

NEW ENERGY



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Public Service Enterprise Group

ENTERPRISE

Public Service Enterprise Group Incorporated (Enterprise) is a diversified public utility holding company. Public Service Electric and Gas Company (PSE&G), the principal subsidiary, is a regulated utility providing service to more than 1.9 million electric customers and 1.5 million gas customers in New Jersey. It is the state's largest utility and one of America's largest combined electric and gas companies.

Enterprise Diversified Holdings Incorporated (EDHI), a subsidiary of Enterprise, is the parent company of Enterprise's nonutility businesses. These activities, which are focused on the nonutility energy industry, include Community Energy Alternatives Incorporated (CEA), an independent power producer; Public Service Resources Corporation, which makes passive investments; and Energy Development Corporation (EDC), an oil and gas exploration and development company (slated for divestiture in 1996).

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1995 FINANCIAL HIGHLIGHTS

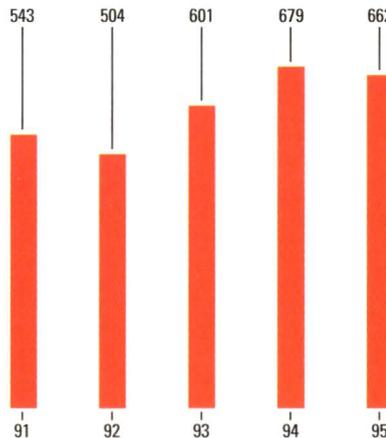
Dollars in thousands where applicable	1995	1994	% Change
Total Operating Revenues	\$ 6,164,153	\$ 5,922,443	4
Total Operating Expenses	\$ 5,006,443	\$ 4,758,350	5
Net Income	\$ 662,323	\$ 679,033	(2)
Common Stock			
Shares Outstanding—Average (Thousands)	244,698	244,471	
Shares Outstanding—Year-end (Thousands)	244,698	244,698	
Earnings per Average Share	\$ 2.71	\$ 2.78	(3)
Dividends Paid per Share	\$ 2.16	\$ 2.16	
Book Value per Share—Year-end	\$22.25	\$21.70	3
Market Price per Share—Year-end	\$30.63	\$26.50	16
Ratio of Earnings to Fixed Charges	2.77	2.76	
Ratio of Earnings to Fixed Charges—PSE&G	3.25	3.35	
Gross Additions to Utility Plant	\$ 686,150	\$ 887,283	(23)
Total Gross Utility Plant	\$16,925,280	\$16,566,058	2

The detailed consolidated financial statements and related discussion appear in Appendix A to the Proxy Statement.

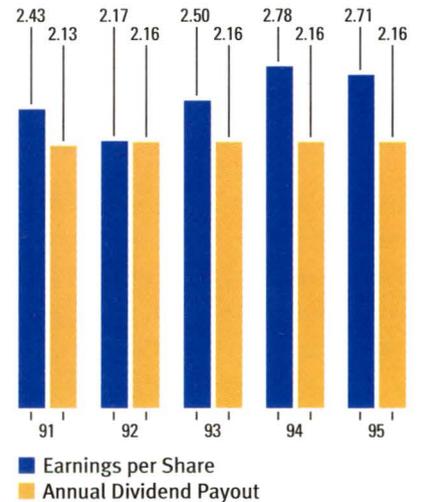
PSE&G serves the intensely developed corridor between New York City and Philadelphia.



Net Income
(dollars in millions)

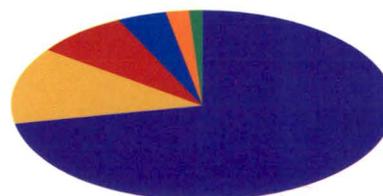


Annual Earnings and Dividend Payout per Share
(dollars)



Allocation of Assets at December 31, 1995

Enterprise Total Assets — \$17.2 billion

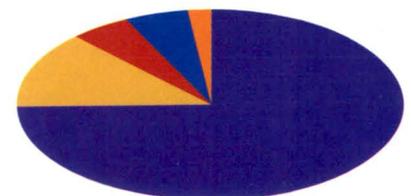


Earnings per Share

Electric	\$2.03	EDC	\$.14
Gas	\$.35	CEA	\$.05
PSRC	\$.14		

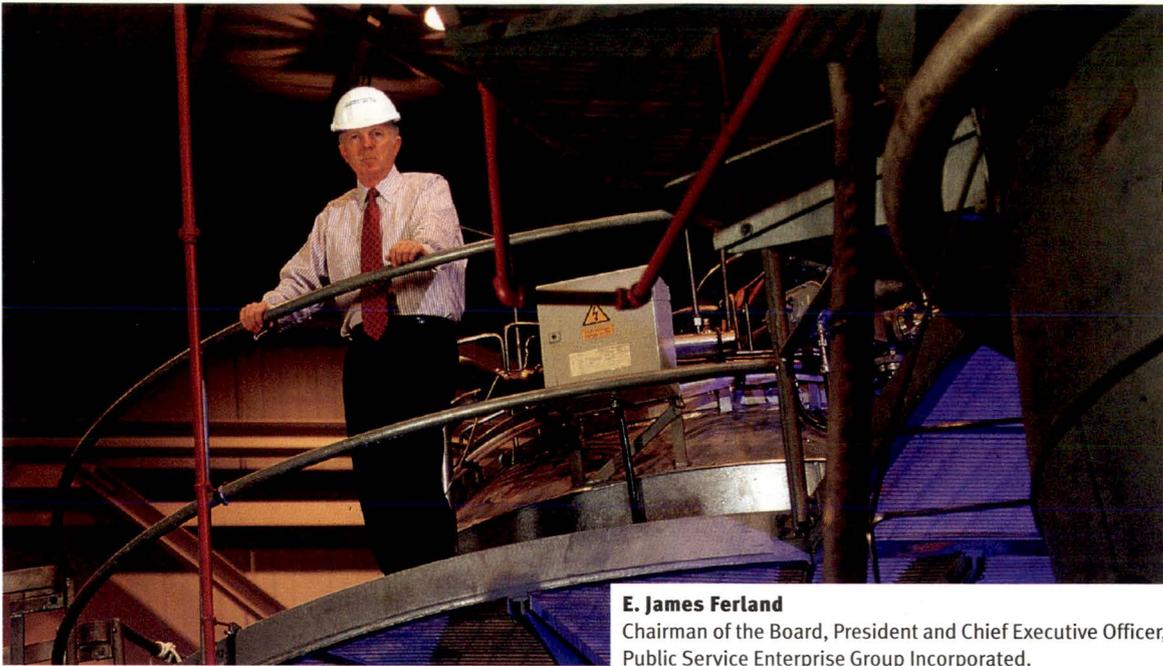
Sources of Consolidated Earnings per Share

Enterprise Earnings per Average Share — \$2.71



Earnings per Share

Electric	\$2.03	EDC	\$.14
Gas	\$.35	CEA	\$.05
PSRC	\$.14		



E. James Ferland

Chairman of the Board, President and Chief Executive Officer, Public Service Enterprise Group Incorporated.

DEAR SHAREHOLDER,

Public Service Enterprise Group delivered a solid financial performance in 1995. Consolidated earnings were \$662 million, or \$2.71 per share compared with last year's earnings of \$679 million, or \$2.78 per share. Our company generated \$1.5 billion in cash, reinvested \$900 million for future growth, paid out \$530 million in common stock dividends, and used the balance to reduce outstanding debt.

Weather impacted results for Public Service Electric and Gas Company (PSE&G), Enterprise's primary subsidiary. While hot summer weather boosted electric sales, mild winter months in 1995 resulted in lower sales of natural gas. PSE&G's earnings also were affected by higher operating and maintenance expenses associated with the upgrade of Salem Nuclear Generating Station.

Enterprise Diversified Holdings Incorporated (EDHI), parent company of our nonutility businesses, contributed \$80 million, or 33 cents per share, to 1995 earnings, up from \$60 million, or 25 cents per share, a year ago. These results included a one-time settlement of nine cents per share from the bankruptcy of Columbia Gas Transmission Company.

Emerging Marketplace

The energy and energy services industry is being reshaped by the expectations of customers for more choices, better service and lower costs. As the attitudes of customers are being fully translated into the new rules of a competitive marketplace, our company has

been and is taking decisive action to shape public policy, redesign and refocus operations, lower costs, develop new products and services that customers want and need, and find more productive partnerships with our employees. These efforts will place us in position to lead and succeed in the marketplace of the next century, and are geared to the primary imperatives of building customer loyalty through superior service and better value. By doing our job well, we will also increase the value of your investment.

Alternative Regulation

Early in 1996, the company took a bold step toward shaping its competitive destiny. We unveiled a precedent-setting alternative regulation plan that is designed to guarantee our customers the superior service they expect, provide our employees the incentives to build a secure future for themselves, contribute to the economic strength of New Jersey, and provide you, our shareholder, with the increasing value you deserve.

In filing this innovative plan, PSE&G became one of the first major utilities in the nation and the first in New Jersey to seek approval of a shift from traditional cost-plus regulation to a regulatory compact that respects and rewards efficiency, innovation, and service quality.

Appropriately named New Jersey Partners in Power in recognition of the economic benefits it offers the state, the plan will give PSE&G the mechanisms and incentives to compete effectively in the evolving electric and gas utility marketplace. The plan's major compo-

**The New Jersey
Partners in
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tively in the
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and gas utility
marketplace.**

As we pursue alternative regulation, we have made additional strategic moves to stay on the cutting edge of competitive change.

ment replaces the existing and unwieldy rate base/rate of return price-setting methodology with an indexed or price-capped approach for both electric and gas operations. We are asking that the plan remain in effect through the year 2002, barring any major restructuring of our industry.

Only last July, New Jersey Governor Christine Todd Whitman signed into law the regulatory reform measure that paved the way for this alternative to the state's 80-year-old method of establishing energy prices. We strongly endorsed the legislation, which included such public interest benefits as lower energy costs, better service, and increased attention to the economic and environmental health of New Jersey.

We are convinced the New Jersey Partners in Power plan meets the standards set forth in the new law. It is a well-balanced plan, and contains many innovative features. These include an immediate \$50 million annual rate reduction for electric customers, various rate freezes, incentives for improving the quality of service, and a pledge by PSE&G to invest up to \$55 million in economic development programs.

Equally important, the plan will help us meet the tests of the evolving competitive marketplace. We will have the ability to develop additional revenues from nonregulated products and services; we will be better able to mitigate any potential stranded asset costs that may emerge in the transition to a fully competitive market; we will be encouraged to manage costs aggressively; and we will have the ability to custom-tailor prices without the need for prolonged, adversarial regulatory proceedings. Our company looks forward to the timely approval of the plan by the New Jersey Board of Public Utilities (BPU).

Nuclear Operations

Our aggressive action to improve performance of PSE&G's nuclear generating units marks a second major initiative for Enterprise. Under the direction of a new nuclear management team, we are engaged in an exhaustive examination and upgrade of the equipment, employees and work processes at our Salem station. Our efforts are designed to identify the corrective action necessary to assure safe, sustained, reliable operation into the twenty-first century.

The team leading this critical undertaking is composed of nuclear industry experts who have managed some of the nation's premier commercial nuclear programs. Their collective track record of results demonstrates leadership and the ability to restore operations in the most adverse plant settings. Our

team leader is PSE&G Chief Nuclear Officer Leon R. Eliason, who formerly oversaw Northern States Power Company's highly regarded nuclear operations. This new team has developed and presented to the Nuclear Regulatory Commission (NRC) a comprehensive Salem station restart plan and is keeping the agency informed of our progress and developments. We will not seek the NRC's concurrence to restart Salem 1 and 2 until we are confident the units can achieve safe, sustained, reliable service.

The new management team is taking the same focused approach to improving operations at our Hope Creek Generating Station.

This effort to improve Salem and Hope Creek operations increases our operating and maintenance expenses and adds to our replacement power costs. But in the long term we will be more than compensated for our current actions. In tomorrow's competitive electric generation marketplace, safe and reliable operation of our nuclear units will be critical. We believe this investment of time and money will be paid back many times over during the remaining lives of these facilities.

Other Strategic Initiatives

As we pursue alternative regulation we have made additional strategic moves to stay on the cutting edge of competitive change:

- We have created a new functional organization for Enterprise that reflects our evolution toward stand-alone energy and energy services businesses designed to compete successfully. In doing so, we clearly defined the lines among generation, transmission and distribution, and customer services. Of the three, we foresee full competition reaching the generation market first. Consequently, we have completed or have initiatives under way to reduce annual fossil generation operating and maintenance expenses, cut annual fossil capital expenditures, and close five older, inefficient generating units. Also, we brought into service the repowered Burlington and Bergen Generating Stations, state-of-the-art facilities that provide our fossil fleet a source of highly efficient and environmentally clean generating capacity.
- As part of this new corporate structure, we created Enterprise Ventures and Services Corporation to identify and bring to market new products and services that will create shareholder value. We have already stepped up activities in several emerging new business arenas: natural gas marketing in the wake of deregulation of that industry, conservation and energy management services, and a product development venture with AT&T to

pilot and market two-way customer communications systems and services.

- We continue to exhibit our leadership at the state and federal levels where the rules governing our industry are developed and implemented.

In New Jersey, we are aggressively participating in the BPU's review of industry restructuring. In a forum known as Phase II of the Energy Master Plan, we are advocating a workable regional wholesale power pool as the most equitable and competitive system. We are also endorsing the recovery of stranded costs that may result from the transition to this system.

On the federal level, we reiterated our support for a wholesale power pool in response to various proposals by the Federal Energy Regulatory Commission (FERC) to open up the nation's high voltage transmission system to competition. Further, we elicited the support of 19 major environmental organizations and four other energy companies in urging FERC to mitigate the potential for serious environmental impact inherent in its proposed open-access policy. We are also proposing the imposition of a uniform air quality standard for all electric generators using the nation's transmission grid, which will help foster fair and equitable competition in this market.

- In recognition of the value of each of our customers, PSE&G became the first utility in the Northeast to implement a service guarantee program. It covers nine key service areas and provides direct bill credits to customers should we fail to live up to our promises.

- Through EDHI, particularly its independent power production business, Community Energy Alternatives Incorporated (CEA), we continue to take advantage of business opportunities in key international markets. During 1995, CEA closed on a total of four projects in China and South America and will continue to invest in target countries, forge strategic alliances and drive toward additional closings over the upcoming years, provided that opportunities with rewarding returns remain available. CEA now has investments in 22 operating power projects around the world with a gross output of 1,816 megawatts.

- As a business strategy, we have instilled Total Quality at all levels of the corporation as a tool for our employees to exhibit the highest standards in delivering energy services to our customers. More than ever, we are looking to our work force to provide the talent, efficiency, and productivity necessary for success. This year, for the first time, we are directly linking compensation with performance for all nonrepresented employees, and in 1996, we will be seeking ground-breaking new union agreements reflective of our competitive needs.

Financial Outlook

As we shape public policy and revitalize our operating strength so that we may better serve customers, please be assured that management is keenly focused on our financial performance.

Over the next five years we will fund a streamlined utility construction program entirely through internally generated cash and we intend to strengthen considerably our balance sheet by retiring more than \$1 billion of PSE&G's outstanding debt. Deleveraging the utility and lowering its interest expense are particularly essential tactics in confronting the competitive challenges on the horizon.

Initially, Enterprise's level of net income will be moderately pressured by the up-front rate reduction and various freezes proposed in our alternative regulation plan. But the incentives embodied in this plan will provide the potential to begin growing Enterprise's earnings well beyond the \$2.71 per share realized in 1995.

At every juncture management will seek ways to reward your confidence in Enterprise. An immediate example of this is our recently announced intention to divest in 1996 Energy Development Corporation (EDC), our nonregulated oil and gas exploration and production company. After careful analysis of the evolving marketplace, we concluded that ownership of large oil and natural gas reserves is no longer necessary to provide efficient energy solutions to our customers. Further, we do not believe the true market value of EDC is being reflected in the price of Enterprise stock and expect its sale or spin-off will unlock that value for our shareholders.

Finally, in a period of volatility where some companies have cut or omitted their dividends, we are striving to keep secure Enterprise's annual dividend, which currently is at \$2.16 per share. Retention and reinvestment of earnings will provide the basis for future dividend growth once we are certain of the direction that competition will ultimately take us.

I am grateful for your continued support and speak for all of us at Enterprise when I say we are confident of our ability to make the necessary decisions and take the correct actions that will build a profitable and rewarding future for our shareholders, customers, and employees.



E. James Ferland

Chairman of the Board,
President and Chief Executive Officer,
Public Service Enterprise Group Incorporated
February 14, 1996

Retention and reinvestment of earnings will provide the basis for future dividend growth once we are certain of the direction that competition will ultimately take us.

New ENERGY

It takes a lot of energy to meet customer needs. We've got it. In fact, we're using our energy to transform ourselves from an energy company to an energy services company. What's the difference? An energy company sells energy. We'll keep doing that ... and then some. Enterprise is entering a new era — a world of energy products and services limited only by imagination. As you'll see on the following pages, we can be very imaginative.



“When they said we would give our customers their money back if we didn’t keep these guarantees, I said: ‘No way. We’re good, but not that good.’”
But that was before

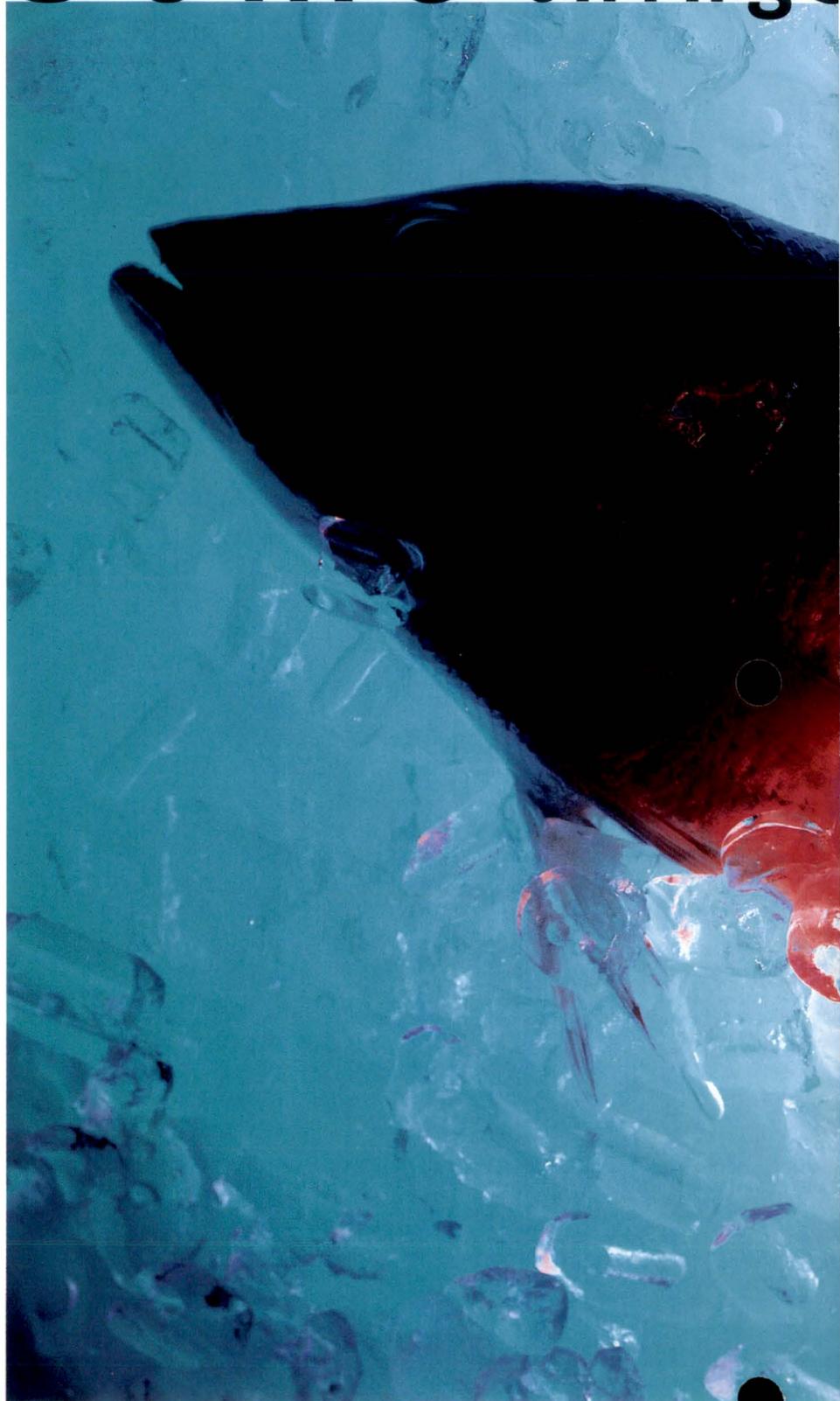
Laretta Pettis, customer service representative, joined a cross-functional team of 14 employees that helped make PSE&G the first utility in the Northeast to guarantee excellent service — with cash to back it up. After going through an extensive training program with her teammates, Laretta proudly boasts that she is in a great position to back up the nine-point service guarantee program. That’s because she talks to customers every day.

“What makes the program work,” reveals Laretta, “is that the company pushed the accountability down.” Those who have contact with customers actually see the commitment through. There’s no red tape.

PSE&G created the program from the comments of customers. “We talked to around 900 business and residential customers, as well as organizations outside our industry that are known for service excellence,” explains marketing manager Pete Kelly. “We asked: ‘what services do you value?’ Our customers designed the list of guarantees for us.”

Service excellence used to be taken for granted. Not anymore. Our goal is to become the best provider of energy services. We’ve set a higher standard — to provide the best service of *any* company.

Some things





can't wait 'til

Fresh fish has just been laid out on the crushed ice in the display case. It's another 90° July scorcher. In the distance is the rumble of thunder. The noise grows louder. Lights flicker and then go dark. How long will the power be out? Will the ice keep? Do you send out for dry ice, or try to get a backup generator trucked in? A quick call to PSE&G's Inquiry Center brings relief. "A service technician will be there in less than 30 minutes. Guaranteed," assures the PSE&G service representative. With the technician's diagnosis, you will be able to plan with certainty.

When service is interrupted, customers don't need explanations, they need accurate information. We do all we can to prevent power interruptions. When they do happen, we scramble to get our customers back on line. And during those moments of downtime, we let them know how quickly their power will be restored.

The goal is to build customer loyalty. When the competition arrives — and it will — customer loyalty will determine who comes out ahead. And we have every intention of being at the front of the pack. That's why we have nine service guarantees. Guarantees like: "We'll respond to a power outage within the quoted time." Guarantees that clearly say: "We will perform." And to show our confidence, we put those guarantees in writing.

(See the rest of our service guarantees on page 23.)

“someone is **AVAILABLE.**”

Steel mill stays. 500



Steel mills use a lot of energy. They are important customers and excellent employers. We'll do what it takes to keep them satisfied, even if it means competing on price. This is exactly what we did when Co-Steel Raritan, our second largest customer at a single location, considered shutting down in New Jersey and moving to another state.

We cut Co-Steel Raritan's rate through imaginative "real-time" pricing. And we're adding special features to its plant to reduce energy use in the future. When you consume as much power as a steel mill, energy conservation is a big cost-saver.

Our innovative 10-year contract will shave \$7.1 million off Co-Steel Raritan's \$26 million annual electric bill, and keep this important business in our service territory.

Success! We kept a great customer and 500 local employees kept their jobs. This is an unbeatable story. It's about coming up with innovative solutions to what were once considered "unworkable" problems. Thanks to the collaborative efforts of our employees and customers, we're writing more success stories like this every day. The competitive arena we are entering demands nothing less.

saved through

JOBS



FLEXIBLE PRICING.



No, this wasn't going to be an easy day for **Rich Aiello**, a PSE&G strategic account manager. He knew it as soon as he approached the guard shack on his way in to Co-Steel Raritan's offices. An employee

working in the shack looked up, recognized Rich and asked: "Well?"

It was the same question he got from every employee at the plant. This had been going on for weeks (although it seemed to Rich like years) while New Jersey's Board of Public Utilities (BPU) had been reviewing and considering the proposal that PSE&G and Co-Steel Raritan had worked out to lower the steel mill's power costs over a 10-year period. Every employee in the plant knew what was at stake. Jobs.

Co-Steel CEO Bill Shields sized it up this way: "Without an agreement, it was not possible for us to continue operations in New Jersey."

When the agreement finally received a written BPU approval in November, "it was an early Christmas present for everyone," Rich recalls.

These days, Rich's plant site visits lack the drama that led up to the agreement's approval. But you won't hear Rich complaining. He and his PSE&G coworkers are busy helping Co-Steel Raritan identify additional energy management ideas. Such energy efficiency has taken on added importance because the plant is expanding its output from 850,000 to 1.1 million tons of steel — right here in New Jersey.



"Two or three years ago, we saw a need to give our customers more information and control," explains PSE&G's **Dennis Ragone**, project manager, two-way customer communications. "So we started looking for a partner on the communications technology side."

Coincidentally, Lucent Technologies (one of the new companies created by the recent AT&T divestiture) had the same idea of turning carriers of electrical current into carriers of information. What Lucent Technologies needed was an energy company to turn the vision into reality. The two companies came together, built a team, and developed the technology. Five years from now, over 500,000 PSE&G customers could be living in "smart homes."

What is a "smart home"? When your utility can communicate with your appliances. When your air conditioning and pool filter can switch on when electric costs are lowest. When a repair crew is sent out to your home the minute your power goes out. These are just a sampling of options that will make a home "smart."

A key part of the "smart home" technology is flexibility. The customer selects only those options that he or she prefers. The customer can play either an active or passive role in the information transactions. "We give the customer a choice," points out Dennis. "The customer can make all of the energy decisions using the technology, or the utility can assist with the decisions while monitoring the performance of electric and gas appliances."

Saving customers money is one outcome; showcasing PSE&G's entrepreneurial spirit is another. This joint project is a fitting symbol of PSE&G's continuing transition from a provider of energy to a provider of energy services. Competition? Bring it on.

What if your ther





Thermometer could

What if your house could tell the utility that your power is out...even if you're not home? What if you could direct your appliances to automatically turn on when energy costs are low, and shut off when costs are high? Or your utility could inform you when an appliance — such as an inefficient furnace — is consuming more power than it should be? What if there were a system that could identify power theft, thwarting thieves who steal power and drive up the price for all customers?

What if? It's coming. The "Integrated Broadband Utility Solution," as it is known, is the first of its kind in the country. This year it will be introduced to about 1,000 customers in New Jersey. By the turn of the century, over half a million customers are scheduled to be exchanging information with PSE&G. "The technology puts information and tools in our customers' hands, allowing them to make informed energy decisions while we increase our operating efficiency and develop a potential new source of revenue," explains Enterprise Ventures and Services president, Bob Dougherty.

You see, wires can do more than carry electrical currents to power your computer, lights, appliances and tools. They can carry information. Information that can give you greater control over your energy use and cost.

Sounds like innovative, futuristic stuff? Not really. The people at PSE&G and Lucent Technologies put their heads together and figured out that they both had something of value for each other as well as for PSE&G's shareholders and customers: advanced communications technology and new energy from PSE&G.

TELL the utility it's **Cold?**

Helping power



The Chinese need our knowledge of how a free-market economy works. We need growing markets to find new revenue. A perfect fit, which helped CEA land

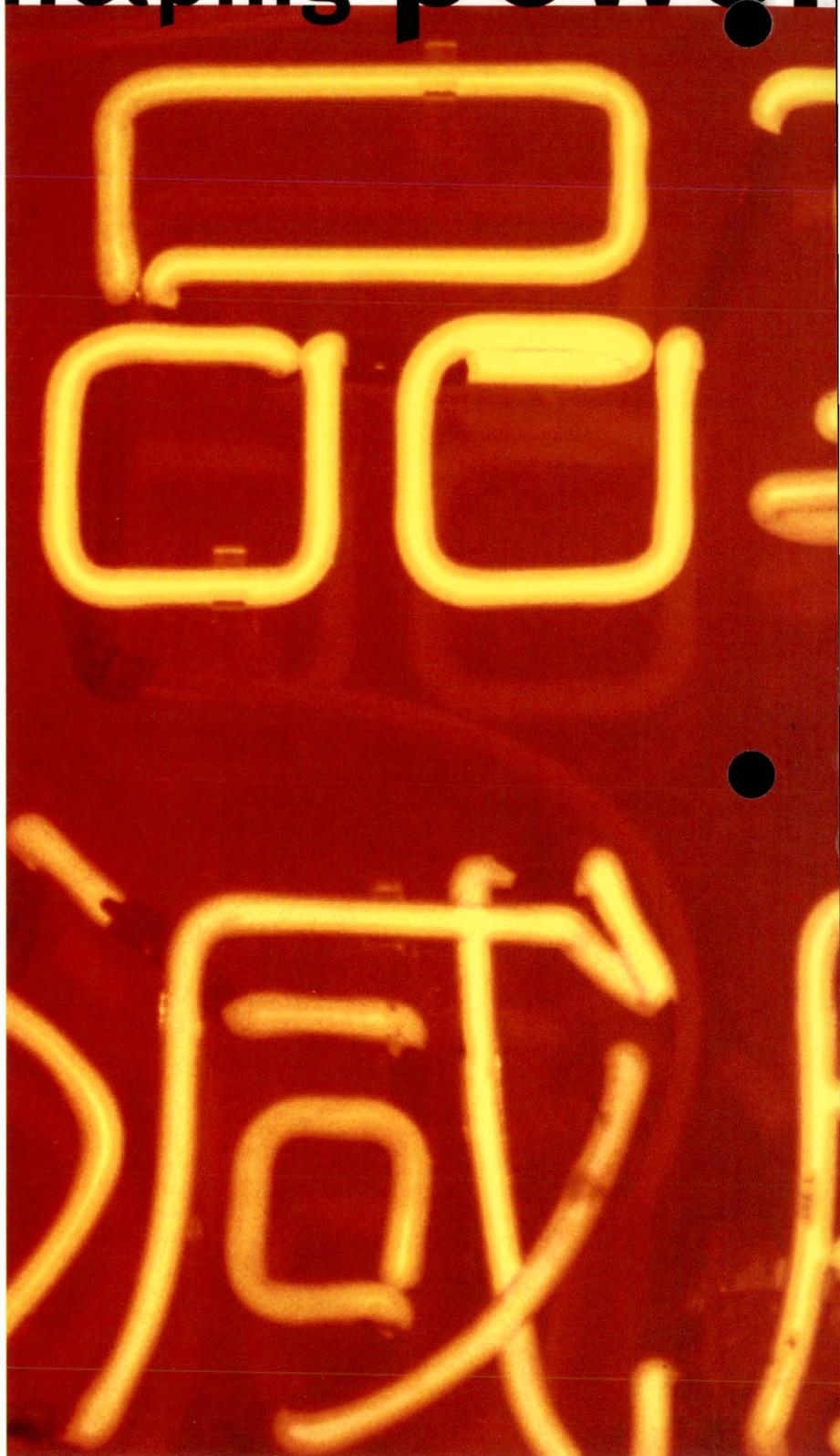
two major projects and form an important alliance in China.

Nancy Yeh, the manager of project coordination for CEA, and a native of Taiwan, says: "We're in the right business. The Chinese government is encouraging more independent power producers."

But patience and perseverance are vital qualities. "Project finance is a new concept for the Chinese, which slows things down," explains Nancy. **Ben Sisson**, project manager for CEA, adds: "You're dealing with the Chinese government; even the smallest bureau is tied to the government. The Chinese, in turn, have some difficulty understanding that, in speaking to us, they are not talking to our government."

China's plan is to move from the 1950's to the 1990's, all within 10 years. Roads, infrastructure, buildings and mass transit are all being created at the same time. "This is an unprecedented opportunity for an energy services company to apply the rigors of market knowledge in a rapidly expanding and changing economy," says Ben. "CEA's success in China gives us a distinct advantage for future projects."

CEA is also planning to capitalize on emerging markets in India, Indonesia, Thailand, Brazil, Peru and other developing markets around the globe.



China's GROWTH.

China needs power, and lots of it. In many areas of China, the annual growth in energy demand is about 15%. To put this in perspective, in the United States the projected demand for energy is expected to grow by less than 2½% per year.

While we continue to seek ways to profit from our mature U.S. market, we are also seeking new markets. Community Energy Alternatives Incorporated (CEA), an independent power-producing subsidiary of Enterprise Diversified Holdings Incorporated, is partnering with the Chinese government to build, own and operate a 600 MW coal-fired plant in Gansu Province. As part of a consortium, CEA has a 15% stake in the project, and is the first U.S. power company to reach such an agreement with the Chinese.

Our new customer, the Chinese provincial government, is challenged by rapidly growing energy needs due to unprecedented economic growth and industry expansion. CEA is fully prepared to help by carefully cultivating relationships, hiring the right people, and understanding cultural differences and Chinese economic policies.

In addition to its stake in the coal-fired power plant, CEA has been hired to be the exclusive provider of commercialized steam, hot water, and a cooling system to all industrial and commercial tenants of the Jinqiao Export Processing Zone in the Pudong New Development Area near Shanghai. Pudong is the largest and fastest growing economic development region in China.

“We are committed to the long term development of independent power in China, and we view this venture as an excellent first step,” comments Art Nislick, CEA’s President and CEO.

In addition to strategically positioning ourselves to share in the economic prosperity of China, we’re helping it balance economic and environmental objectives. CEA’s objective is to exceed existing Chinese standards.

It adds up to new business opportunities for CEA and a brighter future for the people of China.

On a clear day you can see



Many companies in the Northeast are finding it increasingly difficult to comply with the Clean Air Act. Merck, a prominent customer and major New Jersey employer, needed to reduce by 255 tons the nitrogen oxide emissions from its Rahway, New Jersey, plant. The pharmaceutical giant was able to shave off 245 tons of emissions by installing pollution abatement equipment. But keeping the extra 10 tons from going up the smokestack was going to be costly.

PSE&G, which had already reduced its own nitrogen oxide emissions by 7,000 tons, agreed to sell 10 tons with an option for up to 300 tons of nitrogen oxide emissions credits at a price of \$1,650 per ton. The tonnage Merck expects to buy represents half of what it would have cost to retool its Rahway boiler.

It's a win-win arrangement. Merck gets credit for complying with the law while saving money. PSE&G generates cash from the credits, strengthens its relationship with a vital customer and, more importantly, is part of an approach that ensures cleaner air.

How so? PSE&G is helping a company cost-effectively comply, and both companies have promoted an emissions trading program that accelerates the environmental cleanup since, with each trade, 10% of the emissions reduction in any trade must be retired. And to generate a credit in the first place, as PSE&G has done, a company must come in way under the federal pollution limits. No wonder Robert Shinn, New Jersey's Commissioner of Environmental Protection, says: "Emissions reduction credit trading helps New Jersey meet its clean air goals and provide industry with the incentives and flexibility it needs to comply with the law."

Emissions trading is another example of how PSE&G continues to create market-based solutions that allow its customers to prosper. "Our sale of nitrogen oxide emissions credits is a symbol of our willingness to explore and effect novel customer solutions," says Eric Svenson, manager of environmental strategy and policy.

a brighter



economic **FUTURE.**



“With trading, emissions will fall dramatically from current levels,” says **Al Wallace**, a senior staff engineer who has been involved in making PSE&G’s fossil-fueled generating fleet more environmentally friendly. The trading program cleans the air

because the buyer must purchase more emissions reductions in the form of credits than would have been needed to achieve compliance through installation of emissions control equipment.

“The problem for many companies has been that the cost of compliance has simply become too high,” adds Eric Svenson, manager of environmental strategy and policy, when asked about actions to comply with the Clean Air Act. For these companies, there has been no alternative other than seeking special waivers from air regulators, or trying to change the Clean Air Act. “But market-based systems give appropriate incentives for identifying low-cost reduction opportunities, whether these are from power plants, cars, energy conservation, manufacturing process changes or fuels,” says Eric, who spearheaded the credit swap with Merck.

The arrangement with Merck is just the beginning. A growing number of companies have approached PSE&G to work out similar arrangements so they can remain in compliance with the federal law and stay in New Jersey. PSE&G is taking these discussions seriously, seeing them as a way to keep customers from leaving the state to do business elsewhere.

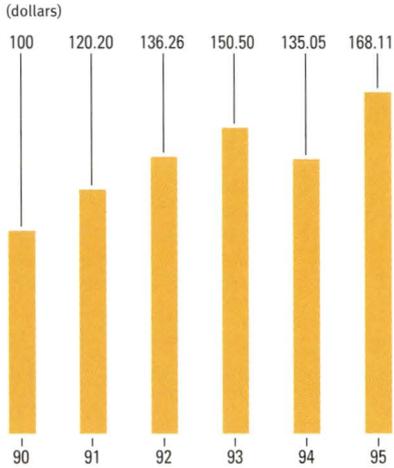
As Al Wallace points out, “Rather than sitting around and waiting for the rules to be written, we helped write them.”

The value of the Merck deal goes far beyond dollars and cents. “It demonstrates our understanding of the marketplace, a prerequisite to creative solutions,” says Al. To the extent that we can solve customer problems, we’re that much better off.

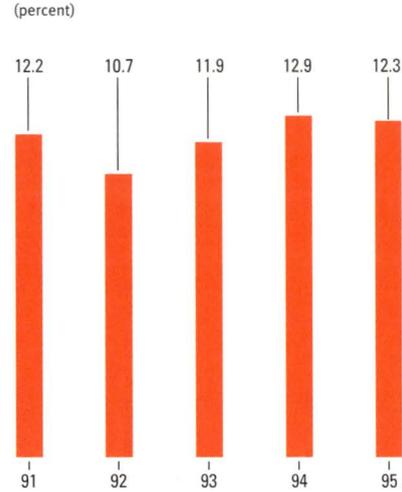
OPERATIONAL HIGHLIGHTS

Public Service Enterprise Group continues to pursue a strategy of enhancing shareholder value through retention and reinvestment of earnings and keeping secure its annual dividend.

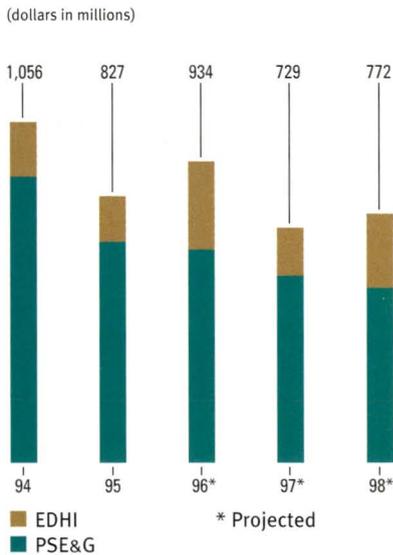
This shows the value on December 31 of each year of \$100 invested in Enterprise on December 31, 1990 (assumes reinvested dividends).



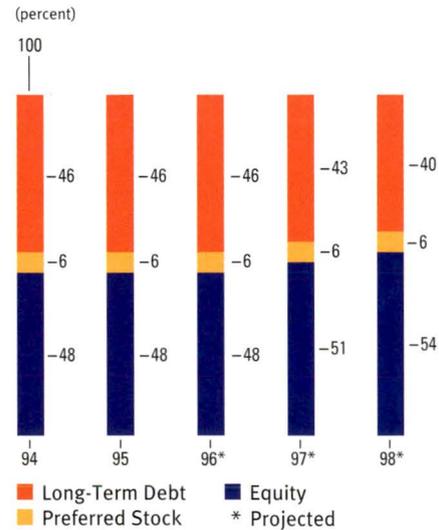
Return on Average Common Equity for 1995 was 12.3%, reflecting a year of solid financial results.



As capital expenditures continue to decline, utility construction will be fully funded through internally generated cash.



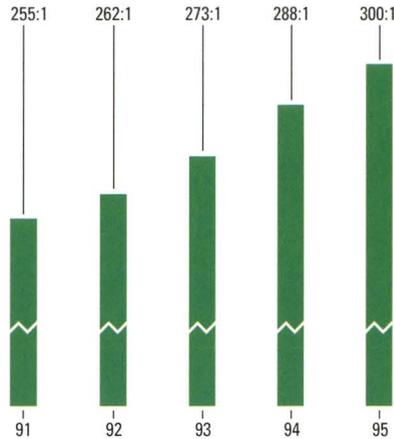
One of our key objectives is to strengthen the balance sheet by deleveraging PSE&G, thereby lowering its interest expense, as reflected in this capitalization ratio.



Enterprise Ventures and Services Corporation, a new corporate entity, will identify and bring to market new products and services that will enhance shareholder value.

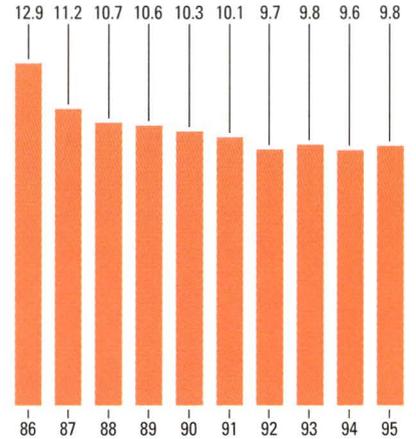
PSE&G, New Jersey's largest utility, continued to improve efficiency and better manage overall costs despite higher operating and maintenance expenses associated with the upgrade of its nuclear stations.

The ratio of customers to employees, a measure of efficiency, has grown 17% over the past five years.



We supply electricity at the lowest cost per kwh in the state of New Jersey and intend to continue the trend.

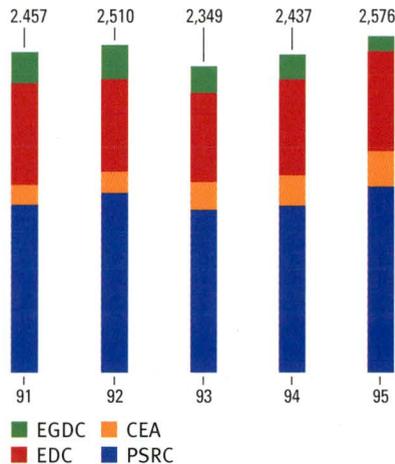
(Average revenue per kwh adjusted for inflation. Base year 1994-1995. Cents per kwh.)



Enterprise Diversified Holdings Incorporated (EDHI) contributed \$80 million to 1995 earnings, as its subsidiary, Community Energy Alternatives Incorporated (CEA), continued to take advantage of business opportunities in key international markets.

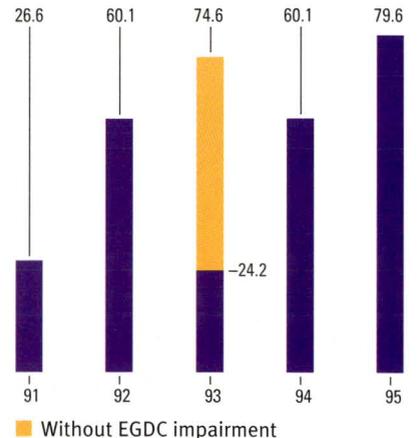
EDHI assets remained relatively constant, in line with Enterprise's strategy to keep them in the \$2.5 billion range.

(dollars in millions)



Net income reached a record high in 1995, primarily due to Energy Development Corporation's settlement with Columbia Gas Transmission Company for a take or pay contract.

(dollars in millions)



CONDENSED CONSOLIDATED STATEMENTS OF INCOME

In thousands (except per share data) for the years ended December 31,	1995	1994	1993
Operating Revenues			
Electric	\$4,020,842	\$3,739,713	\$3,696,114
Gas	1,686,403	1,778,528	1,594,341
Nonutility Activities	456,908	404,202	418,135
Total Operating Revenues	6,164,153	5,922,443	5,708,590
Operating Expenses			
Fuel for Electric Generation and Interchanged Power	891,782	695,763	717,136
Gas Purchased and Material for Gas Produced	961,539	1,023,956	897,885
Operation and Maintenance	1,431,368	1,426,603	1,318,858
Depreciation and Amortization	674,231	634,028	601,597
Property Impairment	—	—	77,637
Taxes	1,047,523	978,000	988,630
Total Operating Expenses	5,006,443	4,758,350	4,601,743
Operating Income	1,157,710	1,164,093	1,106,847
Allowance for Funds Used During Construction and Capitalized Interest	37,208	33,793	20,833
Other Income — Net	13,365	19,219	8,487
Interest Charges	496,060	495,925	502,534
Preferred Securities Dividend Requirements and Premium	49,900	42,147	38,114
Income Before Cumulative Effect of Accounting Change	662,323	679,033	595,519
Cumulative Effect of Change in Accounting for Income Taxes	—	—	5,414
Net Income	\$ 662,323	\$ 679,033	\$ 600,933
Shares of Common Stock Outstanding			
End of Period	244,697,930	244,697,930	243,688,256
Average for Period	244,697,930	244,470,794	240,663,599
Total Earnings Per Average Share of Common Stock	\$2.71	\$2.78	\$2.50
Dividends Paid Per Share of Common Stock	\$2.16	\$2.16	\$2.16

The detailed consolidated financial statements and related discussion appear in Appendix A to the Proxy Statement.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands for the years ended December 31,	1995	1994	1993
Net Income	\$ 662,323	\$ 679,033	\$ 600,933
Adjustments to net income, primarily depreciation and amortization	830,592	552,757	430,738
Net cash provided by operating activities	1,492,915	1,231,790	1,031,671
Net cash used in investing activities, primarily additions to utility plant	(888,268)	(1,002,483)	(992,840)
Net cash used in financing activities	(596,280)	(232,813)	(22,156)
Net increase (decrease) in Cash and Cash Equivalents	8,367	(3,506)	16,675
Cash and Cash Equivalents at Beginning of Period	67,866	71,372	54,697
Cash and Cash Equivalents at End of Period	\$ 76,233	\$ 67,866	\$ 71,372

The detailed consolidated financial statements and related discussion appear in Appendix A to the Proxy Statement.

CONDENSED CONSOLIDATED BALANCE SHEETS

In thousands at December 31,	1995	1994
Assets		
Utility Plant:		
Utility Plant (including Nuclear Fuel)	\$16,532,232	\$15,717,462
Less Accumulated Depreciation and Amortization	5,737,849	5,450,011
Net Utility Plant in Service	10,794,383	10,267,451
Construction Work in Progress	369,082	806,934
Plant Held for Future Use	23,966	23,860
Net Utility Plant	11,187,431	11,098,245
Investments and Other Property	2,866,052	2,673,638
Current Assets	1,560,117	1,356,872
Deferred Debits	1,557,839	1,588,685
Total	\$17,171,439	\$16,717,440
Capitalization and Liabilities		
Capitalization:		
Common Equity	\$ 5,444,942	\$ 5,311,167
Subsidiaries' Securities and Obligations		
Preferred Securities:		
Preferred Stock without Mandatory Redemption	324,994	384,994
Preferred Stock with Mandatory Redemption	150,000	150,000
Monthly Income Preferred Securities	210,000	150,000
Long-Term Debt	5,189,791	5,180,657
Total Capitalization	11,319,727	11,176,818
Other Long-Term Liabilities	199,832	215,603
Current Liabilities	1,921,797	1,856,919
Deferred Credits	3,730,083	3,468,100
Total	\$17,171,439	\$16,717,440

The detailed consolidated financial statements and related discussion appear in Appendix A to the Proxy Statement.

CONDENSED CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

In thousands for the years ended December 31,	1995	1994	1993
Balance January 1	\$1,510,010	\$1,361,018	\$1,282,931
Add Net Income	662,323	679,033	600,933
Total	2,172,333	2,040,051	1,883,864
Deduct			
Dividends on Common Stock	528,548	528,071	521,572
Capital Stock Expenses	—	1,970	1,274
Total Deductions	528,548	530,041	522,846
Balance December 31	\$1,643,785	\$1,510,010	\$1,361,018

The detailed consolidated financial statements and related discussion appear in Appendix A to the Proxy Statement.

Notes to Consolidated Financial Statements

For full text of Organization and Summary of Significant Accounting Policies refer to Note 1 to Consolidated Financial Statements in Appendix A of the Proxy Statement.

For full text of Commitments and Contingent Liabilities refer to Note 12 to Consolidated Financial Statements in Appendix A of the Proxy Statement.

CONSOLIDATED FINANCIAL STATISTICS^(A)

Dollars in thousands where applicable	1995	1994	1993	1992	1991
Selected Income Information					
Operating Revenues					
Electric	\$ 4,020,842	\$ 3,739,713	\$ 3,696,114	\$ 3,407,830	\$ 3,519,806
Gas	1,686,403	1,778,528	1,594,341	1,586,181	1,307,849
Nonutility Activities	456,908	404,202	418,135	362,781	283,766
Total Operating Revenues	\$ 6,164,153	\$ 5,922,443	\$ 5,708,590	\$ 5,356,792	\$ 5,111,421
Net Income	\$ 662,323	\$ 679,033	\$ 600,933	\$ 504,117	\$ 543,035
Earnings per average share of Common Stock	\$ 2.71	\$ 2.78	\$ 2.50	\$ 2.17	\$ 2.43
Dividends Paid per Share	\$ 2.16	\$ 2.16	\$ 2.16	\$ 2.16	\$ 2.13
Payout Ratio	80%	78%	86%	100%	88%
Rate of Return on Average Common Equity ^(B)	12.31%	12.94%	11.91%	10.69%	12.24%
Ratio of Earnings to Fixed Charges	2.77	2.76	2.59	2.30	2.54
Book Value per Common Share ^(C)	\$22.25	\$21.70	\$21.07	\$20.32	\$20.04
Gross Utility Plant	\$16,925,280	\$16,566,058	\$15,861,484	\$15,081,907	\$14,426,560
Accumulated Depreciation and Amortization of Utility Plant	\$ 5,737,849	\$ 5,467,813	\$ 5,057,104	\$ 4,610,595	\$ 4,243,979
Total Assets	\$17,171,439	\$16,717,440	\$16,329,656	\$14,777,732	\$14,804,354
Consolidated Capitalization					
Common Stock	\$ 3,801,157	\$ 3,801,157	\$ 3,772,662	\$ 3,499,183	\$ 3,262,138
Retained Earnings	1,643,785	1,510,010	1,361,018	1,282,931	1,282,029
Common Equity	5,444,942	5,311,167	5,133,680	4,782,114	4,544,167
Long-Term Debt	5,189,791	5,180,657	5,256,321	4,977,579	5,128,373
Preferred Stock without Mandatory Redemption	324,994	384,994	429,994	429,994	429,994
Preferred Stock with Mandatory Redemption	150,000	150,000	150,000	75,000	—
Monthly Income Preferred Securities	210,000	150,000	—	—	—
Total Capitalization	\$11,319,727	\$11,176,818	\$10,969,995	\$10,264,687	\$10,102,534

^(A)The detailed Consolidated Financial Statements and related discussion appear in Appendix A to the Proxy Statement.

^(B)Net Income for a twelve-month period divided by the thirteen-month average of Common Equity.

^(C)Total Common Equity divided by end-of-period Common Shares outstanding.

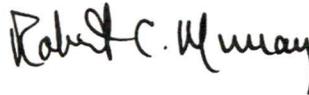
FINANCIAL STATEMENT OF RESPONSIBILITY

To the Shareholders of Enterprise:

The condensed financial statements in this Summary Annual Report were derived from the consolidated financial statements included in Public Service Enterprise Group Inc. Proxy Statement of the 1996 Annual Meeting of Shareholders, which has been enclosed in the same mailing as this Summary Annual Report. The integrity and objectivity of the financial information presented in the Proxy Statement and this Summary Annual Report are the responsibility of the management of Public Service Enterprise Group Inc. The financial statements report on management's accountability for corporate operations and assets. To this end management maintains a highly developed system of internal controls and procedures designed to provide reasonable assurance that the company's assets are protected and that all transactions are accounted for in conformity with generally accepted accounting principles. The system includes documented policies and guidelines, augmented by a comprehensive program of internal and independent audits conducted to monitor overall accuracy of financial information and compliance with established procedures. The consolidated financial statements included in the Proxy were audited by Deloitte & Touche LLP, independent auditors, whose report on the condensed consolidated financial statement appears herein.



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



Robert C. Murray
Vice President and
Chief Financial Officer



Patricia A. Rado
Vice President and Controller,
Principal Accounting Officer

February 14, 1996

INDEPENDENT AUDITORS' REPORT

**Deloitte &
Touche LLP**


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

We have audited the consolidated balance sheets of Public Service Enterprise Group Incorporated and its subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1995. Such consolidated financial statements and our report thereon dated February 14, 1996, expressing an unqualified opinion (which are not presented herein) are included in Appendix A to the Proxy Statement for the 1996 Annual Meeting of Stockholders. The accompanying condensed consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on such condensed consolidated financial statements in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed balance sheets as of December 31, 1995 and 1994 and the related condensed consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1995 is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.



February 14, 1996
Parsippany, New Jersey

ENTERPRISE PORTFOLIO OF SERVICES

Keeping Customer Needs in Focus

Enterprise, through all of its operating units, is committed to providing superior energy-related products and services to satisfy customer requirements in a sound business manner. In addition to the traditional activities associated with utilities over the years, emerging markets and customer demands have spurred a growth in the range of options available, some reaching outside our franchised territory.

ENERGY PURCHASING

- energy supply and risk management
- access to reliable, cost-competitive energy
- on-site generation and storage
- backup power

ENERGY CONSULTING AND PLANNING

- energy efficiency evaluation
- environmental and regulatory compliance
- energy audits
- on-site generation/cogeneration analysis
- information management
- project engineering
- load management
- real-time pricing
- emissions credits

INTEGRATED ENERGY MANAGEMENT SERVICES

- increased facility comfort and control
- greater control of facility management and operating costs

OPERATIONS AND MAINTENANCE SUPPORT

- plant systems testing, monitoring and diagnostics
- equipment performance testing, monitoring and diagnostics
- maintenance services
- mechanical and electrical equipment overhaul

INDUSTRIAL AND COMMERCIAL GAS

- gas conversion and energy cost estimates
- gas air conditioning for energy cost savings and environmental compliance
- gas transportation services
- gas supply purchases
- compressed natural gas vehicle conversion assistance for fleet owners and operators, including passenger cars, vans and trucks, and forklifts
- information and assistance in applying advanced gas process technologies

RESIDENTIAL GAS PRODUCTS AND SERVICES

- information on gas heating conversions
- gas service contracts on home heating and water heating equipment
- Superior Inspection Service of home heating equipment, including a carbon monoxide test
- gas appliance repair
- carbon monoxide detectors

INDUSTRIAL AND COMMERCIAL ELECTRIC

- electrotechnology solutions to production problems and environmental compliance
- industrial/large commercial power quality analysis, problem identification and solutions
- curtailable electric service — incentives for reducing demand during periods of critical electric systems operations
- dusk-to-dawn lighting for security and safety for a flat monthly fee, with no up-front cost and free year-round maintenance

DEMAND-SIDE MANAGEMENT PROGRAMS

- Energy Efficient Home Program — incentive payments, promotional and advertising assistance to builders of residential homes who install high-efficiency heating and cooling systems
- In Concert with the Environment — an innovative, computer-based environmental education program available to middle and high schools within the service territory
- residential heat pump rebate for the installation of units with high seasonal efficiency ratios
- Standard Offer — a performance-based energy conservation program that pays business customers for measured energy savings over a contractual term through the installation of energy-efficient equipment

OTHER SERVICES

- Sunburst Customer Solutions for municipalities and investor-owned water utilities, including meter reading, billing, payment processing, and collections
- TradeLink export assistance program to determine business customers' potential for exporting goods and services, including market analysis reports and referrals to export professionals
- Business Enhancement Program — a communication network and referral system in conjunction with the New Jersey Department of Commerce and Economic Development to provide businesses with access to public and private assistance services

SERVICE GUARANTEES

PSEG among the leaders in customer satisfaction

The American Customer Satisfaction Index is based on random telephone surveys of roughly 30,000 consumers. The independent study measures the response of the actual users of various products and services. In the category of utilities — electric service, PSE&G scored third highest in the nation with a satisfaction rating of 80%, a 2.6% increase from last year.

PSE&G is committed to customer service. In fact, we back that commitment with nine written guarantees that say we'll pay our customers if we don't perform. We'll credit residential customers \$25 and business customers \$25 to \$500 if we fail to keep any of the following guarantees:

1. We will fix it right the first time.
2. We will turn on existing service by the date promised.
3. We will repair dusk-to-dawn or streetlights within three working days.
4. We will ensure accurate bills.
5. We will keep all appointments.
6. We will install new dusk-to-dawn or streetlights within 10 working days.
7. We will provide new electric service within five working days.
8. We will provide new gas service on the date promised.
9. We will respond to a no-heat problem or an individual power outage within the quoted time.

Some restrictions and limitations apply.

For more information about service guarantees or any of the PSE&G services outlined on the preceding page, or for a copy of our Welcome Brochure, call 1-800-854-4444.

For PSE&G's Rosemary Jefferson, commitment doesn't end at 5 o'clock.

There are thousands of employees... (text partially obscured)

72% of PSEG employees are committed to service

the power of service guarantees

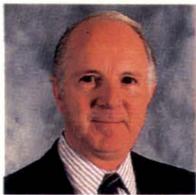
1. We will fix it right the first time.
2. We will turn on existing service by the date promised.
3. We will repair dusk-to-dawn or streetlights within 3 working days.
4. We will ensure accurate bills.
5. We will keep all appointments.
6. We will install new dusk-to-dawn or streetlights within 10 working days.
7. We will provide new electric service within 5 working days.
8. We will provide new gas service on the date promised.
9. We will respond to a no-heat problem or an individual power outage within the quoted time.

See employees and benefits apps. Call to learn more.

PSEG

This advertisement is one in a series on service guarantees; it also recognizes our employees' commitment to our customers — and to the community at large.

DIRECTORS AND OFFICERS



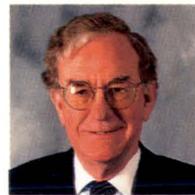
E. James Ferland
Chairman of the Board,
President and Chief
Executive Officer
of the Corporation.



Lawrence R. Codey
President and Chief
Operating Officer,
Public Service Electric
and Gas Company.



Ernest H. Drew
Member, Board of
Management, Hoechst AG,
Frankfurt, Germany
(manufactures
pharmaceuticals, chemicals,
fibers, film, specialties and
advanced materials).



T.J. Dermot Dunphy
President, Chief Executive
Officer and Director,
Sealed Air Corporation
(manufactures protective
packaging products
and systems).



Raymond V. Gilmartin
Chairman of the Board,
President and Chief
Executive Officer, Merck
and Co., Inc. (discovers,
develops, produces and
markets human and animal
health products).



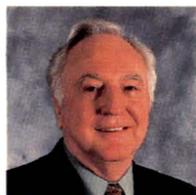
Irwin Lerner
Retired Chairman, Board
of Directors and Executive
Committee, Hoffmann-
La Roche Inc. (prescription
pharmaceuticals, vitamins
and fine chemicals,
and diagnostic products
and services).



Marilyn M. Pfaltz
Partner of
P and R Associates
(communication
specialists).



James C. Pitney
Partner in the law firm
of Pitney, Hardin,
Kipp & Szuch.



Forrest J. Remick
Engineering Consultant and
Retired Commissioner of the
United States Nuclear
Regulatory Commission.



Richard J. Swift
Chairman of the Board,
President and Chief Executive
Officer, Foster Wheeler
Corporation (provides design,
engineering, construction,
manufacturing, management,
plant operations and
environmental services).



Josh S. Weston
Chairman of the Board,
Chief Executive Officer and
Director, Automatic Data
Processing, Inc.

EXECUTIVE OFFICERS OF ENTERPRISE

E. James Ferland
Chairman of the Board,
President and Chief
Executive Officer;
Chairman of the Board and
Chief Executive Officer of
PSE&G; Chairman of the
Board and Chief Executive
Officer of EDHI.

Lawrence R. Codey
President and Chief
Operating Officer of PSE&G.

Leon R. Eliason
Chief Nuclear Officer and
President-Nuclear Business
Unit of PSE&G.

Robert J. Dougherty, Jr.
Vice President; Senior
Vice President of PSE&G;
President and Chief
Operating Officer, Enterprise
Ventures and Services
Corporation.

Alfred C. Koeppel
Senior Vice President-
External Affairs of PSE&G.

Robert C. Murray
Vice President and Chief
Financial Officer; Senior
Vice President and Chief
Financial Officer of PSE&G.

R. Edwin Selover
Vice President and
General Counsel; Senior
Vice President and General
Counsel of PSE&G.

Paul H. Way
President and Chief
Operating Officer of EDHI.

Patricia A. Rado
Vice President and
Controller; Vice President
and Controller of PSE&G.

SHAREHOLDER INFORMATION

Stock Exchange Listings

New York (Enterprise common and PSE&G preferred)
Philadelphia (Enterprise common)
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, 1996 at 2 p.m.

Stockholder Services

Stockholder inquiries about stock transfer, dividends, dividend reinvestment, direct deposit, missing or lost certificates, change of address notification and other account information should be directed to: Stockholder Services Department, Public Service Electric & Gas Company, P.O. Box 1171, Newark, N.J. 07101-1171. Please include your account number or social security number.

Stockholders can also phone our toll-free number **1-800-242-0813**, Monday through Friday, with questions about stock transfer and registration, shares held in the Dividend Reinvestment and Stock Purchase Plan and our other stockholder services. Hours are: 10 a.m. to 3:30 p.m. Eastern time. The telephone number for the hearing impaired with special equipment is TDD 1-800-732-3241. Please have your account number or social security number ready when you call.

Stockholders can also reach us by Internet e-mail at: STKSERV@PSEG.COM.

Transfer Agents

The transfer agents for the common and preferred stocks are:

Stockholder Services Department
Public Service Electric and Gas Company
P.O. Box 1171
Newark, NJ 07101-1171

First Chicago Trust Company of New York
P.O. Box 2506
Jersey City, NJ 07303-2506

Dividend Reinvestment Plan

Enterprise offers a Dividend Reinvestment and Stock Purchase Plan under which all common and PSE&G preferred stockholders may reinvest dividends and/or make direct cash payments to acquire 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. To participate, call **1-800-242-0813** for a prospectus and enrollment form.

Dividends

Dividends on the common stock of Enterprise, as declared by the Board of Directors, are generally payable on the last business day of March, June, September and December of each year. Regular quarterly dividends on PSE&G's preferred stock are payable on the last business day of March, June, September and December of each year.

Direct Deposit of Dividends

No more dividend checks delayed in the mail. No waiting in bank lines. Your quarterly common and preferred stock dividend payments can be deposited electronically to your personal checking or savings account. To use this free service, call us at **1-800-242-0813**.

Security Analysts and Institutional Investors

For information contact:

Director—Investor Relations 201-430-6564

Available Publications

Form 10-K: A copy of Enterprise's 1995 Annual Report to the Securities and Exchange Commission, filed on Form 10-K, may be obtained by contacting:

Director—Investor Relations
Public Service Electric and Gas Company T6B
P.O. Box 570
Newark, NJ 07101
Telephone 201-430-6503

The copy so provided will be without exhibits. Exhibits may be purchased for a specified fee.

Financial and Statistical Review: A comprehensive statistical report containing historical financial and operating data may also be obtained from the Director—Investor Relations.

Common Stock—Market Price and Dividends Per Share

	1995			1994		
	High	Low	Div.	High	Low	Div.
First Quarter	29 ⁷ / ₈	26	\$.54	32	27 ¹ / ₄	\$.54
Second Quarter	30 ¹ / ₄	26 ³ / ₄	.54	29 ¹ / ₄	25	.54
Third Quarter	29 ³ / ₄	26 ³ / ₄	.54	28 ⁵ / ₈	23 ⁷ / ₈	.54
Fourth Quarter	30 ⁵ / ₈	26 ³ / ₄	.54	27 ¹ / ₈	25	.54

The number of holders of record of Public Service Enterprise Group Incorporated common shares as of December 31, 1995 was 175,831.

This year Enterprise has adopted a summary annual report format, with no loss of information since the full financials are available as an Appendix to the accompanying Proxy Statement. This change is intended to provide shareholders with information in a more reader-friendly format. This report focuses on the key events that made 1995 such a pivotal year in our transition toward a competitive environment. It describes a superior service strategy that meets customer needs, and provides communications that meet shareholder needs. At the same time, the reduced cost of this year's annual report reflects our company's commitment to operating more efficiently.

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED

80 Park Plaza

P.O. Box 1171

Newark, NJ 07101-1171



Public Service Enterprise Group