2000	**746,000**	747,000
7½%–12%	2001–2005	**492,430**	368,430
6.30%–9¾%	2006–2010	**557,210**	558,210
6.80%–10½%	2011–2015	**647,500**	647,500
8.10%–9¾%	2016–2020	**446,000**	322,000
5%–8%	2037	**15,001**	15,001
Total First and Refunding Mortgage Bonds		**3,604,141**	3,408,141
Debenture Bonds Unsecured			
5¾%	1991	**31,199**	31,199
7¼%	1993	**21,923**	22,614
9%	1995	**41,814**	42,319
6%–8¾%	1996–1998	**94,704**	97,154
Total Debenture Bonds		**189,640**	193,286
Principal Amount Outstanding		**3,793,781**	3,601,427
Amounts Due Within One Year (note B)		**(38,274)**	(54,038)
Net Unamortized Discount		**(22,063)**	(23,179)
Total Long-Term Debt of PSE&G		**3,733,444**	3,524,210
Holdings			
Capital (note C)			
8.65%–9.12%	1991	**80,000**	80,000
8.95%–9.72%	1993	**88,000**	88,000
9.30%–9.55%	1995	**82,000**	82,000
8.95%–10.05%	1996–1999	**500,000**	500,000
Principal Amount Outstanding		**750,000**	750,000
Amounts Due Within One Year (note B)		**(79,940)**	
Net Unamortized Discount		**(2,088)**	(2,568)
Total Long-Term Debt of Capital		**667,972**	747,432
Funding (note D)			
9.375%	1994–1995	**150,000**	
9.43%	1993	**60,000**	
9.54%	1995	**35,000**	
Total Long Term Debt of Funding		**245,000**	
EGDC Mortgage Notes			
9.75%	1992	**14,606**	14,606
10.625%–12.75%	2012	**7,090**	7,169
Principal Amount Outstanding		**21,696**	21,775
Amounts Due Within One Year (note B)		**(88)**	(79)
Total Long-Term Debt of EGDC		**21,608**	21,696
EDC Bank Loans — 12%	1995		270
Amounts Due Within One Year (note B)			(30)
Total Long-Term Debt of EDC			240
Total Long-Term Debt of Holdings		**934,580**	769,368
Consolidated Long-Term Debt (note E)		**$4,668,024**	$4,293,578

Notes:

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

(B) The aggregate principal amounts of requirements for sinking funds and maturities for each of the five years following December 31, 1990 are as follows:

(Thousands of Dollars)

	Sinking Funds		Maturities				
Year	PSE&G	Capital	PSE&G	Capital	EGDC	Funding	Total
1991	$ 7,075	$	$ 31,199	$ 79,940	$ 88	$	$ 118,302
1992	6,200		240,000		14,703		260,903
1993	5,400	42,500	210,323	88,000	108	60,000	406,331
1994	5,400	42,500	210,000		121	75,000	333,021
1995	3,630	42,500	95,814	82,000	134	110,000	334,078
	$27,705	$127,500	$787,336	$249,940	$15,154	$245,000	$1,452,635

For sinking fund purposes, certain First and Refunding Mortgage Bond issues require annually the retirement of $17,950,000 principal amount of bonds or the utilization of bondable property additions at 60% of cost. The portion expected to be met by property additions has been excluded from the table above. Also, PSE&G may, at its option, retire additional amounts up to $5,000,000 annually through sinking funds of certain debenture bonds. Additional bonds, if any, resulting from the election of this option are included in long-term debt due within one year.

(C) Capital is providing up to $750 million long-term debt financing for the nonutility businesses on the basis of a support agreement with Enterprise.

(D) Funding provides long-term debt financing for the nonutility businesses on the basis of unconditional guarantees from Holdings.

(E) At December 31, 1990, the annual interest requirement on Long-Term Debt was $418.5 million of which $307.2 million was the requirement for First and Refunding Mortgage Bonds. The embedded interest cost on long-term debt was 9.04%.

6. Long-Term Investments

Long-Term Investments are primarily those of Enterprise's nonutility operating businesses: PSRC (diversified passive investments), CEA (cogeneration and small power production facilities) and EGDC (diversified non-residential real estate development and investments). A summary of long-term investments is as follows:

(Millions of Dollars)	1990	1989
Lease Agreements:		
Leveraged Leases	**$ 516**	$354
Direct-Financing Leases	**95**	98
Other Leases	**17**	19
Total	**628**	471
Partnerships:		
General Partnerships	**111**	90
Limited Partnerships	**321**	208
Total	**432**	298
Joint Venture	**11**	10
Marketable Securities	**200**	137
Corporate-owned Life Insurance (PSE&G)	**20**	9
Total Long-Term Investments	**$1,291**	$925

Leveraged leases are those of PSRC and are reported net of principal and interest on nonrecourse loans and unearned income, including deferred investment tax credits. Unearned and deferred income is recognized at a level rate of return from each lease during the periods in which the net investment is positive.

Partnership investments are those of PSRC, CEA and EGDC and are undertaken with other investors.

Marketable securities are those of PSRC and are stated at the lower of aggregate cost or market value, adjusted, where appropriate, for amortization of premium and discount computed using the interest method. The net unrealized loss, which is the difference between the market price and the cost of equity securities, net of applicable income taxes, is included in stockholders' equity. As of December 31, 1990 and 1989, the cost of PSRC's marketable securities was $212.1 million and $137.5 million, respectively. Realized investment gains and losses on the sale of investment securities are determined utilizing the specific cost identification method. (For additional information see Note 11 — Commitments and Contingent Liabilities.)

7. Cash and Cash Equivalents

The December 31, 1990 and 1989 balances consist primarily of highly liquid marketable securities (commercial paper) with a maturity of three months or less.

8. Federal Income Taxes

A reconciliation of reported Net Income with pretax income and of Federal income tax expense with the amount computed by multiplying pretax income by the statutory Federal income tax rate of 34% is as follows:

(Thousands of Dollars)	1990	1989	1988
Net Income	**$542,278**	$542,137	$528,586
Preferred stock dividend requirements	**29,012**	29,012	31,336
Subtotal	**571,290**	571,149	559,922
Federal income taxes:			
Operating Income:			
Current provision	**141,342**	112,046	90,153
Provision for deferred income taxes — net (A)	**86,461**	119,606	89,744
Investment tax credits — net	**(19,418)**	(23,391)	(17,753)
Total included in operating income	**208,385**	208,261	162,144
Miscellaneous other income:			
Current provision	**(11,480)**	(11,411)	(14,300)
Provision for deferred income taxes (A)	**10,906**	10,906	13,087
SFAS 90 deferred income tax (A)	**5,850**	6,773	31,205
Total Federal income tax provisions	**213,661**	214,529	192,136
Pretax income	**$784,951**	$785,678	$752,058

Adjustments to pretax income, computed at the statutory rate, for which deferred taxes are not provided under current ratemak[illegible] policies:

	1990	1989	1988
Tax expense at the statutory rate	**$266,883**	$267,131	[illegible]55,700
Tax depreciation under book depreciation	**9,534**	17,821	15,282
Allowance for funds used during construction	**(11,635)**	(10,199)	(9,201)
Capitalized interest	**9,954**	7,615	5,871
Amortization of rate differential resulting from TRA-86	**(23,157)**	(43,203)	(46,556)
Other	**(11,821)**	(1,475)	(22)
Subtotal	**(27,125)**	(29,441)	(34,626)
Amortization of investment tax credits	**(26,097)**	(23,161)	(28,938)
Subtotal	**(53,222)**	(52,602)	(63,564)
Total Federal income tax provisions	**$213,661**	$214,529	$192,136
Effective Federal income tax rate	**27.2%**	27.3%	25.5%

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

	1990	1989	1988
Current Liabilities:			
Unbilled revenues	**$(15,155)**	$(19,627)	$(23,724)
Other	**150**	1,051	(1,704)
Subtotal	**(15,005)**	(18,576)	(25,428)
Deferred Credits:			
Additional tax depreciation and amortization	**133,081**	109,024	110,862
Leasing Activities	**43,301**	85,641	19,386
Property Abandonments	**(11,690)**	(11,825)	15,888
Oil and Gas Property Write-Down	**(6,394)**	(6,393)	(3,196)
Deferred fuel costs — net	**(36,822)**	(22,414)	29,600
Other	**(3,254)**	1,828	(13,076)
Subtotal	**118,222**	155,861	159,464
Total	**$103,217**	$137,2[illegible]	[illegible],036

Deferred income taxes are provided for differences between book and taxable income. For PSE&G the deferred income taxes are limited to the extent permitted for ratemaking purposes. At December 31, 1990 the cumulative net amount of income tax timing differences for which deferred income taxes have not been provided was $1.0 billion. See Note 1 — Organization and Summary of Significant Accounting Policies for a discussion of the effect of SFAS 96, "Accounting for Income Taxes," and Note 2 — Rate Matters for reductions in LEAC and LGAC related to the effect of the TRA-86.

9. Capital Lease Obligations

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

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

Enterprise and its other subsidiaries are not lessees in any capitalized leases.

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

(Thousands of Dollars)	1990	1989
Common Plant	**$57,226**	$57,226
Less Accumulated Amortization	**2,714**	2,261
Net Assets under Capital Leases	**$54,512**	$54,965

Future minimum lease payments for noncancelable capital and operating leases at December 31, 1990 were:

(Thousands of Dollars)	Capital Leases	Operating Leases
1991	$ 13,070	$ 7,016
1992	13,014	5,243
1993	13,014	3,801
1994	13,015	2,986
1995	13,016	2,964
Later Years	251,639	14,850
Minimum lease payments	316,768	$36,860
Less: Amount representing estimated executory costs, together with any profit thereon, included in minimum lease payments	158,147	
Net minimum lease payments	158,621	
Less Amount representing interest	104,109	
Present value of net minimum lease payments (A)	$ 54,512	

(A) Reflected in the Consolidated Balance Sheets in Capital Lease Obligations of $54,073,000 and in Long-Term Debt and Capital Lease Obligations due within one year of $439,000.

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

(Thousands of Dollars) For the Years Ended December 31,	1990	1989	1988
Interest on Capital Lease Obligations	**$ 6,284**	$ 6,322	$ 6,424
Amortization of Utility Plant under Capital Leases	**452**	409	1,036
Net minimum lease payments relating to Capital Leases	**6,736**	6,731	7,460
Other lease payments	**18,863**	18,178	16,396
Total Rent Expense	**$25,599**	$24,909	$23,856

10. Commercial Paper and Loans

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

PSE&G Consolidated (Thousands of Dollars)	1990	1989	1988
Principal amount outstanding at end of year	**$486,818**	$328,000	$190,000
Maximum principal amount outstanding at any month end	**$486,818**	$328,000	$213,000
Average daily outstanding	**$240,000**	$113,100	$ 94,900
Weighted average annual interest rate	**8.22%**	9.04%	7.80%
Weighted average interest rate for commercial paper outstanding at year-end	**8.34%**	8.68%	9.43%

PSE&G has received authorization from the BPU to issue and have outstanding not more than $500 million of its short-term obligations at any one time, consisting of commercial paper and other unsecured borrowings from banks and other lenders. At year-end PSE&G had $338 million principal amount outstanding.

PSE&G has a $75 million revolving credit agreement with a group of foreign banks which expires in 1992. As of December 31, 1990, there is no short-term debt outstanding under this agreement.

On June 28, 1990, Fuelco established a $200 million commercial paper program to finance its share of Peach Bottom nuclear fuel, supported by a $200 million revolving credit facility with a group of banks. PSE&G has guaranteed repayment of Fuelco's respective obligations. At December 31, 1990, $148.8 million of Fuelco's commercial paper was outstanding.

Holdings (Thousands of Dollars)	1990	1989	1988
Amount outstanding at end of year:			
Funding	**$272,041**	$110,939	
Capital			$117,530
Maximum amount outstanding at any month end:			
Funding	**$320,702**	$110,939	
Capital			$164,700
Average daily outstanding:			
Funding	**$229,500**	$ 18,800	
Capital			$127,700
Weighted average annual interest rate:			
Funding	**8.25%**	8.68%	
Capital			7.63%
Weighted average interest rate for commercial paper outstanding at year-end:			
Funding	**8.31%**	8.61%	
Capital			9.50%

In November 1987 Capital entered into a three-year $250 million credit agreement with a group of banks to support the issuance of commercial paper, which was terminated in September 1989. In August 1989 Funding established a $350 million commercial paper program supported by a direct pay commercial bank letter of credit and a revolving credit facility which expires in August 1991. Enterprise presently expects that Funding will be able to renew this program upon expiration.

The December 1989 balance includes $10.4 million related to an outstanding capital note of Resources Capital Management Corporation, a subsidiary of PSRC, which was payable in installments through June 1990.

At December 31, 1990 and 1989, Enterprise had $273 million and $295 million, respectively, of lines of credit supported by compensating balances under informal arrangements with banks. At December 31, 1990 and 1989, $150 million and $55 million, respectively, of these lines of credit were compensated by fees. There are no legal restrictions placed on the withdrawal or other use of the compensating bank balances.

11. Commitments and Contingent Liabilities

Nuclear Performance Standard

In 1987, the BPU issued an Order establishing a performance standard for the five nuclear units in which PSE&G has an ownership interest: Salem 1 and Salem 2 — 42.59% each; Hope Creek — 95%; and Peach Bottom 2 and 3 — 42.49% each. PSE&G operates Salem and Hope Creek while Peach Bottom is operated by Philadelphia Electric Company (PE).

On July 26, 1990, the BPU issued an Order confirming its June 6, 1990 oral decision which revised its nuclear performance standard applicable to New Jersey electric utilities, adopted in 1987. Under the original standard PSE&G would incur penalties if the aggregate capacity factor of its five nuclear units fell below 60% in a calendar year or receive financial benefits if the factor was 80% or higher. Such percentages were predicated upon a 70% target capacity factor. There were no penalties if the capacity factor fell between 60% and 80%, a spread previously referred to as the "dead band."

Under the revised standard, based upon a 70% target capacity factor, the BPU established a new dead band called the "zone of reasonableness." The zone of reasonableness is a capacity factor equal to or greater than 65% and less than 75%. This means that PSE&G will be eligible for a reward if the aggregate capacity factor of its five nuclear units reaches 75% or higher and will sustain a penalty if it falls below 65% for each calendar year.

The penalty/reward percentages have been increased under the revised standard. (See table below.) However, the BPU Order provides that the penalties will not be calculated in each instance all the way back to the target capacity factor of 70% as in the original standard, but rather to the edge of each capacity factor range. For example, a 30% disallowance will apply to replacement power costs incurred in the 55% to 65% range and a 40% disallowance will apply to replacement power costs in the 45% to 55% range. Under the original standard, the percentage disallowed at 45% capacity factor was 25%, all the way back to the 70% target capacity factor.

Capacity Factor Range	Reward	Penalty
Equal to or greater than 75%	30%	—
Equal to or greater than 65% and less than 75%	None	None
Equal to or greater than 55% and less than 65%	—	30%
Equal to or greater than 45% and less than 55%	—	40%
Equal to or greater than 40% and less than 45%	—	50%
Below 40%	BPU Intervenes	

Another change in the standard involves the basis for calculating the capacity factor. The design electrical rating (the theoretical rating of the plant assigned by the manufacturer) was utilized in the original standard. The revised standard uses maximum dependable capability, which takes into account actual operating conditions. This change in the basis of calculation provides an estimated one percent increase in the capacity factor on the same level of generation.

The BPU also indicated in its July 26, 1990 Order that it was not incorporating a gross negligence standard into the nuclear performance standard, but would consider allegations of gross negligence brought upon a sufficient factual basis. A finding of gross negligence could result in penalties other than those prescribed under the nuclear performance standard.

PSE&G's nuclear units in which it has an ownership interest aggregated a combined capacity factor of 74.8% in 1990 and 72% in 1989. In accordance with the BPU's 1989 Stipulation, the Peach Bottom Units were excluded from any nuclear performance penalty and capacity factor calculation during 1989 while revenue credits of $46 million were being provided to PSE&G's electric customers.

Nuclear Insurance Coverages and Assessments

PSE&G's insurance coverages and maximum retrospective assessments for its nuclear operations are as follows:

Type and Source of Coverages	Coverages	Maximum Retrospective Assessments for a Single Incident
	(Millions of Dollars)	
Public Liability:		
American Nuclear Insurers	$ 200.0	$ None
Indemnity (A)	7,607.0	175.4
	$7,807.0(B)	[illegible]5.4
Nuclear Worker Liability:		
American Nuclear Insurers (C)	$ 200.0	$ 8.4
Property Damage:		
Nuclear Mutual Limited (D)	$ 500.0	$ 17.4
Nuclear Electric Insurance Ltd.	1,125.0(E)	12.0
American Nuclear Insurers	700.0	None
	$2,325.0	$ 29.4
Replacement Power:		
Nuclear Electric Insurance Ltd.	$ 3.5(F)	$ 12.9

(A) Retrospective premium program under the Price-Anderson Liability provisions of the Atomic Energy Act of 1954, as amended. Subject to retrospective assessment with respect to loss from an incident at any licensed nuclear reactor in the United States.
(B) Limit of liability for each nuclear incident under the Atomic Energy Act of 1954, as amended.
(C) Represents the potential liability from workers claiming exposure to the hazard of nuclear radiation. This does not increase PSE&G's obligation under the Price-Anderson Liability provisions of the Atomic Energy Act of 1954, as amended.
(D) Mutual insurance companies of which PSE&G is a member. Subject to retrospective assessment with respect to loss at any nuclear generating station covered by such insurance.
(E) Includes coverage for premature decommissioning of up to $200 million per site.
(F) Weekly indemnity for 52 weeks which commences after the first 21 weeks of an outage. Also provides $2.4 million weekly for a second 52-week period, and $1.2 million weekly for a third 52-week period.

The Price-Anderson Amendments Act of 1988 sets the "limit of liability" for claims that could arise from an incident involving any licensed nuclear facility in the nation. The "limit of liability" is based on the number of licensed nuclear reactors and is adjusted at least every five years based on the Consumer Price Index. The current "limit of liability" is $7.8 billion. All nuclear utilities, including PSE&G, have provided for this exposure through a combination of private insurance and mandatory participation in a financial protection pool as established by the Price-Anderson Act. Under the Price-Anderson Act, as amended, each party with an ownership interest in a nuclear reactor can be assessed up to $66.2 million per reactor per incident, payable at $10 million per reactor per incident per year. If the damages exceed the "limit of liability" the President is to submit to Congress a plan for providing additional compensation to the injured parties. Congress could impose further revenue raising measures on the nuclear industry to pay claims. PSE&G's maximum aggregate assessment per incident is $175 million (based on PSE&G's ownership interests in Hope Creek, Peach Bottom and Salem) as of January 16, 1991, and its maximum aggregate annual assessment per incident is $26.5 million. In 1984, in a case to which PSE&G was not a party, the Supreme Court of the United States held that the Atomic Energy Act, the Price-Anderson limitation of liability and the extensive regulation of nuclear safety by the Nuclear Regulatory Commission (NRC) do not pre-empt claims under state law for personal, property or punitive damages related to radiation hazards.

PSE&G maintains property insurance, including decontamination expense coverage and premature decommissioning coverage, with respect to loss or damage to its nuclear facilities. The limit of these coverages is $2.325 billion per incident, per site. PE has advised PSE&G that it maintains similar insurance coverage with respect to the Peach Bottom units operated by PE. Under the terms of the various insurance agreements, PSE&G could be subject to a maximum retrospective assessment for a single incident of up to $29.4 million. Certain of the policies also provide that the insurer may suspend coverage with respect to nuclear units on a site without notice if the NRC suspends or revokes the operating license for any unit on the site, the NRC issues a shutdown order with respect to such unit, or the NRC issues a confirmatory order keeping such unit shut down.

PSE&G is a member of an industry mutual insurance company, Nuclear Electric Insurance Limited (NEIL), which provides replacement power cost coverage in the event of a major accidental outage at a nuclear station. Salem and Hope Creek are covered by replacement power cost policies which provide for a weekly indemnity payment to the Salem and Hope Creek owners, respectively, of $3.5 million for 52 weeks, subject to a 21-week waiting period. Thereafter, the policies provide for weekly indemnity payments of $2.4 million for a second 52-week period, and $1.2 million weekly for a third 52-week period. PSE&G has been informed by PE that PE has similar replacement power cost coverage with respect to Peach Bottom. The premium for this coverage is subject to retrospective assessment for adverse loss experience. Under the policies, PSE&G's present maximum share of any retrospective assessment in any year is $12.9 million.

Construction and Fuel Supplies

PSE&G has substantial commitments as part of its construction program which includes the capital requirements for nuclear fuel. PSE&G's construction program is continuously reviewed and periodically revised as a result of changes in economic conditions, revised load forecasts, changes in the scheduled retirement dates of existing facilities, changes in business plans, site changes and cost escalations under construction contracts, and requirements of regulatory authorities and laws, the timing of and amount of electric and gas rate changes and the ability of PSE&G to raise necessary capital. PSE&G periodically reevaluates its forecasts of future customers, load and peak growth and sources of electric generating capacity to meet such projected growth, including the need to construct new electric generating capacity. Forecasts take into account assumptions concerning future demands of customers, effectiveness of conservation and load management activities, the long-term condition of PSE&G's plants, capacity available from other electric utilities, and the amounts of cogeneration and other nonutility capacity projected to be available.

PSE&G's construction expenditures of $4.6 billion, including $330 million of allowance for funds used during construction, and capitalized interest of $18 million are expected to be incurred during the years 1991 through 1995. The estimate of construction requirements is based on expected project completion dates and includes anticipated escalation due to inflation of approximately 4%, annually. Therefore, construction delays or higher inflation levels could cause significant increases in these amounts. PSE&G expects to generate internally a majority of the funds necessary to satisfy its construction expenditures over the next five years. In addition, PSE&G does not presently anticipate any difficulties in obtaining sufficient sources of fuel for electric generation and adequate gas supplies during the years 1991 through 1995.

Oil and Gas Property Write-Down

On October 31, 1986, the BPU approved agreements by PSE&G and the major parties in PSE&G's gas base rate case, which provided for an annual reduction in gas base revenues of $30 million, effective October 31, 1986, and for the removal of EDC, at that time a wholly-owned subsidiary of PSE&G, from inclusion in its gas rate base for ratemaking purposes. In the BPU-approved agreement, PSE&G was allowed to defer any loss on its investment in EDC as a result of any write-down of the value of reserves as of December 31, 1986, and to seek recovery of such loss over a period of not less than 10 years in its next gas base rate proceeding. On October 31, 1986, the price paid by PSE&G for natural gas from EDC was reduced as a result of a change in PSE&G's gas LGAC, formerly RMAC, approved by the BPU. As a result of these regulatory actions, EDC wrote down the value of its reserves as of December 31, 1986 by $134.5 million, which amounted to $70.5 million after the tax effect, to reflect the then lower net realizable value of its oil and gas reserves. PSE&G deferred $58.8 million of the after-tax loss as of December 31, 1986. On July 1, 1988, PSE&G began amortizing the $58.8 million deferred amount, absent regulatory approval, at the rate of 10% per year. As of December 31, 1990, the balance remaining to be amortized was $41.3 million. PSE&G will seek recovery of the entire $70.5 million in its next gas base rate case. Denial of the recovery of any unamortized balance by the BPU would require an immediate write-off.

Environment

General

The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 and certain similar State statutes authorize various governmental authorities to issue orders compelling responsible parties to take cleanup action at sites determined to present an imminent and substantial danger to the public and to the environment because of an actual or threatened release of hazardous substances. Because of the nature of PSE&G's business, including the production of electricity, the distribution of gas, and formerly the manufacture of gas, various by-products and substances are or were produced or handled which contain constituents classified as hazardous under the above laws. PSE&G generally provides for the disposal or processing of such substances through licensed independent contractors. However, these statutory provisions impose joint and several responsibility without regard to fault on all allegedly responsible parties, including the generators of the hazardous substances, for certain investigative and cleanup costs at sites where these substances were disposed or processed. PSE&G has been notified with respect to a number of such sites, and the cleanup of these potentially hazardous sites is receiving greater attention from the government agencies involved. Generally, actions directed at funding such site investigations and cleanups include all suspected or known allegedly responsible parties. PSE&G does not expect its expenditures for any such site to be material.

PSE&G's own sites also are subject to certain of these environmental laws, and the nature and duration of certain of PSE&G's past operations suggest that some remedial action may be required. PSE&G cannot determine, at this time, the costs which may result from these matters, but such costs could be material.

PSE&G Gas Plant Sites

In March 1988, the NJDEP notified PSE&G that it had identified the need for PSE&G, pursuant to a formal arrangement, to systematically investigate and, if necessary, resolve environmental concerns extant at PSE&G's former manufactured gas plant sites. To date, the NJDEP and PSE&G have identified thirty-eight former gas plant sites. PSE&G has completed a preliminary assessment of twenty-eight of these sites. PSE&G is currently working with the NJDEP under a plan pursuant to which PSE&G would undertake to investigate these sites. At a minimum, some form of investigation will be required at each of these sites. Upon completion of these investigations, some or all of these sites may require remedial action. PSE&G anticipates that its program to assess, investigate and, if necessary, remediate environmental concerns at its former gas plant sites may take more than 20 years to complete.

In furtherance of this effort, during 1990, PSE&G entered into Administrative Consent Orders (ACOs) with the NJDEP concerning eight former manufactured gas plant sites located in South Amboy, Morristown, Bordentown, Gloucester, Bayonne (Hobart Avenue), Woodbury, Riverton and Paterson. These ACOs require PSE&G to investigate environmental conditions at these sites and, if an environmental problem related to gas manufacturing operations exists, to clean up the sites in accordance with NJDEP requirements. Six of the eight sites are owned by third parties. PSE&G completed a remedial investigation at one site, a preliminary screening at five sites, and filed work plans with the NJDEP to investigate seven sites, also in 1990. Field work activities associated with the seven remedial investigations will be initiated as soon as PSE&G receives NJDEP approval of the work plans. The costs associated with conducting these investigations are expected to approximate $3.5 million. Upon completion of the investigations, some or all of these sites may require remedial action.

Remedial work activities have been undertaken at four additional sites, three of which are owned by third parties. Remedial work activities at one of these sites has been conducted at a cost to PSE&G of $5.6 million. In the second case, PSE&G entered into a settlement agreement with the owner for approximately $10 million. With respect to the other two sites, PSE&G expects the investigation costs to approximate $2 million. The nature and duration of the industrial operations conducted at these latter two sites, as well as the preliminary findings from these investigations, suggest that remedial action will be necessary at these sites.

The cleanup of former gas plant sites will require a substantial effort by PSE&G over a number of years. This overall cost of the investigation and cleanup cannot be reasonably estimated, but experience to date indicates that costs of approximately $20 million per year could be incurred over a period of more than 20 years and that the overall costs of the investigation and cleanup could be material.

The BPU issued an order on August 8, 1989, approving PSE&G's request to permit it to defer charging to income costs incurred in connection with the investigation and remediation of its former gas plant sites, pending a determination in a gas base rate proceeding of the extent to which such costs may be recovered from customers. PSE&G is also seeking to recover such costs from its insurers, (see below.) As of December 31, 1990, PSE&G has deferred approximately $23.7 million of such costs. Absent insurance recovery, denial of recovery by the BPU of such costs would require an immediate write-off of the amount being deferred by PSE&G.

In November 1988, PSE&G filed suit against certain of its insurers to recover the costs associated with addressing and resolving environmental issues at its former gas plant sites. The litigation is currently in the discovery phase. Pending recovery of such costs through rates or under its insurance policies, neither of which can be assured, PSE&G will be required to finance the cleanup of its former gas plant sites.

Community Energy Alternatives Incorporated
CEA, one of Enterprise's indirect nonutility subsidiaries, participates in the development of cogeneration and small power production facilities. GWF Power Systems, L.P. (Partnership), in which CEA has an aggregate indirect 50% ownership interest, has constructed a coal-fired cogeneration plant located in Hanford, California (Hanford). CEA's wholly-owned subsidiary, CEA USA, Inc., and CEA USA, Inc.'s wholly-owned subsidiary, CEA GWF, Inc., are a limited partner and a general partner, respectively, in the Partnership. Physical construction of Hanford is complete. Hanford was synchronized to the utility grid on October 14, 1990 and was operated for testing until December 31, 1990 when it was shut down as required by the court order discussed below. During the testing period, Hanford successfully completed its power contract capacity test. As of December 31, 1990, approximately $72.1 million had been spent on development and construction of Hanford, and the Partnership or the contractor, a CEA affiliate, had committed an additional $6 million, of which CEA's indirect share is 50%.

Hanford continues to be the subject of a legal challenge which in 1990 resulted in a determination that the permits necessary for Hanford's operation are invalid. On June 21, 1990, the California Court of Appeal issued its determination that the Environmental Impact Report (EIR) prepared by the City of Hanford (City) for Hanford was inadequate under the California Environmental Quality Act and, further, that the City's general (zoning) plan, under which the [illegible]s for Hanford were issued, was in violation of California law[illegible]ptember 21, 1990, the California Supreme Court declined to hear the Partnership's appeal and remanded the matter to the California Superior Court to determine and implement a remedy. On October 26, 1990, following a hearing, the Superior Court after declaring the permits invalid, (i) ordered the City to make corrective amendments to its general (zoning) plan and the EIR within 120 days from November 1, 1990 and (ii) ordered that Hanford could operate for testing purposes for up to sixty days from November 1, 1990. The Court also ordered the City, after completing the corrective amendments, to reconsider the project, and to decide whether in the discretion of the City it should be approved. The Partnership is presently attempting to resolve this matter on mutually acceptable grounds with the plaintiffs in the lawsuit, and with the City, which passed an ordinance prohibiting the burning of coal within the City's limits after originally approving permits to allow the construction of Hanford.

In order to secure financing for Hanford, Enterprise had entered into a subscription agreement for the purchase of capital stock of CEA in the amount of approximately $32 million, which subscription agreement has been pledged to the project lenders. CEA's 50% partner in the Partnership has provided a support agreement of like amount which has also been pledged to the project lenders. Abandonment of Hanford would enable the project lenders to demand repayment of the construction loan, requiring payments by Enterprise for additional shares of CEA capital stock pursuant to the subscription agreement. In the event that certain conditions are met, including issuance by the City of permits for Hanford to operate, the lenders have agreed that the present fully guaranteed construction loan will terminate and that they will lend the Partnership funds relative to Hanford on a nonrecourse basis. The Hanford construction loan is otherwise payable in full on September 30, 1991, with Enterprise obligated to provide funding for 50% of such payment as discussed above. As of December 31, 1990, the Partnership had Hanford construction loans outstanding of approximately $49.4 million.

Enterprise is presently unable to predict the resolution of this matter. However, in the event that the City, after modification of the general (zoning) plan and the EIR, declines to issue the permits for Hanford or a decision were made by the Partnership to abandon Hanford, Enterprise would be required to write off its indirect equity investment in Hanford, which investment as of December 31, 1990, including its obligations under the subscription agreement, was approximately $25.8 million, net of Federal income taxes, or approximately 12 cents per share of Enterprise Common Stock.

In addition, the Partnership may have responsibility to restore the Hanford site to its pre-construction condition if Hanford is abandoned. The costs of any such restoration cannot be presently estimated but they could be material to the Partnership. Further, certain of Hanford's equipment may have resale or salvage value.

Public Service Resources Corporation
PSRC has a diversified portfolio of investments across a number of market segments. One investment consists of $16 million of equity securities (primarily preferred stock) and $15 million of subordinated debt purchased from Second National Federal Savings Bank (SNFSB) of Salisbury, Maryland. As of December 31, 1990, SNFSB failed to meet certain of the prescribed capital requirements of the Federal Office of Thrift Supervision (OTS). As a result, on January 25, 1991 SNFSB filed a Capital Plan with OTS designed to bring SNFSB back into compliance with the capital requirements of OTS by the third quarter of 1994. Enterprise cannot predict whether OTS will approve SNFSB's Capital Plan or what other action OTS may take. If, however, OTS were to take over SNFSB, Enterprise could be required to write off its related investment, amounting to $20.5 million, after the tax effect, or nine cents per share of Enterprise Common Stock.

12. Pension Plan and Other Post-Employment Benefits

The discount rate, expected long-term return on assets and average compensation growth used in determining the plan's funded status as of December 31, 1990 and 1989, and net pension costs for 1990, 1989 and 1988, were as follows:

	1990	1989
Discount Rate Used to Determine Pension Cost	**7¼%**	7¾%
Discounted Rate Used to Determine Benefit Obligations	**7¾%**	7¼%
Expected Long-Term Return on Assets	**8%**	8%
Average Compensation Growth	**6%**	6%

The following table shows the plan's funded status:

(Thousands of Dollars) December 31,	**1990**	1989
Actuarial present value of benefit obligations:		
Accumulated benefit obligations, including vested benefits of $817,837 and $864,793	**$ (873,745)**	$ (926,031)
Effect of projected future compensation	**(292,658)**	(246,377)
Projected benefit obligations	**(1,166,403)**	(1,172,408)
Plan assets at fair value, primarily listed equity and debt securities	**970,886**	1,028,585
Projected benefit obligations in excess of plan assets	**(195,517)**	(143,823)
Unrecognized net gain (loss) from past experience and effects of changes in assumptions	**12,890**	(52,333)
Prior service cost not yet recognized in net pension cost	**80,840**	86,269
Unrecognized net obligations being recognized over 16.7 years	**101,787**	109,887
Prepaid (accrued) pension expense	**$ –0–**	$ –0–

The net pension cost for the years ended December 31, 1990, 1989 and 1988, include the following components:

(Thousands of Dollars)	**1990**	1989	1988
Service cost — benefits earned during year	**$ 34,323**	$ 28,185	$ 25,811
Interest cost on projected benefit obligations	**83,930**	74,997	70,485
Return on assets	**41,425**	(159,767)	(111,175)
Net amortization and deferral	**(109,678)**	98,585	56,879
Total	**$ 50,000**	$ 42,000	$ 42,000

Supplemental pension costs in 1990, 1989 and 1988, were $ 947,000, $1,900,000, and $2,846,000, respectively.

In addition to the pension plan, Enterprise also provides certain health care and life insurance benefits to active and retired employees. The cost of these benefits is charged to expense when paid. (See Note 1 — Organization and Summary of Significant Accounting Policies.)

13. Financial Information by Business Segments

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

For the Year Ended December 31, 1990

(Thousands of Dollars)	Electric	Gas	Nonutility Activities (A)	Total
Operating Revenues	**$ 3,332,417**	**$1,236,747**	**$ 281,250**	**$ 4,850,414**
Eliminations (Intersegment Revenues)			**(50,279)**	**(50,279)**
Total Operating Revenues	**3,332,417**	**1,236,747**	**230,971**	**4,800,135**
Depreciation and Amortization	**385,567**	**88,864**	**87,053**	**561,484**
Operating Income before Income Taxes	**972,806**	**73,682**	**137,778**	**1,184,266**
Capital Expenditures	**821,242**	**146,781**	**298,366**	**1,266,389**
December 31, 1990				
Net Utility Plant	**8,768,462**	**1,105,319**		**9,873,781**
Oil and Gas Property, Plant & Equipment			**789,819**	**789,819**
Other Corporate Assets	**1,331,729**	**426,919**	**1,601,062**	**3,359,710**
Total Assets	**$10,100,191**	**$1,532,238**	**$2,390,881**	**$14,023,310**

For the Year Ended December 31, 1989

(Thousands of Dollars)	Electric	Gas	Nonutility Activities (A)	Total
Operating Revenues	$3,279,913	$1,362,470	$ 207,165	[illegible]48
Eliminations (Intersegment Revenues)			(44,696)	[illegible],696)
Total Operating Revenues	3,279,913	1,362,470	162,469	4,804,852
Depreciation and Amortization	374,086	86,158	64,270	524,514
Operating Income before Income Taxes	925,209	122,854	102,758	1,150,821
Capital Expenditures	552,603	121,611	414,837	1,089,051
December 31, 1989				
Net Utility Plant	8,314,861	1,021,774		9,336,635
Oil and Gas Property, Plant & Equipment			608,689	608,689
Other Corporate Assets	1,377,649	401,978	1,194,483	2,974,110
Total Assets	$ 9,692,510	$1,423,752	$1,803,172	$12,919,434

For the Year Ended December 31, 1988

(Thousands of Dollars)	Electric	Gas	Nonutility Activities (A)	Total
Operating Revenues	$ 3,090,609	$1,203,435	$161,122	$4,455,166
Eliminations (Intersegment Revenues)			(60,474)	(60,474)
Total Operating Revenues	3,090,609	1,203,435	100,648	4,394,692
Depreciation and Amortization	353,306	76,248	47,872	477,426
Operating Income before Income Taxes	843,595	109,314	52,370	1,005,279
Capital Expenditures	496,185	68,091	182,206	746,482
December 31, 1988				
Net Utility Plant	8,128,543	960,960		9,089,503
Oil and Gas Property, Plant & Equipment			286,552	[illegible]6,552
Other Corporate Assets	1,204,808	370,497	739,009	[illegible]314
Total Assets	$ 9,333,351	$1,331,457	$1,025,561	[illegible],369

(A) The Nonutility Activities include amounts applicable to Enterprise, the parent corporation.

14. Jointly-Owned Facilities — Utility Plant

Enterprise's subsidiary, PSE&G, has ownership interests and is responsible for providing its share of the necessary financing for the following jointly-owned facilities. All amounts reflect the share of jointly-owned projects and the corresponding direct expenses are included in Consolidated Statements of Income as an operating expense. (See Note 1 — Organization and Summary of Significant Accounting Policies.)

(Thousands of Dollars) December 31, 1990 Plant	Ownership Interest	Plant In Service	Accumulated Depreciation	Plant Under Construction
Coal Generating				
Conemaugh	22.50%	$ 91,302	$ 28,956	$ 2,205
Keystone	22.84	88,208	26,150	2,510
Nuclear Generating				
Peach Bottom	42.49	640,652	221,768	27,350
Salem	42.59	903,365	288,045	25,514
Hope Creek	95.00	4,049,133	471,300	43,157
Nuclear Support Facilities	Various	84,408	14,229	12,952
Pumped Storage Generating				
Yards Creek	50.00	20,682	7,019	226
Transmission Facilities	Various	87,882	21,636	8
Merrill Creek Reservoir	13.91	36,483	4,029	—
Linden SNG Plant (ceased the manufacture of SNG effective July 1, 1989)	90.00	16,739	16,195	—

15. Selected Quarterly Data (Unaudited)

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

Calendar Quarter Ended	March 31,		June 30,		September 30,		December 31,	
(Th[illegible] where applicable)	**1990**	1989	**1990**	1989	**1990**	1989	**1990**	1989
Operating Revenues	**$1,325,210**	$1,296,140	**$1,074,002**	$1,047,694	**$1,190,032**	$1,155,033	**$1,210,891**	$1,305,985
Operating Income	**$ 248,248**	$ 249,337	**$ 200,229**	$ 207,036	**$ 291,887**	$ 272,087	**$ 233,116**	$ 211,350
Net Income	**$ 144,660**	$ 154,423	**$ 98,292**	$ 113,662	**$ 181,898**	$ 174,723	**$ 117,428**	$ 99,329
Earnings Per Share of Common Stock	**$ 0.69**	$ 0.75	**$ 0.47**	$ 0.55	**$ 0.86**	$ 0.85	**$ 0.54**	$ 0.47
Average Shares of Common Stock Outstanding	**211,100**	205,350	**211,116**	205,350	**211,884**	205,663	**213,797**	211,100

Consolidated Financial Statistics (A)

(Thousands of Dollars where applicable)	**1990**	1989	1988	1987	1986
Selected Income Information					
Operating Revenues					
Electric	**$ 3,332,417**	$ 3,279,913	$ 3,090,609	$ 2,959,549	$ 3,156,010
Gas	**1,236,747**	1,362,470	1,203,435	1,219,955	1,324,690
Nonutility Activities	**230,971**	162,469	100,648	31,551	17,716
Total Operating Revenues	**$ 4,800,135**	$ 4,804,852	$ 4,394,692	$ 4,211,055	$ 4,498,416
Net Income	**$ 542,278**	$ 542,137	$ 528,586	$ 520,451	$ 378,463
Earnings per average share of Common Stock	**$ 2.56**	$ 2.62	$ 2.57	$ 2.55	$ 1.90(B)
Dividends Paid per Share	**$ 2.09**	$ 2.05	$ 2.01	$ 1.99	$ 1.95(B)
Payout Ratio	**82%**	78%	78%	78%	103%(B)
Rate of Return on Average Common Equity	**12.72%**	13.41%	13.60%	13.88%	10.56%
Ratio of Earnings to Fixed Charges Before Income Taxes	**2.50**	2.66	2.81	3.03	2.38
Book Value per Common Share	**$20.44**	$19.85	$19.11	$18.54	$17.92(B)
Utility Plant	**$13,836,874**	$12,960,093	$12,466,690	$11,998,816	$11,437,196
Accumulated Depreciation and Amortization of Utility Plant	**$ 3,963,093**	$ 3,623,458	$ 3,377,187	$ 3,028,712	$ 2,692,759
Total Assets	**$14,023,310**	$12,919,434	$11,690,369	$10,857,551	$10,577,822
Consolidated Capitalization					
Common Stock	**$ 3,043,402**	$ 2,857,974	$ 2,710,343	$ 2,710,343	$ 2,632,662
Retained Earnings	**1,421,611**	1,332,739	1,213,260	1,096,933	993,836
Common Equity	**4,465,013**	4,190,713	3,923,603	3,807,276	3,626,498
Long-Term Debt	**4,668,024**	4,293,578	3,944,776	3,287,039	3,336,120
Capital Lease Obligations	**54,073**	54,513	54,966	55,374	[illegible]
Preferred Stock with Mandatory Redemption				30,000	[illegible]
Preferred Stock without Mandatory Redemption	**429,994**	429,994	429,994	429,994	554,994
Total Capitalization	**$ 9,617,104**	$ 8,968,798	$ 8,353,339	$ 7,609,683	$ 7,639,021

(A) See Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes to Consolidated Financial Statements.
(B) Reflects the July 1, 1987 3-for-2 common stock split.

Operating Statistics
Public Service Electric and Gas Company

(Thousands of Dollars where applicable)	**1990**	1989	1988	1987	1986
Electric					
Revenues from Sales of Electricity					
Residential	**$1,038,906**	$1,015,065	$ 992,121	$ 940,915	$ 971,236
Commercial	**1,516,755**	1,464,431	1,335,158	1,273,819	1,333,144
Industrial	**697,571**	715,669	686,854	672,104	782,008
Public Street Lighting	**45,418**	46,750	45,620	46,248	43,726
Total Revenues from Sales to Customers	**3,298,650**	3,241,915	3,059,753	2,933,086	3,130,114
Interdepartmental	**1,652**	1,843	1,643	1,896	1,927
Total Revenues from Sales of Electricity	**3,300,302**	3,243,758	3,061,396	2,934,982	3,132,041
Other Electric Revenues	**32,115**	36,155	29,213	24,567	23,969
Total Operating Revenues	**$3,332,417**	$3,279,913	$3,090,609	$2,959,549	$3,156,010
Sales of Electricity — megawatthours					
Residential	**9,875,569**	9,950,773	9,941,003	9,299,490	8,726,769
Commercial	**17,054,495**	16,946,768	16,036,020	14,990,376	14,118,028
Industrial	**9,457,985**	10,039,913	10,179,340	10,119,614	10,134,327
Public Street Lighting	**314,936**	310,073	303,782	296,377	295,639
Total Sales to Customers	**36,702,985**	37,247,527	36,460,145	34,705,857	33,274,763
Interdepartmental	**19,822**	23,175	22,440	23,709	23,790
Total Sales of Electricity	**36,722,807**	37,270,702	36,482,585	34,729,566	33,298,553
Gas					
Revenues from Sales of Gas					
Residential	**$ 667,077**	$ 772,344	$ 695,918	$ 698,518	$ 754,785
Commercial	**406,577**	436,349	366,776	360,834	390,811
Industrial	**130,273**	134,272	123,434	145,664	171,860
Street Lighting	**385**	358	359	363	355
Total Revenues from Sales to Customers	**1,204,312**	1,343,323	1,186,487	1,205,379	1,317,811
Interdepartmental	**2,157**	3,613	3,059	3,837	2,849
Total Revenues from Sales of Gas	**1,206,469**	1,346,936	1,189,546	1,209,216	1,320,660
Transportation Service Gas Revenues	**15,654**	11,485	10,505	7,508	1,192
Other Gas Revenues	**14,624**	4,049	3,384	3,231	2,838
Total Operating Revenues	**$1,236,747**	$1,362,470	$1,203,435	$1,219,955	$1,324,690
Sales of Gas — kilotherms					
Residential	**1,097,034**	1,253,800	1,188,532	1,118,609	1,065,630
Commercial	**837,650**	872,684	748,283	678,281	644,450
Industrial	**341,467**	342,928	332,970	373,947	413,072
Street Lighting	**657**	656	657	655	680
Total Sales to Customers	**2,276,808**	2,470,068	2,270,442	2,171,492	2,123,832
Interdepartmental	**5,144**	8,705	7,640	8,972	5,498
Total Sales of Gas	**2,281,952**	2,478,773	2,278,082	2,180,464	2,129,330
Transportation Service	**182,056**	149,586	138,665	98,121	14,926
Total Gas Sold or Transported	**2,464,008**	2,628,359	2,416,747	2,278,585	2,144,256

Officers and Directors

Public Service Enterprise Group Incorporated

Officers

***E. James Ferland**
Chairman of the Board, President and Chief Executive Officer (Chairman of the Board and Chief Executive Officer, **Holdings**)

***Everett L. Morris**
Vice President (President and Chief Operating Officer, **Holdings**)

Richard E. Hallett
Vice President and Comptroller

***R. Edwin Selover**
Vice President and General Counsel

***Francis J. Riepl**
Treasurer

***Robert S. Smith**
Secretary

Directors

T.J. Dermot Dunphy
President, Chief Executive Officer and director, Sealed Air Corporation (manufactures protective packaging products and systems).
Member of Finance Committee and Organization and Compensation Committee, and director, Holdings.

Robert R. Ferguson, Jr.
Retired Chairman of the Board, and director: First Fidelity Bancorporation; First Fidelity Bank, N.A. and First Fidelity, Inc.
Member of Executive Committee, Finance Committee and Organization and Compensation Committee.

E. James Ferland
Chairman of the Board, President and Chief Executive Officer of the Corporation.
Chairman of Executive Committee and member of Finance Committee, and director, Holdings.

Shirley A. Jackson
Theoretical Physicist, AT&T Bell Laboratories.
Member of Audit Committee and Nominating Committee, and director, Holdings.

Henry E. Kates
President, Chief Executive Officer and director, The Mutual Benefit Life Insurance Company.

Irwin Lerner
President, Chief Executive Officer and director, Hoffmann-La Roche Inc. (manufactures pharmaceuticals, vitamins, fine chemicals, and provides home health care and diagnostic products and services).
Member of Audit Committee, Executive Committee and Organization and Compensation Committee.

William E. Marfuggi
Chairman, Tri-Maintenance & Contractors Inc.
Chairman of Organization and Compensation Committee and member of Nominating Committee, and director, Holdings.

Everett L. Morris
Vice President of the Corporation.
Chairman of Finance Committee and member of Executive Committee.

Marilyn M. Pfaltz
Partner of P and R Associates (public relations and communication specialists).
Chairman of Nominating Committee and member of Audit Committee, and director, Holdings.

James C. Pitney
Partner in the law firm of Pitney, Hardin, Kipp & Szuch.
Chairman of Audit Committee and member of Nominating Committee and Organization and Compensation Committee.

Harold W. Sonn
Retired Chairman of the Board of the Corporation.
Member of Audit Committee and Finance Committee, and director, Holdings.

Josh S. Weston
Chairman of the Board, Chief Executive Officer and director, Automatic Data Processing, Inc.
Member of Audit Committee, Executive Committee, and Organization and Compensation Committee, and director, Holdings.

Public Service Electric and Gas Company

Officers & Directors

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Chairman of the Board, President and Chief Executive Officer

Everett L. Morris
Senior Executive Vice President

Harold W. Borden, Jr.
Senior Vice President – External Affairs

Lawrence R. Codey
Senior Vice President – Electric

Robert J. Dougherty, Jr.
Senior Vice President – Customer Operations

R. Edwin Selover
Senior Vice President and General Counsel

Rudolph D. Stys
Senior Vice President – Gas

Paul H. Way
Senior Vice President – Corporate Performance

Officers

Donald A. Anderson
Vice President – Information Systems and Corporate Services

William J. Budney, Jr.
Vice President – Distribution Systems

Frank Cassidy
Vice President – Transmission Systems

Thomas M. Crimmins, Jr.
Vice President – Nuclear Engineering

John A. Gartman
Vice President – Gas Supply and Planning

Curtis W. Grevenitz
Vice President – Gas Operations

Richard E. Hallett
Vice President and Comptroller

Stanley LaBruna
Vice President – Nuclear Operations

Pierre R.H. Landrieu
Vice President – Fossil Production

Frederick W. Lark
Vice President – Marketing

John H. Maddocks
Vice President – Public Affairs

Steven E. Miltenberger
Vice President and Chief Nuclear Officer

Francis J. Riepl
Vice President and Treasurer

Louis L. Rizzi
Vice President – Customer Services

Robert S. Smith
Vice President and Secretary

Robert F. Steinke
Vice President – Business and Technical Support

Gregory M. Thomson
Vice President – Human Resources

1990 Transition

Board of Directors — Enterprise

Elected
Henry E. Kates, 10/17/90

Officers – PSE&G

Retired
Richard A. Uderitz, 5/3/90
Vice President – Technical Services

*indicates Officer of Enterprise **Diversified Holdings Incorporated (Holdings)**

Corporate and Stock Information

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Monday – Friday (Eastern Time)

Security Analysts and Institutional Investors
Manager – Investor Relations (201) 430-6564

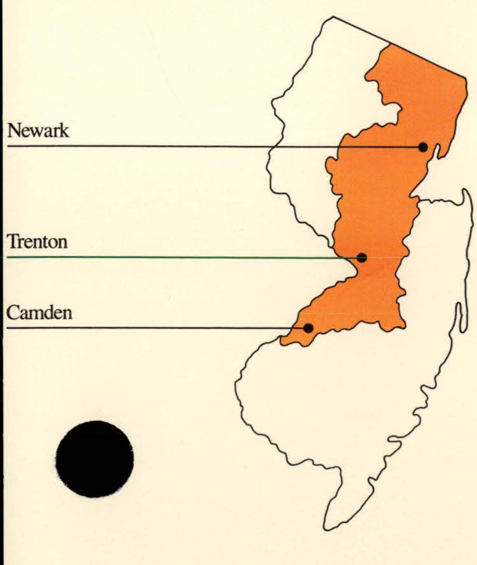
Dividend Reinvestment Plan
Enterprise has a Dividend Reinvestment and Stock Purchase Plan under which all common and PSE&G preferred stockholders may reinvest dividends and/or make direct cash investments to obtain Enterprise common stock. Purchases of common stock are made for the Plan directly from Enterprise, at its sole discretion, and/or in the open market. All brokerage and other fees to acquire shares are absorbed by Enterprise. To participate call the toll free number to obtain a prospectus and an authorization card.

Stock Trading Symbol: PEG

Annual Meeting
Please note that the Annual Meeting of Stockholders of Public Service Enterprise Group Incorporated will be held at Newark Symphony Hall, 1020 Broad Street, Newark, N.J. on Tuesday, April 16, [illegible] 2:00 PM. A summary of the meeting will be sent to all stoc[illegible]s of record at a later date.

Additional Reports Available — Form 10-K
Stockholders or other interested persons wishing to obtain a copy of Enterprise's or PSE&G's 1990 Annual Report to the Securities and Exchange Commission, filed on Form 10-K, may obtain one without charge by writing to the Manager – Investor Relations, Public Service Electric and Gas Company, P.O. Box 570, T6B, Newark, N.J. 07101 (telephone (201) 430-6503). The copy so provided will be without exhibits. Exhibits may be purchased for a specified fee.

PSE&G Territory



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

Transfer Agents
All Stocks:
First Chicago Trust Company of New York
30 West Broadway, New York, N.Y. 10007

Stockholder Services, Public Service Electric and Gas Company
80 Park Plaza, P.O. Box 1171
Newark, N.J. 07101-1171

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

First Chicago Trust Company of New York
30 West Broadway, New York, N.Y. 10007

Stock Exchange Listings

Common:
New York Stock Exchange
Philadelphia Stock Exchange
London Stock Exchange

Preferred of PSE&G:
New York Stock Exchange

Common Stock — Market Price and Dividends Per Share

	1990			1989		
	High	Low	Div.	High	Low	Div.
First Quarter	29¾	25½	$.52	24⅞	23	$.51
Second Quarter	27¼	24⅜	.52	27½	24⅛	.51
Third Quarter	26⅛	22½	.52	28½	25⅞	.51
Fourth Quarter	27	23	.53	29⅜	26	.52

The number of holders of record of Public Service Enterprise Group Incorporated common shares as of December 31, 1990 was 194,698.

Design: Arnold Saks Associates
Major Photography: Lee Youngblood

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