PSEG Public Service Enterprise Group Incorporated

# Countdown to Choice

Summary Annual Report 1997

# The countdown to choice has begun.

In 1998, electric utility deregulation and restructuring will move from conjecture to reality. In New Jersey, customers may begin choosing their energy supplier by the fall of 1998, joining residents and businesses in other states that have already participated in customer choice pilot programs.

In the international energy sector and in New Jersey's natural gas marketplace, customers are already making choices. In response, Public Service Enterprise Group Incorporated (Enterprise) has expanded to bring service and quality to new markets and new customers. Industry restructuring in the United States and abroad is bringing new and promising opportunities.

We are convinced that being the company our customers can count on is a key advantage whether we serve regions of the world where reliable energy is at a premium or where it is a necessary, but taken for granted, part of life.

As the countdown continues in New Jersey, customers, while looking for reductions in their energy costs, are also demanding that they continue to receive the same quality service they've enjoyed from regulated utilities. As New Jersey's premier electric utility, Public Service Electric and Gas Company (PSE&G) is committed to continue meeting that expectation: providing energy services our customers can rely on.

Whatever opportunities arise, the people of Enterprise will continue their customer-focused approach to providing quality energy and energy services, with an eye at all times on increasing value to our shareholders.



## Financial Highlights

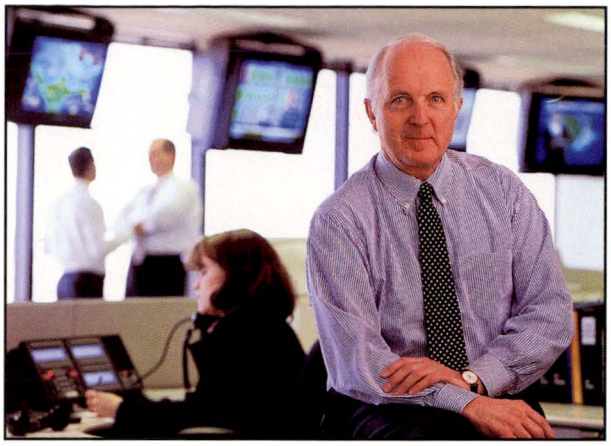
| **Dollars in millions where applicable** | 1997 | 1996 | % Change |
|---|---|---|---|
| Total Operating Revenues | $ 6,370 | $ 6,041 | 5 |
| Total Operating Expenses | $ 5,255 | $ 4,984 | 5 |
| Net Income | $ 560 | $ 612 | (8) |
| Common Stock | | | |
| Shares Outstanding – Average (Thousands) | 231,986 | 242,401 | (4) |
| Earnings per Average Share | $ 2.41 | $ 2.52 | (4) |
| Dividends Paid per Share | $ 2.16 | $ 2.16 | — |
| Book Value per Share – Year-end | $22.47 | $22.33 | 1 |
| Market Price per Share – Year-end | $31.81 | $27.25 | 17 |
| Ratio of Earnings to Fixed Charges – ENTERPRISE(A) | 2.61 | 2.68 | |
| Ratio of Earnings to Fixed Charges – PSE&G(A) | 2.70 | 2.62 | |
| Gross Additions to Utility Plant | $ 557 | $ 603 | (8) |
| Total Gross Utility Plant | $17,815 | $17,327 | 3 |

*(A) Includes Preferred Securities Dividend Requirements.*

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

◁ *Cover Photo:* (clockwise from bottom) Jo Ann Dow, *Manager – Community Affairs;* Gene Hernandez, *Senior Project Engineer, CEA;* Bob Sutphin, *Boiler Repair Mechanic, SMD;* Debbie Smith, *Inbound Collection & Credit Representative;* Jim Kirwin, Jr., *Electric Lineman;* Debra Aschenbach, *Service Specialist*

# Chairman's Letter



## Dear Shareholder,

During 1997, good progress was made on many fronts as we positioned your company to enter tomorrow's competitive marketplace. We expect, by year-end 1998, that the rules which will govern our role in this new business environment will have been largely determined.

Financially, Enterprise reported consolidated earnings of $2.41 per share in 1997, a decline of 11 cents compared to reported earnings of $2.52 per share in 1996. However, excluding certain nonrecurring items described below, Enterprise's 1997 earnings on an operating basis were $2.68 per share, an increase of 4 cents, compared with operating earnings of $2.64 per share in 1996.

Operating earnings are calculated by excluding nonrecurring items and more accurately reflect Enterprise's fundamental, ongoing strength. In addition, they serve as a better basis to gauge future performance.

In 1997, these one-time events included a charge of 27 cents per share resulting from the settlement of lawsuits related to the refurbishment outage of our Salem Nuclear Generating Station. In 1996, these one-time events included a charge of 25 cents per share due to the resolution of regulatory issues including the used and usefulness of the Salem station.

The good news is, of course, that the extensive refurbishment of the Salem units is complete. Salem Unit 2 has performed well since being returned to service in the late summer of 1997 and Salem Unit 1, with its new steam generators installed, is completing start-up testing and will return to service shortly.

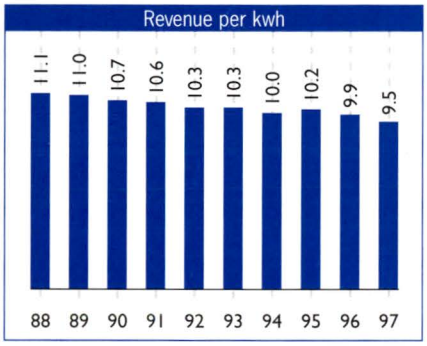
On Wall Street, Enterprise's common stock finished 1997 on a strong note, closing on the New York Stock Exchange at $31.81, the high point for the year. The appreciation of our stock price from $27.25 at the close of 1996, combined with reinvestment of our annual dividend of $2.16 per share, resulted in a total return of just under 27 percent. We did very well, compared to two respected benchmarks – about half a percent above Standard & Poor's index of 26 electric utilities and about three percent above the Dow Jones Utilities, an index of 15 electric and gas companies. This performance was in the face of the regulatory uncertainty accompanying the advanced stage of industry restructuring in New Jersey – one of the nation's leaders in this transition process. Our stock price is likely, however, to remain volatile through this period of uncertainty.

## Industry restructuring

In response to New Jersey's mandate for industry restructuring, our utility business, Public Service Electric and Gas Company (PSE&G), filed a plan to give electric customers the opportunity to choose their own energy provider beginning in January 1999, while providing a discount of 5 to 10 percent off current rates. Also, as a result of 1997 changes in New Jersey's utility tax policy, an additional reduction of up to 6 percent in customers' bills will be phased in during the next several years – without an impact on Enterprise's earnings.

Our restructuring plan also includes a number of provisions that we believe will protect your interests as shareholders and enhance the economic well-being of the state of New Jersey. While much work has yet to be done, including the passage of enabling legislation, we envision an orderly process leading to the introduction of competition by the beginning of 1999.

With competition just around the corner, our focus on growth to improve the future value of our company is greater than ever. PSE&G continued in 1997 to enhance its portfolio of activities, from the marketing of appliance service contracts to the trading of electricity and natural gas. Under the umbrella of our other major subsidiary, Enterprise Diversified Holdings Incorporated (EDHI), our nonregulated businesses concentrated on developing energy services in the northeastern United States, pursuing selected investments in generation and distribution facilities on a global basis, and building a portfolio of passive energy-related investments that provide a consistent earnings and cash flow.




(Average revenue per kwh adjusted for inflation. Base year 1996. Cents per kwh.)

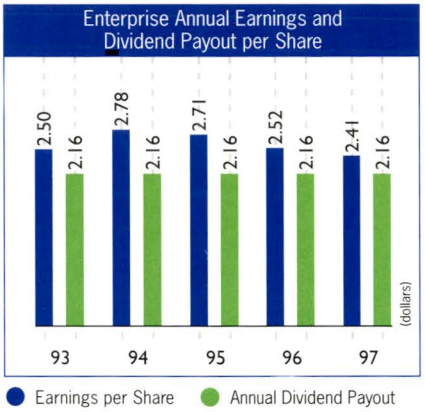
PSE&G supplies electricity at the lowest cost per kwh of all the major utilities in New Jersey, and intends to continue the trend.

## Reshaping PSE&G

Historically, PSE&G has managed the generation, delivery, metering and billing of electricity for its customers as a single, bundled service. It now appears likely that generation will be separated or unbundled from other activities, giving customers the freedom to buy electricity as a commodity from

any number of providers, including utilities, independent power producers and power marketers.

Due to recent technological improvements affecting the reliability and efficiency of combustion turbine-powered generating stations, many of our older power plants will not be able to compete effectively in the new marketplace. A key concern is the legislative and regulatory treatment of our investment in these facilities. The difference between our investment in these facilities and their value in a competitive generation marketplace is referred to as "stranded costs."




Dealing with stranded costs is perhaps the thorniest aspect of industry restructuring. In past years, PSE&G invested billions of dollars in generating facilities to assure reliability of service to our customers and, with regulatory approval, we were allowed to recover these investments over time.

We believe our restructuring plan deals with stranded costs, among other issues, in a reasonable manner. A fair regulatory outcome is achievable through a combination of supportive legislation that will permit refinancing (securitization) of certain generation facilities, an acceptable transition period and an appropriate reduction of customer rates in line with New Jersey's Energy Master Plan and, within the company itself, an ongoing strategy to contain costs and grow revenues.

While the extent of our participation in tomorrow's competitive generation markets cannot yet be fully determined, it is clear to us that the distribution of electricity and natural gas, which will likely remain a regulated activity, will continue to be an attractive business segment for Enterprise.

PSE&G is one of the largest electric and gas distribution companies in the United States – one in which the quality of operations is as good as any throughout the country. We expect to improve the value of this business through efficiency gains under rate-cap pricing following the transition period.

As we reshape PSE&G, there is another element of restructuring on which we are firmly focused, and that is environmental reform. We have strongly endorsed federal legislation that would establish uniform air pollution standards for all electric producers in the United States as a key component of industry restructuring.

While we have long been an advocate for opening markets to competition, we have stressed that it be done only if standards are in place to ensure that the ability to pollute is not a competitive advantage in a restructured industry.

From New Jersey's and PSE&G's perspective, we have embraced tighter air pollution limits and have reduced our emissions. These standards and the related costs should not put us at a competitive disadvantage, especially since much of New Jersey's air quality level is the result of pollution blown into our state by prevailing westerly winds.

We encourage you to join us in supporting federal anti-pollution legislation that both addresses the fact that the electric power industry is a major contributor to air quality problems and establishes emissions rules that will support environmental comparability among all producers.

We also believe that we must look at the full range of solutions when resolving environmental issues. Mechanistic controls may not always be the best approach. Emission trading on the air side and habitat restoration on the water side may be more effective solutions to environmental issues because they produce longer-lasting results and cost less.

## Pursuing nuclear excellence

In my letter to you last year, I emphasized our commitment to an improved nuclear program. I am pleased to report to you this year that our lengthy investment of time and resources to the refurbishment of the Salem station is paying off. Unit 2 has performed extremely well since its return to full service late last summer. Unit 1's fuel has now been reloaded and the station is on the verge of resuming operation as I write this letter.

Meanwhile, our Hope Creek Nuclear Generating Station had an extraordinary operating cycle before undergoing a successful refueling last September. The unit operated 99 percent of the time from completion of its prior refueling in March 1996 to its most recent outage.

The turnaround in our nuclear operations was led by Leon Eliason, whom we recruited three years ago from a highly regarded nuclear generation program at Northern States Power. During his tenure at PSE&G, he attracted, developed and directed a strong team of proven nuclear professionals in making sweeping changes and improvements designed to enable our nuclear units to achieve safe, reliable and long-term performance. In the process, he rebuilt our nuclear credibility with regulators on state and federal levels and with investors and security analysts in the key financial markets.

Leon will retire from PSE&G on April 30 and be replaced by Harold Keiser, another highly regarded nuclear leader. Leon is leaving a legacy of nuclear excellence that I am confident will be carried on by Harry.

## Investing for growth

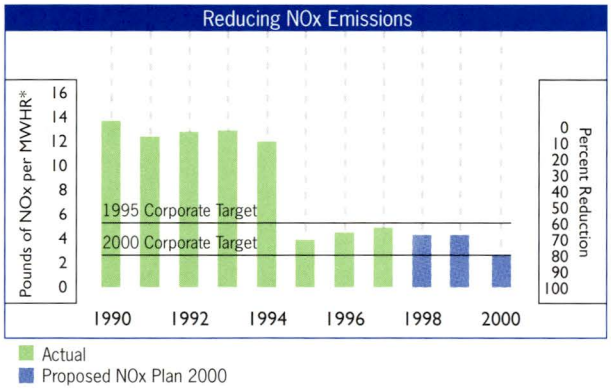
In striving to enhance the future value of Enterprise, we made significant strategic moves in 1997 through the considerable international expansion of Community Energy Alternatives (CEA), our nonregulated generation and

distribution business, and the establishment of Energis Resources to provide a wide array of energy services from Maine to Maryland.

CEA has vastly improved its developmental capability throughout the world, building a good backlog of projects intended to produce noteworthy earnings growth well into the next century. In pursuing opportunities, CEA draws on Enterprise's long history of expertise in distribution and generation. In addition, it recruits experienced personnel from various countries and cultures and seeks business partners with strong local abilities and knowledge.

In 1997, CEA was successful in expanding operations in its various targeted regions in South America, particularly Brazil and Argentina. CEA's assets increased to about $1.2 billion, bringing the level of its portfolio at year end to 28 generation and distribution projects around the world.

Energis Resources, our new entry in the burgeoning energy services industry, is targeting industrial and commercial customers in the Northeast, offering programs designed to help them reduce costs, find innovative energy solutions, and assure ongoing reliability.

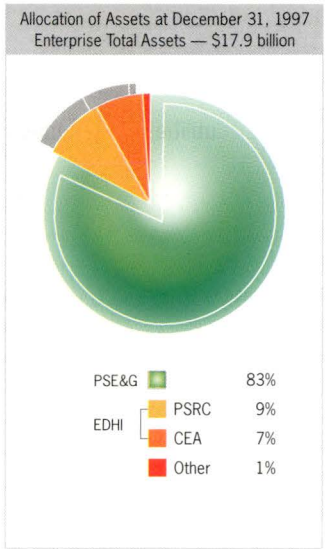


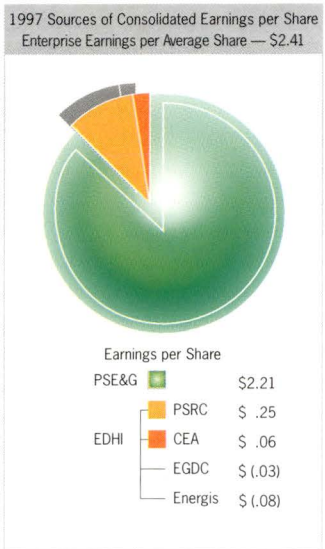

*One MWHR is the amount of energy required to light 10,000 hundred-watt light bulbs for 1 hour

Nitrogen oxide (NOx) emissions from PSE&G's fossil plants fall well below the 1995 Corporate Target.

Last October, Energis secured some 800 new customers under Pennsylvania's electricity competition pilot program, bringing the total throughout the 11-state region to well over 5,000. In early 1998, Energis acquired a contractor that provides a wide range of HVAC and other contracting and maintenance services to industrial and commercial buildings in Pennsylvania, New Jersey and Delaware. In addition, it announced a strategic alliance with AlliedSignal Inc. to market and service a new energy technology called a TurboGenerator, which provides an economical power source option for small commercial businesses, institutions and light industry.

Standing as solid support for these growing businesses is Public Service Resources Corporation, our passive investment company, which for a dozen years has produced a steady stream of earnings and predictable cash flow. Its focus is on energy-related investments.




## Outlook for 1998

Our challenges for the new year are abundant but by no means insurmountable. We remain firmly committed to pursuing our three key strategies: an orderly restructuring of the electric utility in New Jersey, achievement of operational excellence throughout all segments of Enterprise and investing in a manner that will foster growth of future earnings.

Our desire is to achieve an earnings level in 1998 that will again demonstrate the fundamental strength of our operations locally and globally. Our objective throughout this transition to a competitive industry is to focus on creating additional value in our company.

We firmly believe that the underlying strength in all facets of our business is our excellent work force. In particular, we see corporate attention to two human areas as critical to our future success. First, the health and safety of our employees is paramount, which is why we are engaged in an ongoing program to improve our work processes to reduce injuries and create an accident-free workplace. And, second, we are striving to make Enterprise a company that truly values diversity and where all associates support each other, customers and vendors in ways that their unique characteristics become enablers of, rather than barriers to, corporate success and increased shareholder value.

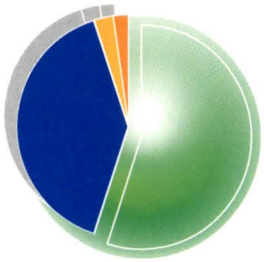
We especially appreciate your continued support in this time of dramatic change and profound opportunity. Be assured that we at Enterprise are clear about our obligations to you – as well as to our customers, employees, suppliers and the communities and countries in which we do business – as we negotiate the transition to a competitive marketplace.

**E. James Ferland**
Chairman of the Board, President and Chief Executive Officer,
Public Service Enterprise Group Incorporated, February 13, 1998

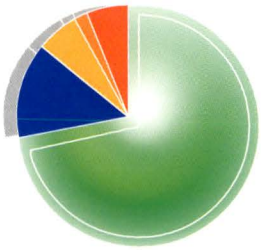
# Public Service Enterprise Group Incorporated At a Glance

| Entity | Group | Leadership |
|---|---|---|
| Public Service Enterprise Group Incorporated | Enterprise | E. James Ferland<br>Chairman of the Board,<br>President and Chief Executive Officer<br>80 Park Plaza, T4B<br>Newark, NJ 07101<br>973-430-7000<br>www.pseg.com |
| Public Service Electric and Gas Company | PSE&G | Lawrence R. Codey<br>President and Chief Operating Officer<br>80 Park Plaza, T4B<br>Newark, NJ 07101<br>973-430-7000<br>www.pseg.com |
| Enterprise Diversified Holdings Incorporated | EDHI | Robert J. Dougherty, Jr.<br>President and Chief Operating Officer<br>80 Park Plaza, T4B<br>Newark, NJ 07101<br>973-430-7750 |
| | Energis Resources | Frank Cassidy<br>President and Chief Executive Officer<br>499 Thornall Street<br>5th Floor<br>Edison, NJ 08837<br>888-3-ENERGIS<br>www.energisresources.com |
| | Community Energy Alternatives | Michael J. Thomson<br>President and Chief Executive Officer<br>1200 East Ridgewood Avenue<br>Ridgewood, NJ 07450<br>201-652-2772 |
| | Public Service Resources Corporation | Eileen A. Moran<br>President<br>80 Park Plaza, T22<br>Newark, NJ 07101<br>973-456-3560 |

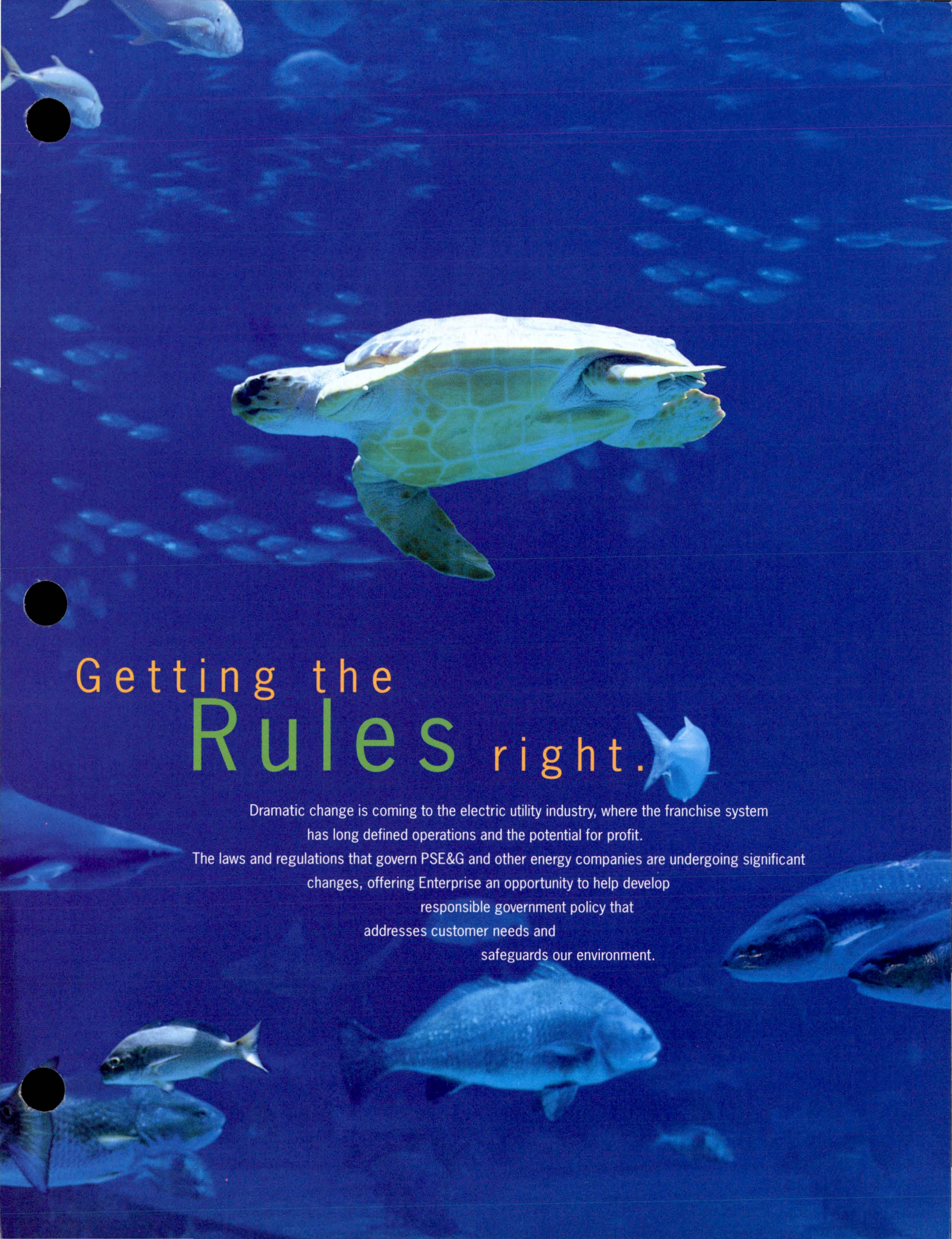
Allocation of Assets at December 31, 1997
EDHI Total Assets (in billions) — $2.912




Allocation of Assets at December 31, 1996
EDHI Total Assets (in billions) — $2.002

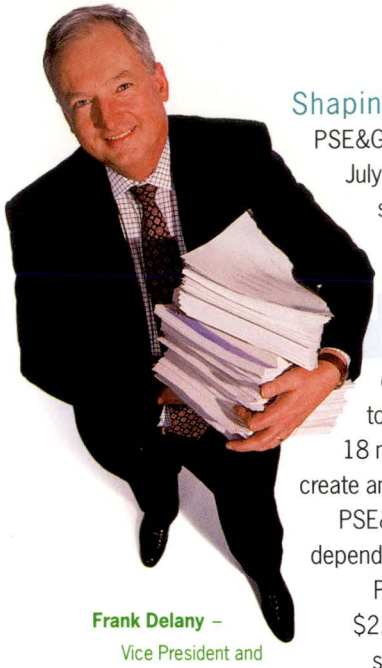


| Profile | Business Scope | Products/Services | Market Outlook |
|---|---|---|---|
| Publicly-traded diversified energy and energy services company located in New Jersey with annual revenues of more than $6 billion, consisting of two main subsidiaries: Public Service Electric and Gas Company and Enterprise Diversified Holdings Incorporated. | Collectively, PSE&G and Community Energy Alternatives, a subsidiary of EDHI, have more than 90 years of power plant operating experience with active investments in 40 power plants fueled by coal, natural gas, oil, petroleum coke and nuclear. | • Electricity and Gas<br>• Industrial and Commercial Gas<br>• Industrial, Commercial and Residential Electric<br>• Energy Consulting and Planning<br>• Integrated Energy Management Services<br>• Operations and Maintenance Support<br>• Residential Gas Products and Services | Success in meeting our strategic objectives will be measured in terms of earnings per share growth. The objective for the Enterprise portfolio is a compound growth rate of five percent annually over the next five years. |
| Serves more than 5.5 million New Jersey residents in more than 300 urban, suburban and rural communities with electricity, gas and energy alternatives in a 2,600-square-mile diagonal corridor across the state. | PSE&G provides the lowest cost, most reliable electric and gas service of any major New Jersey utility. It maintains a staff of over 600 highly trained service technicians on call 24 hours a day, 365 days a year to repair a broad range of gas and electric appliances and HVAC equipment and backs up its performance with nine guarantees of service. Through its Sunburst Customer Solutions product offering, PSE&G provides meter reading, billing and collection services. | • Electricity and Gas<br>• Industrial and Commercial Electric<br>• Energy Consulting and Planning<br>• Industrial and Commercial Gas<br>• Residential Gas Products and Services<br>• Sunburst Customer Solutions<br>• Tradelink export assistance program<br>• Business Enhancement Program<br>• Residential Electric | While new business ventures will play a vital role in the long-term growth and strength of Enterprise, PSE&G remains Enterprise's core business and currently comprises more than 90 percent of total Enterprise revenues. |
| Operates Enterprise's nonutility businesses seeking to maintain and expand its energy services in the region. Consists of three primary subsidiaries: Energis Resources, Community Energy Alternatives, and Public Service Resources Corporation. | EDHI builds on the nearly 100-year tradition of PSE&G by seeking out and developing additional energy-related services as deregulation of the industry progresses. | • Electricity and Gas<br>• Industrial and Commercial Gas<br>• Energy Consulting and Planning<br>• Integrated Energy Management Services<br>• Operations and Maintenance Support | EDHI will enter new markets in the energy arena when its experience and knowledge can be brought to bear and when market needs and opportunities can be pursued on a sound and profitable basis. |
| Provides a full menu of energy management solutions for businesses in the Northeast. | In addition to offering several new services, Energis Resources brings the expertise of functions previously performed by a number of Enterprise subsidiaries to northeastern markets which it knows well. | • Electricity and Gas<br>• Energy Consulting and Planning<br>• Integrated Energy Management Services<br>• Operations and Maintenance Support<br>• Financing Solutions | Energis Resources serves industrial and commercial customers in the New England and Mid-Atlantic region through three product platforms: energy supply; consulting, engineering and operations services; and financing solutions. |
| Develops, acquires, owns and operates independent power production and distribution facilities in the United States, Asia, the Pacific Rim, the Middle East, Europe and South America. | Nearly 300 experts in project development and financing, engineering and facility operations and maintenance create effective teams that understand the dynamics of the areas they serve. | • Electric Generation Solutions<br>• Distribution Services | CEA pursues investments in generation and distribution in strategic markets. |
| Enhances EDHI's financial strength with a strong, diverse portfolio of more than 60 separate investments across a wide spectrum of industry sectors and asset types, including leveraged and direct financing leases, project financing, venture capital funds, leveraged buyouts, real estate limited partnerships and securities. | PSRC's well-balanced portfolio provides diversification, earnings stability and continued incremental earnings growth to shareholders. | • Investments in assets which provide funds for future growth and incremental earnings | PSRC plans to build on its expertise in risk management and mitigation, transaction analysis and closing and investment management to exploit new opportunities that arise from energy industry deregulation. |



# Getting the Rules right.

Dramatic change is coming to the electric utility industry, where the franchise system has long defined operations and the potential for profit. The laws and regulations that govern PSE&G and other energy companies are undergoing significant changes, offering Enterprise an opportunity to help develop responsible government policy that addresses customer needs and safeguards our environment.



**Frank Delany** –
Vice President and
Corporate Rate Counsel

*"Many parties are reviewing the details of our response to the Energy Master Plan. Numerous associates throughout the company are working diligently as witnesses and resource persons to support our proposal before the BPU. The company is proud of their effort."*

## Shaping the future of our industry

PSE&G has taken a strong position on electric industry restructuring in New Jersey through our July 1997 response to the Board of Public Utility's Energy Master Plan. Our proposal reflects extensive customer research revealing that New Jersey energy users want deregulation to provide fair, simple rules for competition to ensure customers will continue to receive the same quality of service they have historically enjoyed.

Our customers have always counted on PSE&G to provide the quality service that New Jersey's residents and businesses need, while remaining true to our obligations as a responsible corporate citizen. Under our proposal, PSE&G would offer all of its electric customers a choice to be serviced by an alternate energy commodity supplier by January 1, 1999. This accelerates by 18 months the full choice timetable suggested by the BPU and avoids a phase-in approach that could create an unfair price advantage for some customers.

PSE&G's ability to reach the BPU-mandated 5 to 10 percent rate reduction, plus a multiyear rate cap, depends on several factors; most importantly, resolution of the stranded costs issue.

PSE&G's restructuring proposal includes the refinancing, through securitization, of approximately $2.5 billion in stranded costs associated with our generation assets. PSE&G strongly believes that shareholders alone should not be held financially responsible for investments incurred as a result of the company's legally mandated obligation to serve its customers. If legislation allowing for securitization is not enacted, our restructuring proposal and the potential rate reduction will be jeopardized.

Under the proposed rate cap, PSE&G would absorb fuel risks for the next seven years, as well as increases in costs associated with the operation and maintenance of its facilities. PSE&G also will take the risk of mitigation and absorption of nonsecuritized generation assets.

In addition to selling electric energy, PSE&G would hold capacity and reserves to meet peak demand and provide for contingencies, such as a temporary loss of an energy supply. In order to back up the generation reliability of the system, we will initially continue to maintain capacity for the usage of customers who choose other suppliers. Customers who choose an alternate supplier for energy will receive an energy credit on their bills. Once a viable market develops that allows for capacity to be sold at market prices, we would also provide a market credit to the bills of customers who purchase capacity elsewhere.

PSE&G will continue to be responsible for the reliability of the transmission and distribution system, the wires that deliver electricity to customers' homes and businesses. Electric service would also continue to be provided by PSE&G.

On the regulatory side, our proposal is being reviewed by the BPU and Office of Administrative Law and will require the passage of legislation prior to enactment. Enabling legislation for securitization and energy restructuring is expected to be considered in 1998.

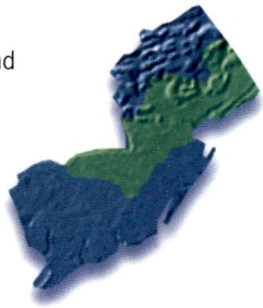
Deregulation will touch the lives of every New Jersey resident and affect the operations of every business. PSE&G has undertaken an active public outreach, media relations and advertising campaign to inform and educate New Jerseyans about the Energy Master Plan and our commitment to the state's people, economic development and environment.

PSE&G's represented work force is also actively advocating a responsible approach to industry restructuring before the BPU and state legislature, particularly on the issues of jobs and the environment.

◁ *Photo on previous page:* Deregulation is the topic of discussion for Ray Woodrow, left, chief of engineering for the New Jersey State Aquarium, and Ed Zazzali, Energis Resources account manager. The changing natural gas marketplace has led to substantial reductions in energy expenses for the aquarium, which has a natural gas contract with Energis.

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

## Equal footing among competitors



PSE&G's long-time efforts culminated this year in reform of the Gross Receipts and Franchise Tax (GRFT) paid by all customers of New Jersey utilities. Because customers of nonutility energy providers did not pay this tax, utilities would have been at a competitive disadvantage if such taxation were to continue in a competitive market. In January 1998, the GRFT was replaced by existing sales and corporate business taxes and a temporary assessment that will be phased out over 5 years. Ultimately, this arrangement will result in a reduction of up to 45 percent in energy taxes paid by consumers.

This new tax structure evens the competition for providers by ensuring that customers pay the same tax on energy whether it is purchased from a utility or a nonutility generator. It will also account for an overall customer tax reduction of up to 6 percent by January 2003.

## Restructuring and the environment

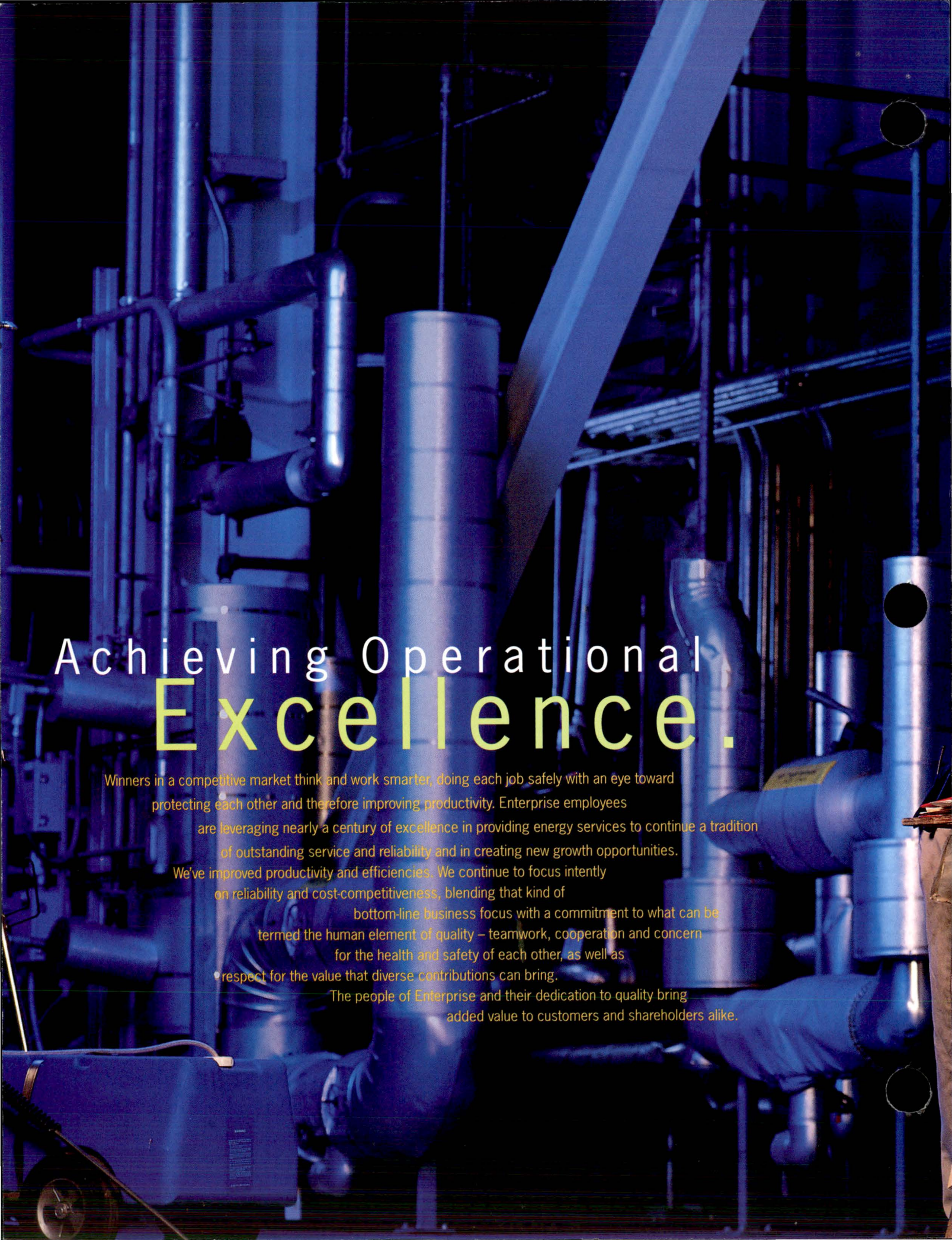
Participating in the rules-setting process also gives Enterprise the opportunity to take a stand on issues that affect society. PSE&G firmly believes that lower-cost power should not come at the expense of clean air or environmental quality. Nor should unevenly implemented environmental standards create a competitive advantage for some industry members at the expense of public health.

Industries in the Northeast strive to comply with strict federal and state emissions standards, yet the people of New Jersey and neighboring states continue to be burdened by the air pollution created by coal-burning power plants in the Midwest and South that operate under less strict environmental standards. Their emissions are transported here by prevailing wind currents, creating a significant societal, economic and ecological impact on New Jersey and the rest of the Northeast. At the same time, these plants operate more cheaply.

The BPU's restructuring report clearly emphasized a commitment to the environment. PSE&G's Energy Master Plan filing calls for environmental comparability, a requirement for all power generators selling energy in New Jersey to operate under the same stringent environmental standards as we do. Several Northeast state governments and power companies have joined our call to help ensure the region's air quality and effectively eliminate the cost advantages of operating inefficient, dirty coal-fired power plants. Plus, Enterprise has been publicly recognized by noted environmental opinion leaders like the Natural Resources Defense Council for our leadership in the environmental arena.

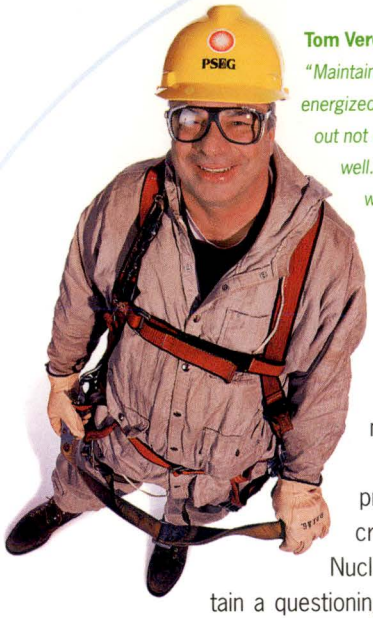
**Laura Manz** –
Principal Engineer –
Interconnection Planning

*"In 1997, we gained federal approval to implement locational marginal pricing, an efficient electricity pricing system that allows PSE&G to be an active player in the new marketplace and be paid true market value for the electricity we provide."*



# Achieving Operational Excellence.

Winners in a competitive market think and work smarter, doing each job safely with an eye toward protecting each other and therefore improving productivity. Enterprise employees are leveraging nearly a century of excellence in providing energy services to continue a tradition of outstanding service and reliability and in creating new growth opportunities. We've improved productivity and efficiencies. We continue to focus intently on reliability and cost-competitiveness, blending that kind of bottom-line business focus with a commitment to what can be termed the human element of quality – teamwork, cooperation and concern for the health and safety of each other, as well as respect for the value that diverse contributions can bring. The people of Enterprise and their dedication to quality bring added value to customers and shareholders alike.




**Tom Verdecchio** – Senior Live Line Coordinator
*"Maintaining transmission lines while they are still energized means a total focus on safety – watching out not only for myself, but for those I work with as well. Each of us wants to leave the job the same way we arrived: healthy and alive."*

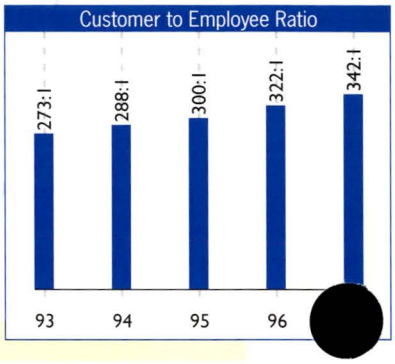
## Maintaining a questioning attitude

During its most recently completed operating cycle, Hope Creek operated 99 percent of the time from March 1996 to its most recent outage, including consecutive runs of 222 and 307 days. Salem Unit 2 was successfully returned to service in August 1997 after more than two years of refurbishment and Salem Unit 1, at publication time of this report, was preparing to resume operation.

Much of this success is, in part, the result of a new attitude in operations and process. Management is stressing individual accountability and teamwork, as well as creating an environment where employees are expected to raise concerns. Nuclear Business Unit (NBU) employees are encouraged and expected to maintain a questioning approach to their work habits, constantly staying alert for potential problems and correcting them as they are identified, well before they have the potential to threaten plant safety and operations. Proactive thinking such as this is making our nuclear program a high-quality performer.

The successful restart of Salem Unit 2 has also provided the NBU with a number of critical lessons learned that will not only apply to the restart of Salem Unit 1, but the entire nuclear program.

The ratio of customers to PSE&G permanent employees, a measure of efficiency, has grown 25 percent over the past five years.




## Learning lessons from deregulation

Supplier choice in the natural gas marketplace has been in effect in New Jersey for more than two years, and about 17,000 of PSE&G's 180,000 industrial and commercial customers have become transportation-only customers. PSE&G's earnings, however, have been unaffected by whether a customer remains or converts to transportation service. To respond to the decline in load, PSE&G is undertaking a comprehensive review of its gas supply and capacity portfolio in an attempt to develop the most economical portfolio to meet the changing marketplace.

We've also responded to market transformation by changing the way we obtain gas supplies, trading on a monthly or even daily basis and by making off-system sales of surplus gas or capacity. Customers get 80 percent of the margin the utility makes on such sales, while PSE&G keeps the remaining 20 percent.

## Facing the future with technology on our side

Success in a competitive marketplace relies on an information technology infrastructure that enables the business to handle customer choice quickly and efficiently.

Customer information, billing and metering systems in support of customer choice are being created to function well before January 1, 1999, the day PSE&G proposes that customer choice start in New Jersey.

Internally, we are also finding ways to make the power of information work for us. Enterprise is deploying SAP R/3 software, an advanced tool that will help us change the way we do business. SAP operates on a single database, surrounded by different business systems, including financial reporting, supply chain management, plant maintenance, accounting and payroll and a common work management system. The effort is well under way, with the first stage of implementation operating in Fossil Generation. Enterprise has positioned itself as an early entry in the SAP energy services market and created a strategic alliance between itself and the SAP company.

◁ *Photo on previous page:* PSE&G employees at the Bergen Generating Station go over maintenance schedules. Investments in the station have produced improvements in efficiency, as well as reductions in nitrogen oxide emissions.

Enterprise is tackling the Year 2000 challenge facing corporations and major institutions worldwide. We have assembled a team to correct existing computer systems to recognize dates beyond 1999, before the risk of malfunction or failure becomes an issue. The Enterprise-wide team is taking inventory of all affected systems and applications, assessing potential impact and identifying solutions.

## Customer focus knows no boundaries

Our union employees understand the competitive pressures faced by the electric and gas utility industries. Several cooperative efforts from our unions have created a strong partnership that benefits labor, management and our customers. One of the outcomes of the 1996 union contract negotiations was a letter of agreement between PSE&G and its two largest unions, the International Brotherhood of Electrical Workers and Local 855 of the United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry, that allows gas and electric employees to work in each other's areas. Crossover work is currently being performed in parts of the state and mixed crews of gas and electric employees are now excavating, installing and backfilling in electric and gas facilities in new residential developments. This approach has helped reduce costs by limiting outside contractor costs.

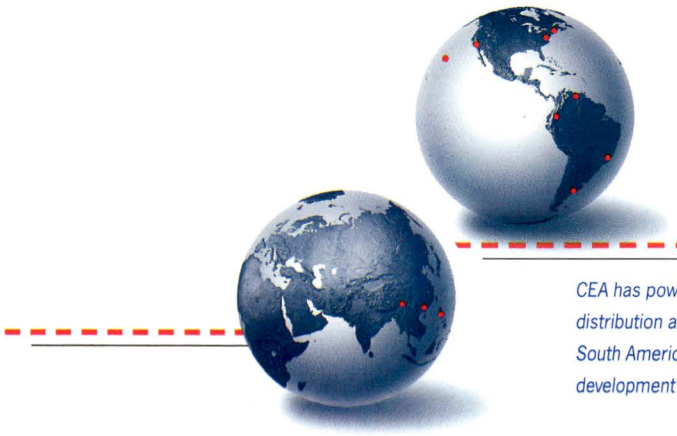
Our gas distribution business' commitment to providing quality service to customers was recognized by Quality New Jersey for outstanding results in system reliability – a strong acknowledgement of the processes and systems used to monitor and maintain the safety of the underground gas piping throughout our service territory.

**Susan Hogan** – Supplier Development Manager (with Larry Glover and John Curtis of J. Curtis and Company, awarded the PSEG Supplier Excellence Award in the category of Supplier Diversity for 1997)
*"From 1996–1997, Enterprise increased the amount of expenditures with minority and women-owned firms by 26 percent by establishing aggressive goals and initiatives that support the needs of our increasingly diverse customer base."*

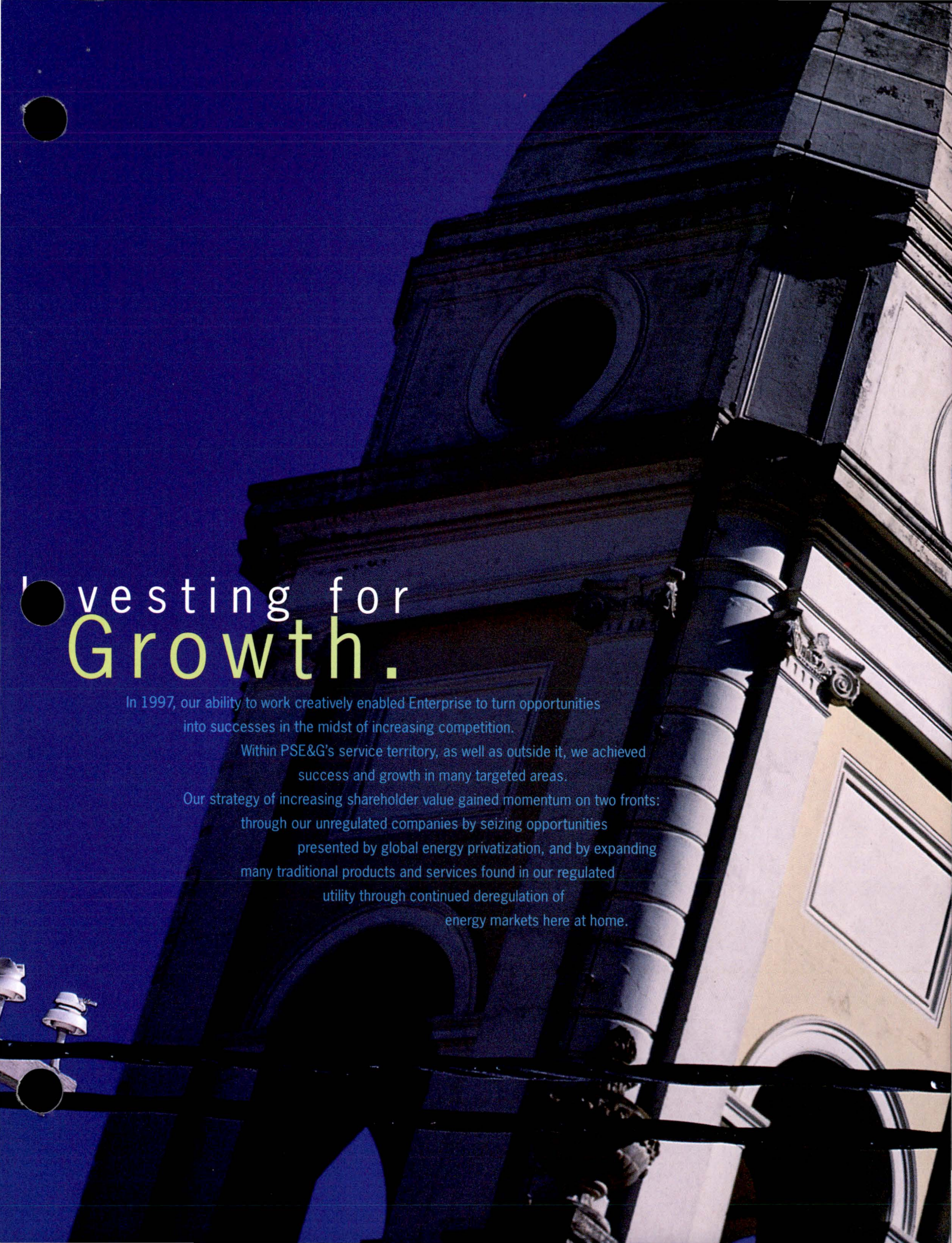
## Safety – the only choice

Working to meet customer demands in a competitive environment offers significant challenges in reinforcing the importance of safe working practices and the well-being of our workforce and customers. PSE&G's Recordable Case Incidence Rate, which shows the number of occupational illnesses and serious injuries per 100 employees per year, has fallen 27 percent through the third quarter of 1997 compared with the year before. Although many areas of PSE&G have greatly improved their safety records, two PSE&G employees died following accidents in 1997.

To emphasize our commitment to safety, a team comprising representatives from each operating division and all five unions is implementing stronger safety practices and processes, as well as establishing a philosophy of achieving an accident-free workplace through trust, commitment, improved training and communications. Employees are encouraged to look out for the safety of each other and to spend extra time to ensure that all safety precautions are met before the job starts.



*CEA has power generation and distribution assets in North and South America and Asia, as well as development activities worldwide.*



# Investing for Growth.

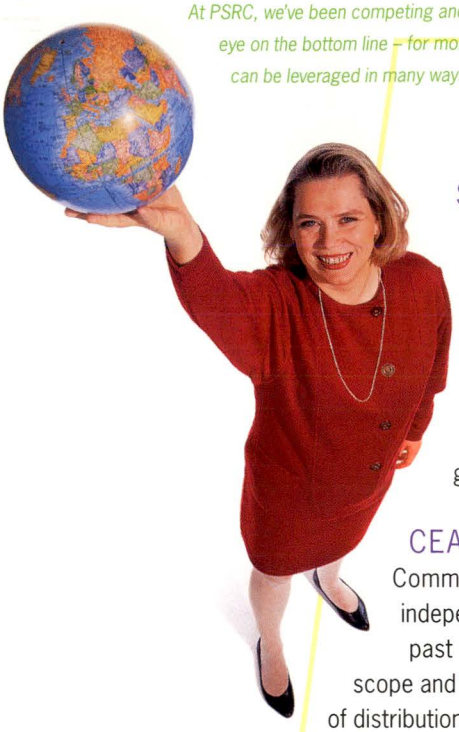
In 1997, our ability to work creatively enabled Enterprise to turn opportunities into successes in the midst of increasing competition.

Within PSE&G's service territory, as well as outside it, we achieved success and growth in many targeted areas.

Our strategy of increasing shareholder value gained momentum on two fronts: through our unregulated companies by seizing opportunities presented by global energy privatization, and by expanding many traditional products and services found in our regulated utility through continued deregulation of energy markets here at home.

**Eileen Moran** – President – Public Service Resources Corporation

*"With the onset of competition, virtually every dollar we invest will have to be earned. At PSRC, we've been competing and doing transactions – with a sharp eye on the bottom line – for more than a decade. That experience can be leveraged in many ways for the benefit of Enterprise."*



## Smart investments

Public Service Resources Corporation (PSRC) manages a portfolio of more than 60 separate investments across a wide spectrum of industries and continues to be a steady contributor through investments that leverage Enterprise's expertise in energy-related technologies.

PSRC's portfolio is diverse and includes investments in domestic and international generation, a gas storage limited partnership, as well as a portfolio of securities held via limited partnership investments. Investments in 1997 included leveraged leases of generating stations located in the Netherlands and the United Kingdom.

## CEA keeps pace with global demands

Community Energy Alternatives Incorporated (CEA) is one of the world's fastest growing independent power companies, with a 77 percent growth in megawatt (MW) ownership over the past two years. By establishing strategic partnerships with other companies, CEA grew in scope and stature as a developer and operator of electric generation projects, as well as an operator of distribution systems.

CEA's assets are now invested approximately 70 percent in South America, 8 percent in the Asia-Pacific region and 22 percent in North America. CEA is also actively pursuing projects in Africa, Europe, India and the Middle East.

In 1997, CEA and its partner began construction of a 216 MW natural gas-fired plant in Colombia. One of its two units began operating before year end. CEA also acquired an interest in a 180 MW cogeneration plant that provides power for nearly 20 percent of the Hawaiian island of Oahu and began commercial operation of the second of two 300 MW, coal-fired power plants in Gansu Province in China. In addition, CEA was selected as the winning bidder with two partners to develop the 471 MW Rades Project, Tunisia's first greenfield private power development project.

To complement its generation successes, CEA made its first investments in power distribution in 1997 by winning, together with major international and local partners, distribution privatization bids in Argentina and Brazil. Now serving about five million people in Latin America, CEA is poised to benefit from opportunities in some of the world's fastest-growing power markets.

CEA's consortium won concessions to own and operate two distribution systems, Empresa Distribuidora de Energía Norte S.A. (EDEN) and Empresa Distribuidora de Energía Sur S.A. (EDES), privatized by the Province of Buenos Aires in Argentina. Together, EDEN and EDES serve 1.7 million people in an area seven times the state of New Jersey.

CEA was part of a three-member consortium that won the concession to own and operate the Companhia Norte-Nordeste de Distribuição de Energía Eletrica in southern Brazil, another recently privatized distribution company. The company, now called Rio Grande Energía, has a service territory of 37,000 square miles and provides service to a population of 3.2 million.

## Creating business solutions

Launched in January 1997, Energis Resources Incorporated provides business solutions to industrial and commercial energy customers. Energis Resources focuses on each customer's specific needs and customizes a package of energy services – energy consulting and planning, integrated energy management services, operations and maintenance support, financial solutions, natural gas and electricity – for more than 5,000 industrial and commercial customers in the northeast region.

Under the terms of a strategic alliance with AlliedSignal Power Systems, Energis Resources has the exclusive right to sell and service AlliedSignal's TurboGenerator throughout the Northeast, as well as parts of Canada and the country of Argentina. The TurboGenerator is a compact, portable

◁ *Photo on previous page:* Framed by the steeples of a cathedral located in San Nicolás, Argentina, Jorge Luis Mosto, a lineman for the EDEN electric distribution company, works on a concrete electric distribution pole.

generator that can create enough power to meet the energy needs of small businesses more efficiently and cost-effectively.

Energis Resources is benefiting from the deregulation of New Jersey's natural gas market by supplying natural gas to some of the state's largest facilities, including Newark International Airport, the New Jersey State Aquarium and the Meadowlands sports and entertainment complex.

Similarly, Energis Resources is taking advantage of the deregulation of electricity. In Pennsylvania, a pilot program marked the nation's largest retail electricity competition initiative. Five percent of the state's electricity consumers were selected to participate in the pilot and 43 energy suppliers, including Energis Resources, were licensed to participate.

During the pilot, Energis Resources secured 800 business customers, more than tripling its sales projections. These new customers, all of which were formerly served by other Pennsylvania electric suppliers, translate to more than 350 million kilowatt hours in sales – equal to the energy use of more than 60,000 residential customers.

To strengthen and expand Energis Resources' energy services platform, it has acquired Philadelphia-based Fluidics, Inc., a $60 million diversified mechanical/service contractor, which provides a wide range of mechanical contracting, HVAC and maintenance services for industrial and commercial customers in the Middle Atlantic region.

## WorryFree℠ Service

One of the promises of deregulation is a burst of new products and services to meet the needs of consumers. In 1997, PSE&G's appliance service business – which provides premium repair, maintenance and service for residential and business customers – obtained regulatory approval to expand its service contract business to residential central air conditioning systems, dryers and ranges. The approval allows PSE&G to compete head-on with national companies which have targeted the $1 billion New Jersey appliance service market.

Under the WorryFree℠ Service brand, the appliance service business boasts a strong name awareness within its service territory and a well-trained work force of service technicians. Those factors, along with new product offerings, led to the business selling nearly twice the projected number of service contracts in 1997, while exploring opportunities to expand throughout New Jersey and in bordering regions.

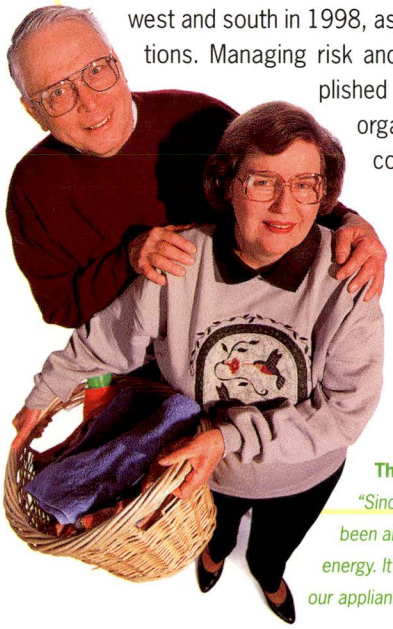
## Buying tomorrow's power today

Deregulation will place an even greater emphasis on lower electricity prices. Very often, even the largest utility can purchase electricity for less than it costs to generate. That market reality was a driver behind the development of Enterprise's wholesale energy market trading organization.

While the company's generation assets will continue to be a primary supplier, electricity trading gives PSE&G an extra option when it comes to acquiring energy for sale to customers. Currently, PSE&G is mainly focused on trading within the PJM power grid, of which PSE&G is a member.

PSE&G intends to expand its trading with contiguous power pools to the north, west and south in 1998, as well as merge its electric and gas trading organizations. Managing risk and increasing earnings in this area will be accomplished using best practice controls recommended by an organization comprising 30 central banks and major commercial financial institutions.

Using such tools as weather reports and advanced computer networks, electricity traders are expanding our role in developing trading strategies that reduce costs, increase profits and manage both commodity and financial risks.



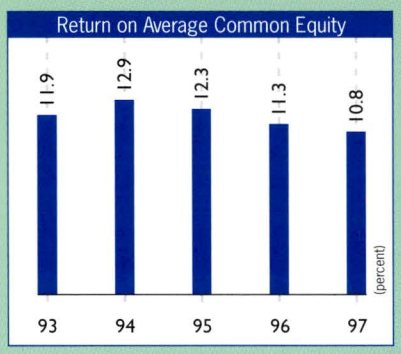
**The Kaufmanns** – Customers

*"Since our honeymoon days, we've been able to count on PSE&G's reliable energy. It's great to know that you can make our appliances just as worry free!"*

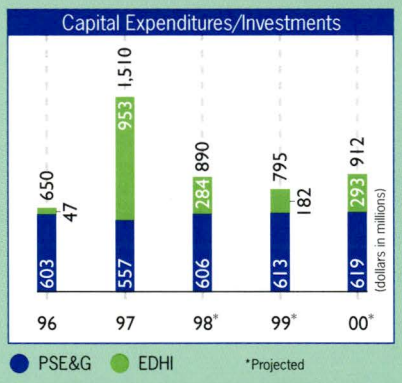
# Operational Highlights

Public Service Enterprise Group continues to pursue a strategy of enhancing stockholder value through retention and reinvestment of earnings and payment of an annual dividend.

This shows the value on December 31 of each year of $100 invested in Enterprise on December 31,1992 (assumes reinvested dividends).


Return on Average Common Equity for 1997 was 10.8%.




Declining utility capital expenditures are expected to be funded through internally generated cash, while growing EDHI needs are expected to be met by additional debt and equity, and internally generated cash.

# Consolidated Financial Statistics[A]

| ollars in millions where applicable | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| **Selected Income Information** | | | | | |
| Operating Revenues | | | | | |
| Electric | $ 4,188 | $ 3,944 | $ 4,021 | $ 3,740 | $ 3,696 |
| Gas | 1,937 | 1,881 | 1,686 | 1,778 | 1,595 |
| Nonutility Activities | 245 | 216 | 186 | 177 | 137 |
| Total Operating Revenues | $ 6,370 | $ 6,041 | $ 5,893 | $ 5,695 | $ 5,428 |
| Income from Continuing Operations | $ 560 | $ 588 | $ 627 | $ 667 | $ 549 |
| Cumulative effect of change in accounting for income taxes | – | – | – | – | 6 |
| Income from Discontinued Operations | – | 24 | 35 | 12 | 46 |
| Net Income | $ 560 | $ 612 | $ 662 | $ 679 | $ 601 |
| Earnings per Average Share (Basic and Diluted) | | | | | |
| Income from Continuing Operations | $ 2.41 | $ 2.42 | $ 2.57 | $ 2.73 | $ 2.29 |
| Income from Cumulative effect of change in accounting for income taxes | – | – | – | – | .02 |
| Income from Discontinued Operations | – | .10 | .14 | .05 | .19 |
| Total Earnings per Average Share | $ 2.41 | $ 2.52 | $ 2.71 | $ 2.78 | $ 2.50 |
| Dividends Paid per Share | $ 2.16 | $ 2.16 | $ 2.16 | $ 2.16 | $ 2.16 |
| Payout Ratio | 90% | 86% | 80% | 78% | 86% |
| Rate of Return on Average Common Equity[B] | 10.8% | 11.3% | 12.3% | 12.9% | 11.9% |
| Ratio of Earnings to Fixed Charges[C] | 2.61 | 2.68 | 2.78 | 2.84 | 2.57 |
| Book Value per Common Share[D] | $22.47 | $22.33 | $22.22 | $21.68 | $21.07 |
| Gross Utility Plant | $17,815 | $17,327 | $16,925 | $16,566 | $15,861 |
| ccumulated Depreciation and Amortization of Utility Plant | $ 6,765 | $ 6,148 | $ 5,738 | $ 5,468 | $ 5,057 |
| Total Assets | $17,943 | $16,915 | $16,816 | $16,313 | $15,995 |
| **Consolidated Capitalization** | | | | | |
| Common Stock | $ 3,603 | $ 3,627 | $ 3,801 | $ 3,801 | $ 3,773 |
| Retained Earnings | 1,623 | 1,586 | 1,637 | 1,505 | 1,361 |
| Foreign Currency Translation Adjustment | (15) | – | – | – | – |
| Common Stockholders' Equity | 5,211 | 5,213 | 5,438 | 5,306 | 5,134 |
| Subsidiaries' Preferred Securities | 683 | 682 | 685 | 685 | 580 |
| Long-Term Debt | 4,873 | 4,580 | 5,190 | 5,110 | 5,100 |
| Total Capitalization | $10,767 | $10,475 | $11,313 | $11,101 | $10,814 |

*(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) Includes Preferred Securities Dividend Requirements.*

*(D) Total Common Equity divided by end-of-period Common Shares outstanding.*

# Condensed Consolidated Statements of Income

| In millions of dollars (except per share data) for the years ended December 31, | 1997 | 1996 | 1995 |
|---|---|---|---|
| **Operating Revenues** | | | |
| Electric | $4,188 | $3,944 | $4,021 |
| Gas | 1,937 | 1,881 | 1,686 |
| Nonutility Activities | 245 | 216 | 186 |
| Total Operating Revenues | 6,370 | 6,041 | 5,893 |
| **Operating Expenses** | | | |
| Fuel for Electric Generation and Interchanged Power | 1,179 | 919 | 892 |
| Gas Purchased | 1,101 | 1,118 | 962 |
| Operation and Maintenance | 1,364 | 1,371 | 1,321 |
| Depreciation and Amortization | 630 | 607 | 597 |
| Taxes | 981 | 969 | 1,028 |
| Total Operating Expenses | 5,255 | 4,984 | 4,800 |
| **Operating Income** | 1,115 | 1,057 | 1,093 |
| Settlement of Salem Litigation – Net of Applicable Taxes of $29 | (53) | – | – |
| Other Income – Net | 7 | (2) | 13 |
| Interest Expense and Preferred Dividends | (509) | (467) | (479) |
| Income from Continuing Operations | 560 | 588 | 627 |
| Income from Discontinued Operations – Net of Taxes | – | 24 | 35 |
| **Net Income** | $ 560 | $ 612 | $ 662 |
| **Average Shares of Common Stock Outstanding (000's)** | 231,986 | 242,401 | 244,698 |
| **Earnings per Average Share (Basic and Diluted)** | | | |
| Income from Continuing Operations | $2.41 | $2.42 | $2.57 |
| Income from Discontinued Operations | – | .10 | .14 |
| **Total Earnings per Average Share** | $2.41 | $2.52 | $2.71 |
| **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 millions of dollars for the years ended December 31, | 1997 | 1996 | 1995 |
|---|---|---|---|
| **Net Income** | $ 560 | $ 612 | $ 662 |
| Adjustments to net income, primarily depreciation and amortization | 535 | 858 | 856 |
| Net cash provided by operating activities | 1,095 | 1,470 | 1,518 |
| Cash flows from investing activities | | | |
| Additions to Utility Plant, excluding AFDC | (542) | (586) | (650) |
| Net (increase) decrease in Long-Term Investments and Real Estate | (914) | 5 | (66) |
| Other | (158) | (81) | (106) |
| Net proceeds from the sale of discontinued operations | – | 704 | – |
| Change in net assets – discontinued operations | – | (51) | (113) |
| Net cash used in investing activities | (1,614) | (9) | (935) |
| Net cash provided by (used in) financing activities | 323 | (1,244) | (586) |
| Net (decrease) increase in Cash and Cash Equivalents | (196) | 217 | (3) |
| Cash and Cash Equivalents at Beginning of Period | 279 | 62 | 65 |
| Cash and Cash Equivalents at End of Period | $ 83 | $ 279 | $ 62 |

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

# Condensed Consolidated Balance Sheets

| In millions of dollars at December 31, | 1997 | 1996 |
|---|---|---|
| **Assets** | | |
| Utility Plant: | | |
| Utility Plant (including Nuclear Fuel) | $17,465 | $16,858 |
| Less: Accumulated Depreciation and Amortization | 6,765 | 6,148 |
| Net Utility Plant in Service | 10,700 | 10,710 |
| Construction Work in Progress (including Nuclear Fuel) | 326 | 445 |
| Plant Held for Future Use | 24 | 24 |
| Net Utility Plant | 11,050 | 11,179 |
| Investments and Other Noncurrent Assets | 3,532 | 2,352 |
| Current Assets | 1,663 | 1,744 |
| Deferred Debits | 1,698 | 1,640 |
| Total | $17,943 | $16,915 |
| **Capitalization and Liabilities** | | |
| Capitalization: | | |
| Common Stockholders' Equity | $ 5,211 | $ 5,213 |
| Subsidiaries' Preferred Securities | 683 | 682 |
| Long-Term Debt | 4,873 | 4,580 |
| Total Capitalization | 10,767 | 10,475 |
| Other Long-Term Liabilities | 168 | 185 |
| Current Liabilities | 2,827 | 2,272 |
| Deferred Credits | 4,181 | 3,983 |
| Total | $17,943 | $16,915 |

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

# Consolidated Statements of Common Stockholders' Equity

| In millions of dollars | Common Stock | Retained Earnings | Foreign Currency Translation Adjustment | Total |
|---|---|---|---|---|
| **Balance as of January 1, 1995** | $3,801 | $1,505 | $ – | $5,306 |
| Net Income | – | 662 | – | 662 |
| Cash Dividends on Common Stock | – | (528) | – | (528) |
| Preferred Securities Issuance Expenses | – | (2) | – | (2) |
| **Balance as of December 31, 1995** | 3,801 | 1,637 | – | 5,438 |
| Net Income | – | 612 | – | 612 |
| Cash Dividends on Common Stock | – | (523) | – | (523) |
| Retirement of Common Stock | (174) | (133) | – | (307) |
| Preferred Securities Issuance Expenses | – | (7) | – | (7) |
| **Balance as of December 31, 1996** | 3,627 | 1,586 | – | 5,213 |
| Net Income | – | 560 | – | 560 |
| Cash Dividends on Common Stock | – | (501) | – | (501) |
| Retirement of Common Stock | (24) | (19) | – | (43) |
| Currency Translation Adjustment | – | – | (15) | (15) |
| Preferred Securities Issuance Expenses | – | (3) | – | (3) |
| **Balance as of December 31, 1997** | $3,603 | $1,623 | $(15) | $5,211 |

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

***Notes to Consolidated Financial Statements***

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

*For the full text of Commitments and Contingent Liabilities refer to Note 10 to Consolidated Financial Statements in Appendix A to the Proxy Statement.*

# Financial Statement of Responsibility

## To the Stockholders of Public Service Enterprise Group Incorporated:

The condensed financial statements in this Summary Annual Report were derived from the consolidated financial statements included in the Public Service Enterprise Group Incorporated (the "Company") Proxy Statement for the 1998 Annual Meeting of Stockholders, 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 Company's management. 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, guidelines and self-assessments, 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 Statement were audited by Deloitte & Touche LLP, independent auditors, whose report on the condensed consolidated financial statements 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 13, 1998

Deloitte & Touche LLP

# Independent Auditors' Report

## 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 (the "Company") as of December 31, 1997 and 1996, and the related consolidated statements of income, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. Such consolidated financial statements and our report thereon dated February 13, 1998, expressing an unqualified opinion (which are not presented herein) are included in Appendix A of the Proxy Statement for the 1998 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 consolidated balance sheets as of December 31, 1997 and 1996 and the related condensed consolidated statements of income, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997 is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

Deloitte + Touche LLP

February 13, 1998
Parsippany, New Jersey

# Board of Directors

**Lawrence R. Codey**
has been a director since 1991. Has been President and Chief Operating Officer of PSE&G since September 1991.

**Ernest H. Drew**
has been a director since 1993. Was Chief Executive Officer of Industries and Technology Group, Westinghouse Electric Corporation, from July 1997 to December 1997. Was a member, Board of Management of Hoechst AG, Frankfurt, Germany, a manufacturer of pharmaceuticals and chemicals, from January 1995 to June 1997. Was Chairman of the Board and Chief Executive Officer of Hoechst Celanese Corporation of Somerville, New Jersey from May 1994 until January 1995 and was President and Chief Executive Officer from January 1988 to May 1994.

**T. J. Dermot Dunphy**
has been a director since 1980. Has been Chairman of the Board and Chief Executive Officer of Sealed Air Corporation, a Saddle Brook, New Jersey manufacturer of protective packaging products and systems, since November 1996. Was President and Chief Executive Officer of Sealed Air Corporation from 1971 to November 1996.

**E. James Ferland**
has been a director since 1986. Has been Chairman of the Board, President and Chief Executive Officer of Enterprise since July 1986, Chairman of the Board and Chief Executive Officer of PSE&G since September 1991, and Chairman of the Board and Chief Executive Officer of EDHI since June 1989.

**Raymond V. Gilmartin**
has been a director since 1993. Has been Chairman of the Board, President and Chief Executive Officer of Merck & Co., Inc. of Whitehouse, New Jersey, a global pharmaceutical firm that discovers, develops, produces and markets human and animal health products, since November 1994. Was President and Chief Executive Officer of Merck & Co., Inc. from June 1994 to November 1994. Was Chairman of the Board, President and Chief Executive Officer of Becton Dickinson and Company from November 1992 to June 1994.

**Conrad K. Harper**
has been a director since May 1997. Has been a partner in the law firm of Simpson, Thatcher and Bartlett of New York City since October 1996 and from 1974 to May 1993. Was Legal Advisor, U.S. Department of State from May 1993 to June 1996.

**Irwin Lerner**
has been a director since 1981. Was Chairman, President and Chief Executive Officer of Hoffmann-La Roche Inc., of Nutley, New Jersey, a manufacturer of prescription pharmaceuticals, vitamins and fine chemicals, and diagnostic products and services, from January 1993 to September 1993 and President and Chief Executive Officer from 1980 to December 1992.

**Marilyn M. Pfaltz**
has been a director since 1980. Has been a partner of P and R Associates of Summit, New Jersey, a communications firm, since 1968.

**Forrest J. Remick**
has been a director since 1995. Has been an engineering consultant since July 1994. Was Commissioner of the United States Nuclear Regulatory Commission from December 1989 to June 1994. Was Associate Vice President – Research and Professor of Nuclear Engineering at Pennsylvania State University, from 1985 to 1989.

**Richard J. Swift**
has been a director since 1994. Has been Chairman of the Board, President and Chief Executive Officer of Foster Wheeler Corporation, of Clinton, New Jersey, a firm providing design, engineering, construction, manufacturing, management, plant operations and environmental services, since May 1994.

**Josh S. Weston**
has been a director since 1984. Has been Chairman of the Board of Automatic Data Processing, Inc., of Roseland, New Jersey, since April 1986 and was Chief Executive Officer of Automatic Data Processing, Inc. from January 1983 to August 1996.

# Executive Officers

**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.

**Frank Cassidy**
President and Chief Executive Officer of Energis Resources.

**Robert J. Dougherty, Jr.**
President and Chief Operating Officer of EDHI.

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

**Harold W. Keiser**
Executive Vice President – Nuclear Business Unit of PSE&G.

**Alfred C. Koeppe**
Senior Vice President – Corporate Services and External Affairs of PSE&G.

**Eileen A. Moran**
President of PSRC; President of EGDC.

**Robert C. Murray**
Vice President and Chief Financial Officer; Executive Vice President – Finance of PSE&G.

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

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

**Michael J. Thomson**
President and Chief Executive Officer of CEA.

# Stockholder 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 the New Jersey Performing Arts Center (NJPAC), One Center Street, Newark, New Jersey, on Tuesday, April 21, 1998 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, NJ 07101-1171. Please include your account number or social security number.

Stockholders can also phone our toll-free number **800-242-0813**, Monday through Friday, with questions about stock transfer and registration, Enterprise Direct transactions 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 800-732-3241. Please have your account number or social security number ready when you call.

Stockholders can reach us by Internet e-mail at: **stkserv@pseg.com**

Stockholders can also reach us by fax at: 973-824-7056

### 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*

### Enterprise Direct – Stock Purchase and Dividend Reinvestment Plan
Enterprise offers Enterprise Direct, a Stock Purchase and Dividend Reinvestment Plan. For additional information, including a prospectus and enrollment form, contact us through Internet e-mail at **stkserv@pseg.com** or call **800-242-0813**.

### 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 **800-242-0813**.

### Security Analysts and Institutional Investors
For information contact:

*Director – Investor Relations 973-430-6564*

### Available Publications
*Form 10-K:* A copy of Enterprise's 1997 Annual Report to the Securities and Exchange Commission, filed on Form 10-K, may be obtained by calling 973-430-6503 or writing to:

*Director – Investor Relations*
*Public Service Electric and Gas Company*
*80 Park Plaza, T6B*
*Newark, NJ 07101*

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 data may also be obtained from the Director – Investor Relations.

## Common Stock – Market Price and Dividends per Share

| | 1997 | | | 1996 | | |
|---|---|---|---|---|---|---|
| | High | Low | Div. | High | Low | Div. |
| First Quarter | $29¼ | $26⅛ | $.54 | $32⅛ | $25¼ | $.54 |
| Second Quarter | 26½ | 22⅞ | .54 | 27⅞ | 25⅛ | .54 |
| Third Quarter | 26 3/16 | 24 1/16 | .54 | 27⅞ | 25⅝ | .54 |
| Fourth Quarter | 31 13/16 | 24¾ | .54 | 29 | 26⅜ | .54 |

The number of holders of record of Public Service Enterprise Group Incorporated common shares as of December 31, 1997 was 154,478.

Printed on recycled paper, using environmentally friendly inks.

# Public Responsibility

## The power of commitment

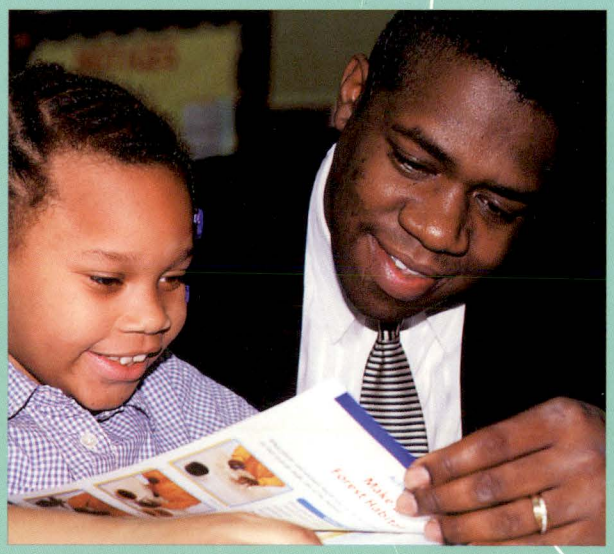
Since its earliest days, PSE&G's commitment to support the well-being of New Jersey communities has extended beyond providing energy. It remains a committed resource to the state, its people and businesses and includes support for a number of effective community-oriented programs.

PSE&G is working with community leaders, residents and other partners to revitalize parts of Newark through the South Ward Neighborhood Partnership, a broad-based community renewal endeavor. As part of the initiative, ground was broken in 1997 for the South Ward Industrial Park, a $6.8 million, 100,000-square-foot light industrial complex expected to attract labor-intensive businesses and create more than 300 new jobs. Expected to be completed in September 1998, the project received funding from several state and federal agencies. PSE&G has committed to market the park aggressively and create a package of utility incentives to help attract business. The White House recently awarded PSE&G honorable mention in its Ron Brown Award for Corporate Leadership program, which recognizes businesses that contribute to the areas they serve.

As another part of PSE&G's urban initiatives, the company is donating more than $1 million in used computer equipment for schools in New Jersey's urban centers during the next three years.

Those are two ways in which PSE&G dedicates its volunteer, in-kind and intellectual resources to fulfill its corporate citizenship obligations. PSE&G is also a sponsor of programs such as Seton Hall University's Project 2000, which introduces urban youth to positive male role models who can influence attitudes toward school and academic achievement. PSE&G volunteers serve as teaching assistants, allowing them to interact with at-risk youngsters.

PSE&G has also launched a $30 million New Millennium Economic Development Fund to help attract new businesses to New Jersey and to encourage the growth of existing businesses. While the fund is available throughout New Jersey, it targets funding for projects in the state's urban centers. For the first New Millennium project, PSE&G agreed to provide a loan guarantee that allowed Lightcom International's move to a vacant building in Camden. Lightcom, the largest African-American-owned long-distance telephone company, will create 150 new jobs in Camden during the next two years.



**Vern Freeland**, marketing promotions manager, is one of 19 volunteers who serve as teaching assistants at elementary schools in New Jersey's urban areas.

*Public Service Enterprise Group*
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