PSE&G

The Energy People

1975 Annual Report

Public Service Electric and Gas Company

80 Park Place
Newark, N.J. 07101

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Annual Meeting

Please note that the Annual Meeting of Stockholders of the Company will be held at the Robert Treat Hotel, 50 Park Place, Newark, New Jersey, on Monday, April 19, 1976, at 2:00 p.m. A summary of the meeting will be sent to stockholders at a later date.

Transfer Agents

All Stocks

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

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

Registrars

$1.40 Dividend Preference
Common Stock and Common Stock

Bankers Trust Company
485 Lexington Avenue, New York, N.Y. 10017

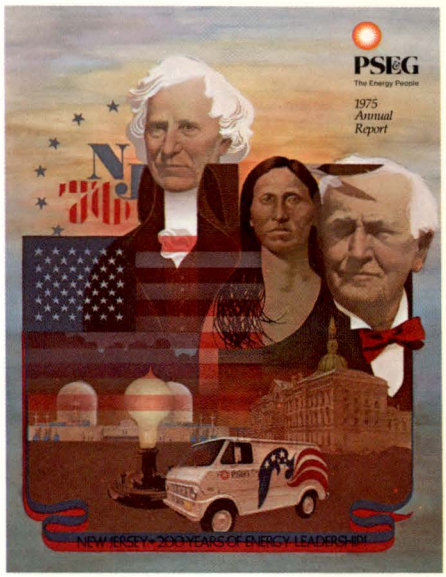
Fidelity Union Trust Company
765 Broad Street, Newark, N.J. 07101

Preferred Stocks

The Chase Manhattan Bank (National Association)
1 New York Plaza, New York, N.Y. 10015

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

About the Cover



America's freedom always has been closely intertwined with the quest for new sources of energy, and New Jersey always has been in the forefront of the quest – from the days of the earliest windmills and waterwheels to today's most sophisticated nuclear generating plants.

New Jersey's pursuit of energy is a major saga. It is America's first steam engine, its first steamboat and its first steam locomotive. It is America's first planned industrial city – Paterson – founded in 1791 by Alexander Hamilton and others.

Here in New Jersey, Thomas A. Edison made the world's first incandescent lamp in 1879, and then put together the first complete power generating and distribution system. Electronics is a New Jersey phenomenon, from the first audion tubes to the first transistors. Today, as the atom is being split or fused to provide nearly unlimited energy fuels, New Jersey again leads the way.

New Jersey's 200 years of energy leadership is a big story. It's a story worth knowing.

Financial and Statistical Review

A comprehensive statistical supplement to this report, containing financial and operating data for the years 1965-1975, will be available this spring. If you wish to receive a copy, please write to the Vice President and Treasurer, Public Service Electric and Gas Company, P.O. Box 570, Newark, N.J. 07101

Highlights

	1975	1974	% Increase or (Decrease)
Financial			
Earnings per average share of Common Stock	$2.25	$2.35	(4)
Shares of Common Stock			
Average	54,513,000	51,918,000	5
Year end	56,523,000	52,531,000	8
Dividends paid per share of Common Stock	$1.72	$1.72	—
Total Operating Revenues	$1,630,525,000	$1,455,873,000	12
Total Operating Expenses	$1,380,293,000	$1,225,414,000	13
Balance Available for Common Stock	$122,598,000	$122,027,000	—
Gross Additions to Utility Plant	$297,418,000	$385,700,000	(23)
Total Utility Plant	$4,920,768,000	$4,636,344,000	6
Electric Operations			
Electric Operating Revenues	$1,213,488,000	$1,100,965,000	10
Kilowatthour Sales to Customers	26,995,491,000	27,699,841,000	(3)
Peak Load—Kilowatts	6,270,000	6,316,000	(1)
Cooling Degree Hours	6,543	7,501	(13)
Gas Operations			
Gas Operating Revenues	$417,037,000	$354,908,000	18
Therm Sales to Customers	1,761,478,000	1,845,336,000	(5)
Maximum Day's Sendout—Therms	11,077,000	11,763,000	(6)
Heating Degree Days	4,653	4,629	1

The Company has painted ten of its vehicles in commemoration of the nation's Bicentennial. They carry the theme "New Jersey – 200 Years of Energy Leadership!" throughout our service area.

President's Message To Stockholders and Employees

The nation is observing its Bicentennial in 1976 and in keeping with the observance, your annual report has an added feature this year. It not only brings you the PSE&G story for 1975, but the history of energy in New Jersey for the past 200 years. The contributions made by our State are important and we hope you find the information of interest.

Another challenging year has passed and although we undoubtedly face more problems in the future, 1975 saw your Company accomplish many things which will be beneficial in the years ahead.

Total revenues for 1975 amounted to $1.6 billion, an increase of 12% over 1974. This increase reflects the effect of rate increases and higher gas costs which were passed on to consumers. Because of the industrial recession, kilowatthour sales of electricity and therm sales of gas were below 1974 levels. Earnings were $2.25 per share, compared to $2.35 per share in the previous year when there were 2,600,000 fewer average shares outstanding.

The principal reasons for the decrease in per share earnings, in addition to the substantial decline in electric and gas industrial sales, were higher depreciation charges coupled with reduced allowance for funds during construction, and higher interest charges, taxes and preferred stock dividends. The Common Stock dividend was maintained at $1.72 per share.

The 1975 rate increases – $99 million in June and $59 million in November – along with the interim granted in 1974, brought the total increase to $215.5 million from a petition, filed April 30, 1974, for $257 million. Moreover, it was particularly heartening to note that the New Jersey Board of Public Utility Commissioners stated in its final Order that it would not permit the financial health of your Company to deteriorate. In fact, a number of pronouncements by the Board in its final Order were noteworthy because of their recognition of the problems this Company faces with respect to its earnings, cash flow and the maintenance of its credit standing. Nevertheless, the fact remains that the final Order was issued 18 months from the date of our original filing. This repeated lag in obtaining needed relief has thwarted our efforts to catch up with the past effects of inflation and made it necessary for us to file a new Petition for relief close on the heels of the final Order. This request, which was filed on January 5, 1976, calls for approximately $447 million in new revenues.

Among our accomplishments in 1975 was the signing of a new agreement with Algeria for a 22-year supply of liquefied natural gas. If all necessary approvals are received and satisfactory transportation is arranged, our gas supply problem will be resolved and we will be able to accept new gas customers once again.

Our subsidiary, Energy Development Corporation, participated in the successful completion of five gas wells in Texas and Louisiana in 1975. Late in the year the Federal Power Commission authorized the sale and transportation of gas from a field discovered in Louisiana to PSE&G in New Jersey.

The year 1975 also saw an increase in our generation of nuclear power and progress in our nuclear power construction program. Our customers saved some $80 million in fuel costs by the substitution of nuclear power for fossil-fueled power in 1975, and nuclear generation in future years is expected to bring additional fuel cost savings. The first of two 1,100-megawatt nuclear units at Salem Generating Station is scheduled to go into service in 1976. We are 42.6% owners of this unit and have the responsibility for design, construction, and operation of the station. Five other nuclear units of similar size have been ordered for installation and operation between 1979 and 1987. The Company has sufficient electric generating capacity now and we foresee no difficulty in maintaining an adequate reserve in the future.

All of us share a concern with our customers over the high prices of electricity and gas. In the near term, the substitution of nuclear fission power for fossil-fueled power will tend to restrain the rising cost of electricity. Our studies show that, with all costs considered, the cost of nuclear power will still be substantially less than oil or coal generated power in 1985 when we expect 65% of our generation to be nuclear. Looking to the turn of the century, we are hopeful that nuclear fusion will prove to be a low cost source of abundant energy, and we are providing funds for fusion research. At the same time, we are keeping abreast of progress in other energy research areas, such as solar power, and will be ready to take advantage of any development which will benefit our customers.

Gas supply has been one of our prime concerns in recent years, and we have concentrated our efforts on projects to assure adequate quantities of gas for our customers. With regard to the cost of gas, our primary hope for stabilization appears to be the discovery of additional domestic supplies. For this reason, we strongly advocate environmentally acceptable off-shore drilling, particularly in the Baltimore Canyon area off the New Jersey coast, and we are one of the parties in a joint venture which may lead to active participation in off-shore exploration.

We are continuing our efforts to reduce expenses wherever possible. In spite of a wage increase of 8% which took effect in May, total wages and salaries decreased in 1975. This was due to continued emphasis on the elimination of overtime and a reduction in the work force from 14,032 to 13,348 employees. Our total number of employees is now less than it was 25 years ago, when electric kilowatthour sales were about one-fifth of the 1975 level.

Electric and gas energy represent valuable resources which should not be wasted, and public information programs to make our customers aware of how and where energy can be saved are being conducted. Further, we are engaged in a time-of-day metering experiment, sampling 600 homes, to see if the incentive of lower cost will persuade customers to shift their usage of electricity to off-peak hours. If this experiment is successful, the long-range result may be a reduction in peak demand and a corresponding reduction in the need for new generating capacity.

During the latter part of the year we began seeing signs that the recession, which had slowed our growth in the last two years, was coming to an end. Indications are that economic recovery will be clearly evident by mid-1976, and we are forecasting an average annual electric growth rate of 4% between now and 1990. Growth in the gas end of our business is dependent upon the availability of new supplies.

Your management recognizes the need to periodically increase the common dividend to keep up with inflation and maintain the attractiveness of our stock in the market place. Hopefully, earnings will rise to a satisfactory level in the near future to enable us to do this.

The past two years have been unusually difficult ones for the utility business in general and Public Service Electric and Gas Company in particular. This period of rapid inflation and industrial recession has called for decisive action in a constantly changing situation. The equilibrium of the Company has been maintained through these trying times by the dedication and cooperative efforts of our employees and the encouraging support of our stockholders. As we look toward the future, I am confident that continuation of this effort and support will enable the Company to resume its traditional upward trend.

In closing, I would like to pay particular tribute to Edward R. Eberle who retired as Chairman of the Board of Directors and Chief Executive Officer of the Company on June 30, 1975. Mr. Eberle joined the Company in 1933 and served in a number of capacities, culminating in a four and one half year period as Chief Executive Officer. During his many years, he served with distinction as a corporate and community leader.

Robert L. Smith

President and Chief Executive

February 17, 1976

Revenues Increase $175 Million

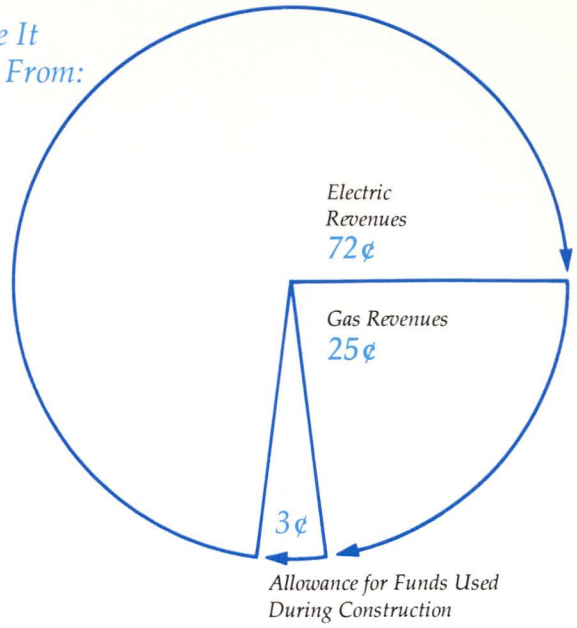
The effect of the rate increases was evident as revenues rose to $1.6 billion, 12% higher than 1974. However, $49 million of the increase represents fuel and purchased energy charges which are passed on to customers without markup, resulting in no additional earnings. Electric revenues went up 10% to $1.2 billion, 74% of total revenues. The other 26% came from gas revenues, which rose 18% to $417 million.

The sources of 1975 revenues by customer classifications were:

	Electric	*Gas*	*Combined*
Residential	34%	62%	41%
Commercial	36	25	33
Industrial	28	13	24
Street Lighting and Other	2	—	2
Total	100%	100%	100%

The 1975 Income Dollar

Where It Came From:



Operating Expenses Up $155 Million

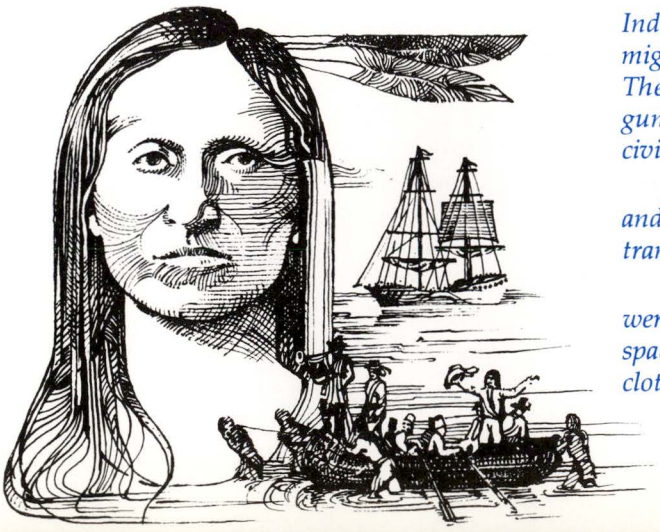
Operating expenses rose 13% in 1975 to $1.4 billion. The price of gas continued to rise and was directly responsible for an increase of $55 million in raw material costs. Primarily because of New Jersey's stringent air pollution code and higher fuel costs, we purchased greater quantities of more economic electricity from our power pool, the Pennsylvania-New Jersey-Maryland Interconnection, resulting in an increase of $57 million for net interchanged power.

As a result of the $175 million increase in revenues, State gross receipts taxes rose $23 million. Interest charges and preferred stock dividends increased $10 million, reflecting the issuance of additional securities.

The only expense to show a decline was maintenance, which was down by $8 million due to a decline in the use of gas turbine generating units.

Allowance for funds used during construction declined $13 million because large production facilities had gone into service during the latter part of 1974 and because of the discontinuance of the allowance for funds on $250 million of construction work in progress, as authorized by the state utility commission in our last rate case. In so doing the commission, in effect, is allowing PSE&G to recover the related financing cost through current revenues.

NEW JERSEY–200 YEARS OF ENERGY LEADERSHI



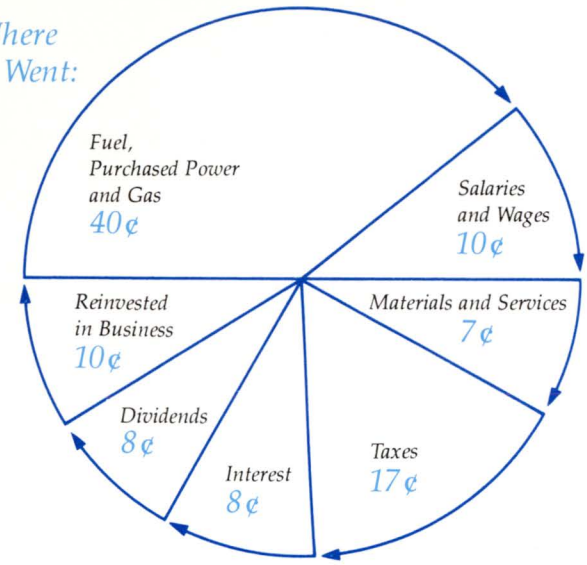
Indians who watched Henry Hudson's Half Moon *sail into Sandy Hook Bay in 1609 might have sensed that a new energy-conscious people had come to America. The ship's billowing sails dwarfed the energies of a hundred paddlers of canoes. The guns of the newcomers made arrows obsolete. Axes and saws amazed an Indian civilization that felled oaks by slowly burning the trunks until the trees toppled.*

Colonists came to seek personal or philosophical freedoms of religion, thought, and government. They also sought space in which to use energy sources that transcended mere individual strength.

The muscles of the newcomers were no match for the Indians, but their tools were more than equalizers. One axe wielder could clear in two weeks a forest space that a full tribe might not open in a year. The loom of one woman could weave cloth beyond Indian dreams.

A nation of energy seekers had begun.

Where It Went:



Construction Expenditures Down $32 Million

Expenditures during 1975 for new facilities amounted to $257 million, down from the $289 million estimated at the beginning of the year.

Construction expenditures, including nuclear fuel, are estimated at $372 million for 1976 and at $2.9 billion for the five years from 1976 through 1980, as shown below:

Estimated Expenditures

Year	*Total (in millions)*
1976	$ 372
1977	444
1978	547
1979	671
1980	886
5-Year Total	$2,920

Financing

In keeping with our objective to strengthen PSE&G's capital structure and improve financial flexibility, long-term financing in 1975 consisted only of equity securities. In January, $35 million of 12.25%, $100 par, Cumulative Preferred Stock was sold; in June, $50 million was raised through a 1-for-15 Common Stock rights offering at a price of $14.40 per share; and in December, $40 million of 9.75%, $25 par, Cumulative Preferred Stock was sold. In addition, during the year, investments by stockholders through the Dividend Reinvestment Plan produced $8 million through the sale of 484,808 shares of Common Stock.

The sale of commercial paper was used from time to time to meet short-term requirements, but on a more modest scale than in 1974. There were a number of months when we issued no short-term debt. At year end, outstanding short-term debt was $10 million, compared to $99 million on December 31, 1974.

During 1976, the Company expects to raise $300 million of long-term capital, of which $150 million will be used to prepay our five-year bank loan.

Investor Relations

PSE&G expanded its program to keep the financial community informed of Company progress and developments. The basic objective of our program is to maintain open channels of communications with members of the investment community so they may properly appraise the value of our securities.

During 1975 management visited throughout the country with portfolio managers of many large financial institutions, appeared before major security analyst groups, and also held a series of meetings with New Jersey security brokers. We will continue to pursue an active investor relations program in 1976.

HARNESSING THE WIND

Dutchmen, New Jersey's first colonists, naturally sought out the flat marshlands beside the Hudson River and along the creeks meandering through the Hackensack meadows. Just as naturally, they turned for energy to the wind, the power most familiar in their homeland.

Windmills rose before 1700 on the flats in what is now Hudson County. The slightest breezes were translated into energy to pump water, turn grindstones, and drain swamps.

The Dutch idea of power lingered even after the old Dutch town of Bergen became Jersey City. Possibly the nation's most famous windmill of all was built in 1815 by Isaac Edge to turn his flour grindstones. The noted Jersey City landmark operated until 1839 when it was taken down to make way for railroad tracks.

Stockholders Grow

Stockholders of record at the end of 1975 were as follows: Common Stock holders, 218,744; $1.40 Dividend Preference Common Stock holders, 14,774; and Preferred Stock holders, 19,468. At year end 20,829 of our Common Stock holders were participating in the Automatic Dividend Reinvestment Plan.

$1.72 Dividend Maintained

Dividends totaling $1.72 per share were paid on Common Stock in 1975, the same as in 1974, despite the decline in per share earnings. All of the dividends are considered taxable for income tax purposes.

The Company's Common Stock and $1.40 Dividend Preference Common Stock are traded on the New York Stock Exchange with the stock symbol PEG. The range of the trading prices and the dividends paid for the last two years are shown below:

Dividends Paid and Price Range

	Common Stock		*$1.40 Dividend Preference Common Stock*	
	1975	1974	1975	1974
Quarterly Dividends Paid Per Share	$.43	$.43	$.35	$.35
First Quarter	16⅞-12	21-18⅜	15¼-12¼	17⅞-16¾
Second Quarter	17⅜-14⅜	20-12¼	14⅞-13½	16⅞-14
Third Quarter	16¾-15	14⅜-10½	14⅝-13⅝	14⅞-12¾
Fourth Quarter	19-15¾	13⅞-10⅝	15-13⅝	14⅝-11⅝

Rate Increases Needed

Increased operating costs and the delay in receiving rate increases to offset them have compelled us to apply to the New Jersey Public Utility Commission (PUC) for an increase in rates to produce additional revenues of $447 million annually, based on estimated sales for 12 months ending June 1976. Of this amount, $342 million would come from electric sales and $105 million from gas sales.

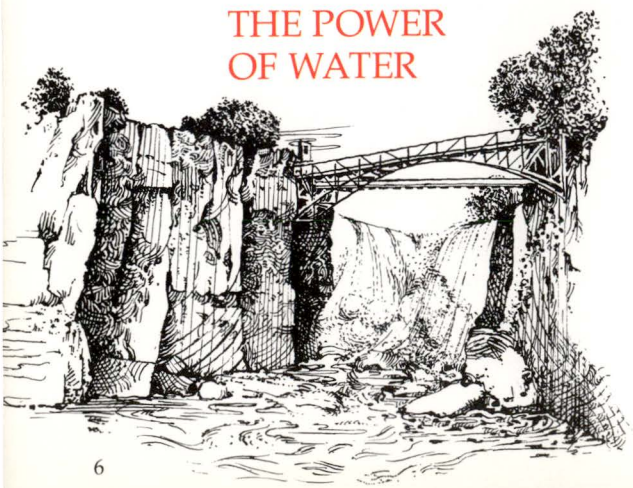
Regulatory lag is still a problem in New Jersey but the PUC is aware of the problem and is adopting some new procedures to speed up the hearing process. Among them are prefiling of testimony, shorter deadlines for all parties in the case and greater use of stipulations to separate the contested from the agreed upon issues. We are prepared to use these and any other methods allowed by the PUC to expedite this next rate proceeding.

Our management, and the New Jersey Commission, recognize that the quality of senior securities relies on the strength of the common shareholder's position. This attitude on the part of the Commission is illustrated by the following quote from the final order in our last rate case:

> *"We are now acting several days after oral argument in this matter in order to take every reasonable step to attempt to maintain petitioner's financial viability and bond ratings. The speed of our determination and the overall revenue treatment of this case should serve as an appropriate signal to the rating agencies that we will not permit petitioner's financial health to deteriorate."*

Aside from the increased revenues, there were two other factors in this rate case which will be of significant benefit in the future. One was the inclusion of the $250 million of "construction work in progress" in the year-end rate base without an offset to operating income for "allowance for funds used during construction." This

THE POWER OF WATER



When Englishmen followed the Dutch and began settling New Jersey in earnest, water power was their main energy source.

Newark's first settlers quickly built mill races to run their gristmills and sawmills. Westward in the northern New Jersey hills, tumbling streams attracted settlers who knew that this abundant power could make them prosperous and secure.

Water powered the iron forges in Passaic, Morris, and Sussex Counties. Water, trapped in man-made dams in flatter southern New Jersey, operated glass furnaces and bog iron forges.

Dreamers looked to water in 1791, when Alexander Hamilton and others founded the country's first planned industrial town. They chose the most awesome water power source then known – the Passaic Falls, cascading down 70 feet into a rocky gorge. Here they started a city and named it Paterson.

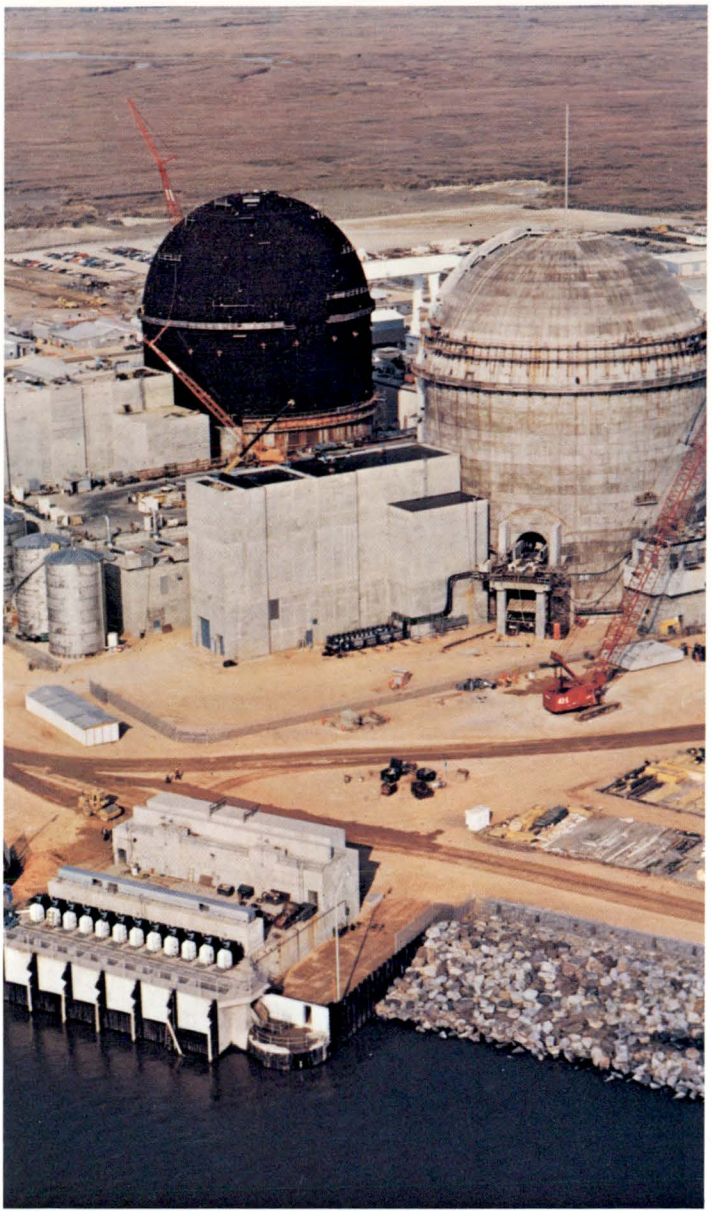
will improve the quality of earnings and cash flow by allowing us to recover the financing cost of this portion of construction work in progress through current operating revenues. The second factor was the establishment of a projected 12-month gas raw material adjustment clause designed to permit us to recover increased gas costs on a levelized basis. This will eliminate the delay in collecting the increased costs and assure complete recovery which hadn't been the case under the former procedure, with the result that earnings suffered accordingly.

Electric and Gas Production Down

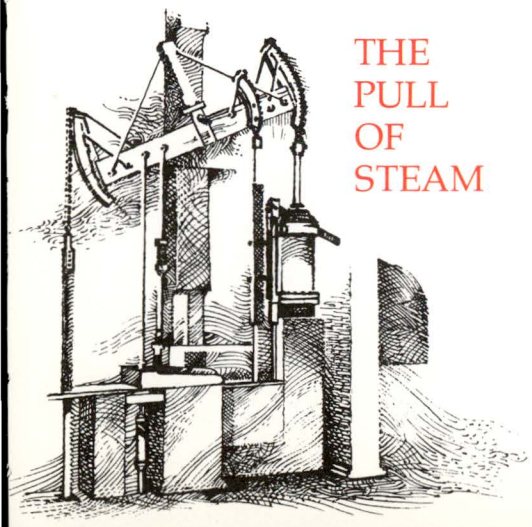
Electric output was down in 1975. Total kilowatthours produced, purchased and interchanged amounted to 29.3 billion, which was a decrease of 1.6% from the preceding year. The 1975 peak demand of 6,270,000 kilowatts occurred on August 1 and it was slightly below the 6,316,000-kilowatt peak experienced the year before.

Total sendout of gas for the year was 1.8 billion therms, 4.7% less than in 1974. In 1975, the highest 24-hour sendout was 11,077,000 therms and it occurred on January 20, 1975 when the average temperature was 18°F. This sendout compared with 11,763,000 therms on February 5, 1974, a decrease of 6%, when the temperature averaged 17°F.

Chiefly responsible for these declines were the economic slowdown, the increased cost of energy, conservation efforts, and moderate weather.



The Salem Generating Station is nearing completion with its first 1,100,000-kilowatt nuclear unit scheduled to begin operation in the last half of 1976.



THE PULL OF STEAM

England's most jealously guarded 18th century secret was steam power. Thus, Josiah Hornblower had to smuggle dismantled parts of a steam engine to America in 1753. He assembled the engine in Arlington, New Jersey, where in 1755 this country's first steam engine pumped water out of a flooded Bergen County copper mine.

People generally feared steam's pulsing, fiery action. John Fitch, one-time Trenton gunsmith, was an exception. In 1786, his steamboat, the first in America, began regular service from Burlington to Philadelphia.

America's most successful early steam enthusiast was John Stevens of Hoboken, whose steam ferry linked Hoboken and New York before 1809. Stevens turned his attention to steam railroading and received America's first railroad charter in 1815. Ten years later, Stevens built this country's first experimental steam locomotive. A new age had dawned: America would follow steam from sea to shining sea.

Electric Generating Capacity

At the end of the year installed generating capacity stood at 8,829,000 kilowatts, 63,000 kilowatts less than 1974. Some units were rerated and at Bergen Generating Station a 33,000-kilowatt combustion turbine unit was added.

Generating Capacity Forecast

	Peak Load	*Installed Capacity*	*% Reserve*
	(Megawatts)	(Megawatts)	
1976	6,850	8,726	27
1977	7,150	9,242	29
1978	7,400	9,242	25
1979	7,700	9,717	26
1980	8,000	9,805	23
1981	8,350	10,055	20
1982	8,700	10,455	20
1983	9,050	11,015	22
1984	9,450	11,487	22
1985	9,850	12,407	26
1986	10,250	12,407	21
1987	10,700	13,327	25

Nuclear Generating Facilities

To meet the expected long term growth in demand for service, the Company is undertaking construction of the following major nuclear generating units:

Unit	*Total Capacity*	*Company Portion*	*Scheduled Commercial Operation*	*Company's Expenditures through Dec. 31, 1975*
	(Megawatts)			(Millions)
Salem 1	1,090	464	1976	$348
Salem 2	1,115	475	1979	
Hope Creek 1	1,067	960	1982	113
Hope Creek 2	1,067	960	1984	
Atlantic 1	1,150	920	1985	107
Atlantic 2	1,150	920	1987	

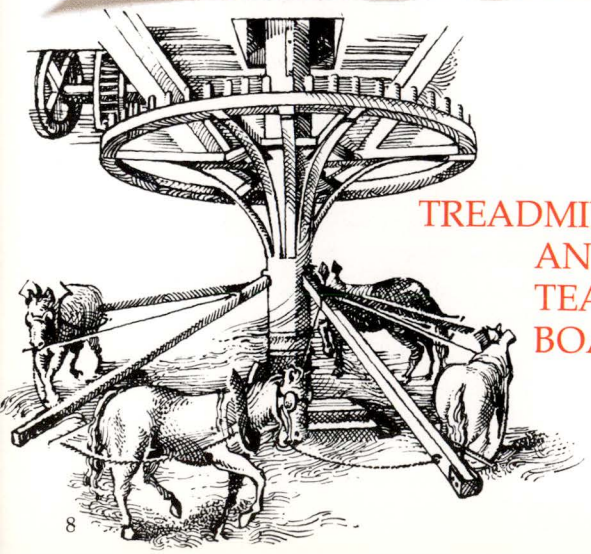
The Company's portion of the final cost of the above units is currently estimated to be $3.8 billion, including $1.7 billion for Atlantic 1 and 2.

The Company also has a contract with Offshore Power Systems (OPS) for two additional barge-mounted units identical to Atlantic 1 and 2 which are scheduled for commercial operation in 1990 and 1992. An estimate of the total cost of these units is not yet available. However, it can be anticipated that such costs will at least equal the current estimate for the Atlantic units. The size and sophistication of today's electric utility plants and the complexity and delays encountered in obtaining licenses and other regulatory approvals have compelled the Company, as well as other electric utilities, to make substantial expenditures and commitments for facilities prior to the completion of licensing and regulatory proceedings. Although no positive assurances can be given that such permits and licenses will be forthcoming, the licensing activities are moving forward and the Company anticipates that the necessary licenses and authorizations will be received. The Company will continue to comply with all requirements necessary to receive such licenses.

Salem 1 and 2 are being constructed under construction permits issued by the Nuclear Regulatory Commission in 1968. Salem 1 is nearing completion and receipt of an operating license is expected shortly which will allow it to be placed in service in late 1976. Regulatory decisions with respect to an operating license for Salem 2 are not expected until a date closer to its scheduled completion date.

PSE&G and Philadelphia Electric Company each own 42.59% of the output from both of these units and the remaining 14.82% is divided equally between Atlantic City Electric Company and Delmarva Power & Light Company.

A construction permit for the Hope Creek Generating Station was issued in November 1974 by the Atomic Energy Commission. However, the New Jersey Coastal Area Facility Permit, which is required to start construction, was not received. Early in 1975, due to the continued delay by the State of New Jersey in issuing the permit, commer-



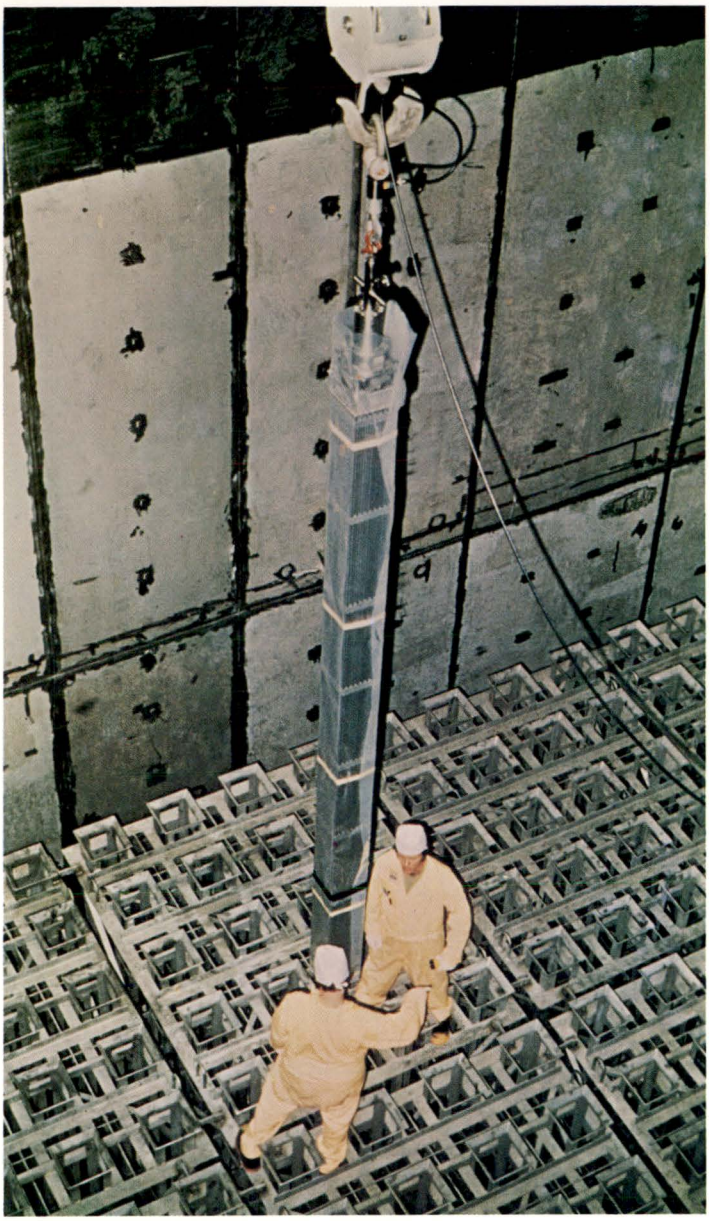
TREADMILLS AND TEAM BOATS

John Stevens, the greatest of steam men, used horses on his first ferryboats. Those river horses also trod treadmills to turn the paddlewheels, and the "team boats" could carry six to eight loaded wagons and a hundred people in one boat. The power was said to be "equal to 40 oars."

Paterson's first cotton looms were driven by a bull plodding to nowhere on a treadmill. Steam eventually would move the world, but during much of 19th century America followed horse-drawn wagons. Team power was the watchword.

Horses pulled the cars when New Jersey's first railroad started in 1833, and horses also pulled the state's first trolleys in the 1860's.

New Jersey's most unusual use of animal power came in 1848. Jacob Wiss, on his way to Texas, stopped in Newark to sharpen shears on a grindstone driven by a St. Bernard dog on a treadmill. Wiss stayed in Newark, turned to steam as his energy source, and retired his faithful St. Bernard.



Delivery and storage of nuclear fuel for the start of Unit #1 at Salem Generating Station has been started. In all, there will be a total of 193 fuel assemblies in the reactor core, totaling over 50,000 rods and approximately 12,000,000 uranium pellets.

cial operation of Hope Creek 1 and 2 was rescheduled to December 1982 and May 1984, respectively.

In September 1975 the New Jersey Department of Environmental Protection announced its intent to grant the permit, provided there were no appeals by intervenor groups. Appeals were filed but the permit was subsequently issued. With the delay due to these appeals, the start of construction has been delayed into 1976. This delay is making the 1982 and 1984 service dates increasingly questionable.

Applications for manufacturing licenses and site construction permits for Atlantic 1 and 2 were made in 1973 and hearings are in progress. Petitions to intervene by various environmental groups, government agencies and others have been granted in both proceedings. If regulatory approval is given the Atlantic station will be the world's first offshore floating nuclear power plant and will be located approximately 2.8 miles off the Atlantic coast about 12 miles northeast of Atlantic City. PSE&G's entitlement in this plant will be 80% with Atlantic City Electric Company and Jersey Central Power & Light Company dividing the remaining 20% equally.

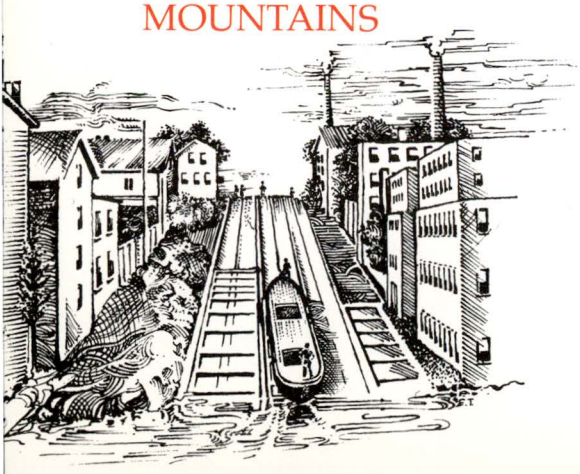
The concerns expressed by the groups intervening in the hearings for this unique plant are understandable; however, the Company firmly believes, having considered all the facts, that this installation is the best alternative for meeting future generating needs to serve our customers and will therefore ultimately receive regulatory approval.

Nuclear Fuel

Five hundred thousand pounds of uranium concentrate (U_3O_8), 35% of the uranium requirement for the initial fuel core of Hope Creek 1, were purchased in February from Eldorado Nuclear Ltd. Uranium and related nuclear fuel services purchased previously will provide for operation of Salem 1 and 2 into 1980.

In response to requests for uranium supply, we received proposals for cooperative exploration, development, and mining ventures. Several such offers for long term supply in the 1980-1990 period are being studied.

BOATS TO CLIMB MOUNTAINS



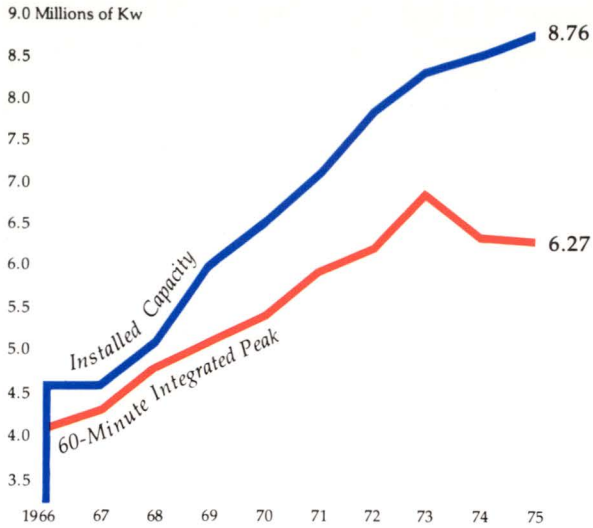
Theoretically, a floating boat uses little energy. Leaders of an emerging America asked themselves: "Why not build waterways from here to there and everywhere to save time and energy?"

So, canal fever struck America in the 1820's and two canals were in full operation in New Jersey in the 1830's. One, the Delaware and Raritan Canal from Bordentown to New Brunswick, proved the canal proponents right. Mules tugged the barges; they found their energy in inexpensive hay.

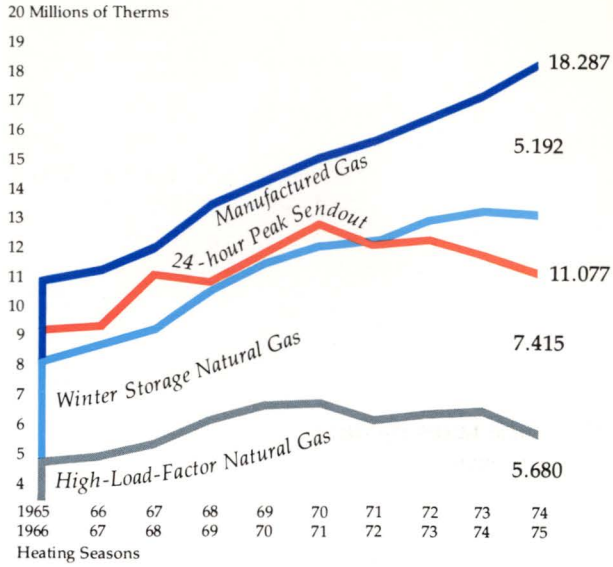
The Morris Canal, from sea level at Jersey City to Lake Hopatcong, 924 feet above sea level, was a different matter. That canal had to conquer mountains. Mule power was not enough.

Ingenius, bulky "cradles" carried canal barges up tracks on steep inclined planes. That took energy, supplied usually by water-operated winches which pulled boats up the grades. It worked. But it was wasteful of time and money – and eventually doomed by railroad competition.

Electric Peak Load and Installed Capacity at Time of Peak



Gas Peak Sendout and Daily Capacity at Time of Peak



In December, our subsidiary, Energy Development Corporation, signed a contract with Nuclear Assurance Corporation to locate and investigate potential sources of uranium ore in the Colorado Plateau area of Utah and Colorado. Other participants are Long Island Lighting Company and Pennsylvania Power & Light Company.

Fabrication of fuel rods for Salem 1 was completed during the year and nuclear fuel deliveries were made during the period from October through January 1976.

Fossil Fuel

Fossil fuel prices remain at the high levels reached in 1974 although there were some upward and downward adjustments during the year. The cost of heavy fuel oil delivered is down 7%, light oil up 14%, and coal up 4% as compared to December 31, 1974 prices. Price stabilization can be attributed to a reduced demand for all fuels as a result of the overall slowdown of economic activity during the year 1975.

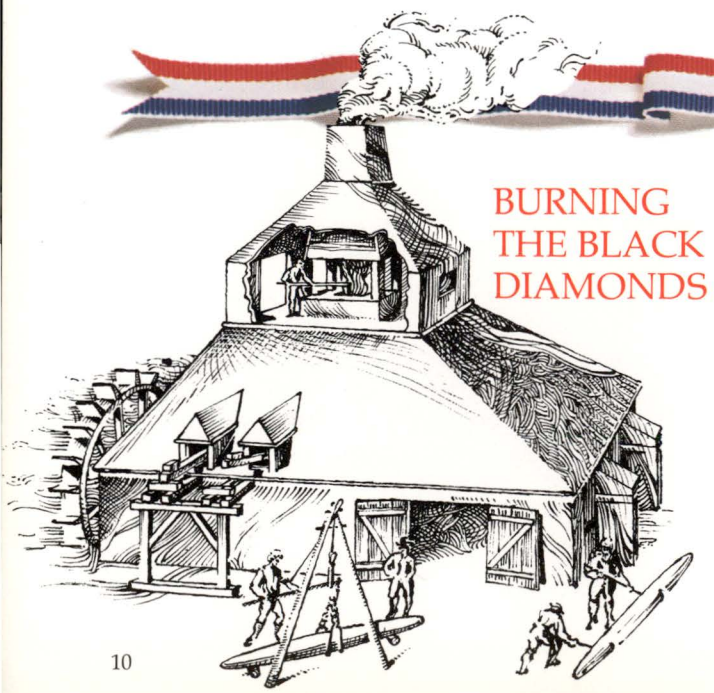
Gas Supply

The daily gas capacity at December 31, 1975, excluding the effect of pipeline curtailments, was 19,575,000 therms. Added during the year were 251,000 therms of delivery capacity from temporary field storage service provided by Consolidated Gas Supply Corporation and Transcontinental Gas Pipe Line Corporation.

Natural Gas

The daily supply of natural gas included in the total capacity is 14,383,000 therms. High-load-factor gas, available every day of the year, accounts for 47%; the remainder comes from field storage, liquefied storage, and contract peaking supply.

During 1975, the Company purchased and used 1,654 million therms of natural gas including quantities of



BURNING THE BLACK DIAMONDS

Grass grew in the streets of Dover and Rockaway in the 1830's. Iron furnaces languished everywhere. New Jersey was running out of wood, once thought to be a limitless source of energy.

Westward, in Pennsylvania, rich anthracite coal fields offered the solution, and in the 1840's and 1850's railroads fought to reach the "black diamonds." The Delaware, Lackawanna & Western got there first, and by 1868 the D.L.&W. had earned the nickname of "The Road of Anthracite."

Ironically, the coal trains had to be towed by wood-burning locomotives until the Danforth & Cooke locomotive works in Paterson proclaimed – and proved – in 1854 that it finally had made an anthracite-burning engine.

Paterson shot ahead to become a center of American locomotive manufacture. The rest of northern New Jersey – or at least that part with railroad spurs – found power in anthracite.

liquefied natural gas. This was a decrease of 182 million therms or 10% under 1974, due primarily to increased curtailments in pipeline deliveries. The average cost of the natural gas was 90¢ per million Btu's, an increase of 20¢ per million Btu's over 1974.

During each year since 1971, deliveries of natural gas to which the Company was contractually entitled were cut back because of the nationwide shortage. Curtailments were imposed by all three of our suppliers during 1975.

Curtailments of contracted supplies of natural gas averaged 27% or 1.8 million therms per day during the year. On the same basis, 1974 curtailments averaged 23% or 1.5 million therms per day.

Refinery Gas

Refinery gas purchased and used during 1975 totaled 111 million therms, 73% more than in 1974. A new three-year contract provides for increased annual deliveries at a higher price. The average cost of this gas was $2.28 per million BTU's in 1975 compared to $1.78 in 1974.

Manufactured Gas

The Company supplements its purchased natural gas and refinery gas with synthetic natural gas (SNG) manufactured from naphtha, oil gas from kerosene, and liquefied petroleum gas produced from propane and butane. The daily capacity for producing these gases is 4.9 million therms, unchanged from 1974. During the year 58 million therms of these gases were produced, 44 million therms more than in 1974. The new jointly-owned SNG plant at Linden, which went operational on December 27, 1974, can contribute up to 1,125,000 therms to our daily capacity. This represents 90% of the plant's total daily production capacity, as Elizabethtown Gas Company is entitled to 10%.

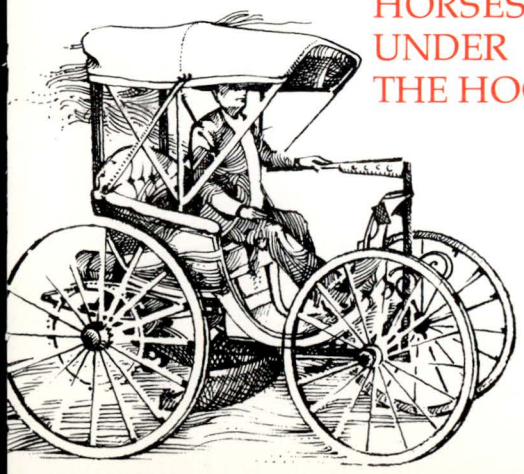
Imported LNG Project

The Company has been engaged since 1972 in a joint venture with Algonquin Gas Transmission Company to import year-round supplies of liquefied natural gas (LNG) from Algeria and to market this gas through a jointly-owned subsidiary, Eascogas LNG, Inc. By mid-1972 a gas purchase contract with the Algerians and a transportation contract with Burmah Oil Tankers Ltd., had been signed providing for initial deliveries in 1977. In addition, the Company had signed an agreement with Distrigas of New York Corporation (DONY) for the delivery of the Eascogas LNG to New Jersey via the Distrigas Staten Island Terminal and a proposed pipeline under the Arthur Kill. However, lack of positive regulatory action resulted in project delays and cancellation of very favorably priced contracts.

A new supply contract was negotiated with Sonatrach, Algeria's state-owned gas and oil company, and was signed on November 5, 1975. PSE&G's ultimate share of the total projected Eascogas imports under this contract, after sales to other companies, is expected to be approximately 21.9 billion therms of LNG over some 22 years.

Deliveries could start as early as the winter of 1977-78. In order to do so, it will be necessary to amend the Federal Power Commission application and obtain the required authorization of the FPC to import and sell the LNG in the United States, in addition to having available the required liquefaction, shipping, and terminal facilities.

As part of its agreement with DONY, your Company has participated in financing the construction of the Distrigas LNG terminal by purchasing $60 million of Distrigas' first mortgage notes. Because of many delays in bringing the terminal into operation, DONY's parent, Cabot Corporation, which had provided the balance of the approximately $95 million already spent on the project, announced that it would provide no additional funds. Subsequently, in order to protect our interest and investment in their terminal, PSE&G negotiated with DONY for the transfer of owner-



HORSES UNDER THE HOOD

Prentice Oil Company opened the nation's first coastal oil refinery at Bayonne in 1875. Two years later, a young Clevelander named John D. Rockefeller came to compete. The refiners made kerosene – then burned the waste products, including worthless gasoline.

A way had to be found to use the waste fuel. The Connelly brothers of Elizabeth built New Jersey's first gasoline motor in 1889 – to run a street car. They never tried the motor on a buggy as did the Duryea brothers of Springfield, Mass., who are acclaimed as America's first automobile makers.

Thomas Edison tested battery power on vehicles, then in about 1903 encouraged Henry Ford to push his idea of mass-producing cheap gasoline-fed "horses."

New Jersey had its own makers of horseless carriages (at least 50 before 1920). Such names as Crane, Simplex, and Mercer still evoke sighs from old car enthusiasts.

ship of the terminal to the Company. Tentative agreement has been reached to purchase for $6 million the stock of DONY and Distrigas Pipeline Corporation plus additional assets consisting of land and a pipeline easement on the New Jersey side of the Arthur Kill. PSE&G intends to negotiate agreements with other companies operating in the New York-New Jersey area to share in the use of the terminal.

Exploration and Development

Energy Development Corporation (EDC) continued its joint exploration program for natural gas with North American Royalties, Inc. during 1975. Of the 38 exploration wells and 22 development wells drilled to date in the Gulf Coast region of Texas and Louisiana, approximately 45% have led to discovery of natural gas or oil in commercial quantities.

Federal Power Commission approval for the transportation of gas discovered in Texas was received in 1974. Gas from that source began flowing to the Company's market area via pipeline on November 1, 1974. In late 1975 the Company received temporary Commission approval for the transportation of gas from another field in Louisiana and the gas began flowing to New Jersey in December 1975.

In addition, during 1975, EDC entered into two other gas exploration agreements, which will eventually augment the Company's natural gas reserves. One agreement, with Cavalla Energy Exploration Company, provides for drilling in the Texas Gulf Coast area. The other agreement, with Era North American Inc., provides for the acquisition and interpretation of seismic and geologic data in the Atlantic Outer Continental Shelf. This data will help determine the highest potential hydrocarbon bearing tracts which will be placed up for bid in the upcoming Federal lease sales.

Transmission and Distribution

In this period of lowered business activity, there has been a corresponding decline in the need for construction of new electric transmission and distribution facilities. In 1975, the T&D work force was trimmed and, in order to make optimum use of the remaining personnel, much construction work formerly done by outside contractors was taken over by PSE&G employees.

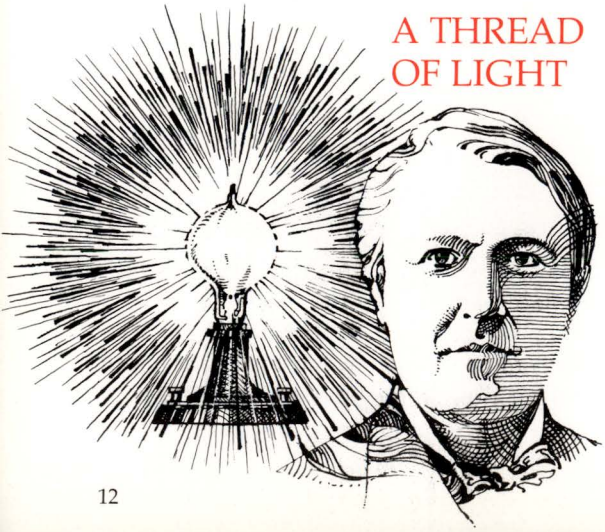
Over many years, the service reliability of our electric transmission and distribution system has been among the best in the nation. This quality of service continued in 1975 despite a high incidence of severe lightning storms.

Service reliability in our gas transmission and distribution system also remained at a high level.

To help prevent electric and gas service interruptions, PSE&G joined with 11 other New Jersey utilities in a move to prevent excavation damage to underground lines by establishing an underground utilities location service. Calls to a state-wide toll-free telephone number by contractors and others are received at a central office, which in turn teletypes requests to member utilities to locate and mark their underground facilities in the area to be excavated.

Energy Pooling

An agreement between PSE&G, Consolidated Edison Company of New York, and Orange and Rockland Utilities was signed, covering the interconnection between Ramapo, N.Y., and New Milford, N.J. Another agreement was signed with Consolidated Edison for the interconnection between our Hudson Generating Station in Jersey City and their Farragut station in Brooklyn. These two ties significantly strengthen our network of interconnections, providing greater reliability and economy of operation for our system. Also an agreement was entered into with the UGI Corporation, Pennsylvania, for UGI to share in the out-



A THREAD OF LIGHT

Thomas Edison set out at Menlo Park in the summer of 1878 to pursue the will-o'-the-wisp of a practical incandescent light. The key word was practical.

Electric lights were more than a dream. An arc light had been demonstrated as early as 1809, and Newark had an electric arc street light in 1877. Arc lights proved the potential, but they were glaring and too costly for home use.

Edison quickly made a workable incandescent light, but the platinum filament was far too expensive. The "Wizard of Menlo Park" tried hundreds of other filaments. All were impractical: Too fragile, too unreliable, too costly.

Finally, on October 19, 1879, Edison turned on a lamp with a filament of carbonized sewing thread. The lamp burned on and on – for 40 hours – until the current was turned deliberately high to burn it out.

A practical incandescent lamp had been proved in those 40 October hours. The world had found its way out of darkness on a piece of thread.

put of Essex Unit No. 1 from June 1, 1975 until May 31, 1977. Capacity from this unit can be spared from our system and will fill a gap in UGI's supply of electricity for that period.

Research Activities

To maintain the scope of your Company's research and development program, we put greater emphasis on seeking outside funding from such national research agencies as the Electric Power Research Institute (EPRI), the U.S. Energy Research and Development Administration (ERDA) and the National Science Foundation (NSF). At this time, 13 proposals are in various stages of preparation or have been submitted for a total of $25 million in possible funding.

One project – the $287,000-ERDA/EPRI-funded "Assessment of Energy Storage Systems, Suitable for Use by Electric Utilities" was completed in 1975. It should prove to be a major contribution to the planned development of new, efficient, economical and environmentally acceptable means of energy storage.

In November, EPRI awarded PSE&G a $172,000 contract to perform an "Economic Assessment of the Utilization of Fuel Cells in Electric Utility Systems." The work is to be completed in seven months.

Aquaculture Project

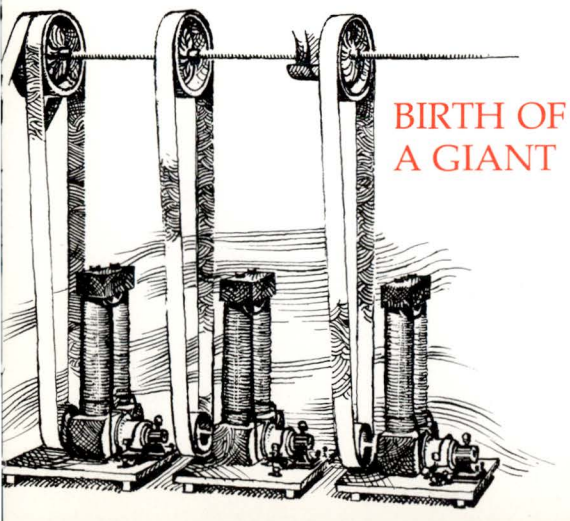
Our aquaculture program received $128,000 in additional support from the National Science Foundation, which will carry this first phase of the program to completion in November, 1976. Support for this project now totals $212,000. Thus far we have successfully used warm power plant discharge water to raise commercial-sized shrimp and trout at Mercer Generating Station.

Energy from Refuse

PSE&G is currently investigating resource recovery systems to convert municipal solid waste and sewage sludge into clean fuels for power generation or for additions to our gas supply. It has been estimated that each day New Jersey produces about 19,000 tons of waste and 400 tons of sludge. Almost all of these wastes are used as land fill or dumped in the ocean. Resource recovery systems would enhance the environment while recovering useful materials and energy.

In 1975 our research activities concentrated on completing arrangements for the use of shredded refuse at Hudson Generating Station and processed refuse at Bergen Generating Station. We are also working to develop waste management programs with the Hackensack Meadowlands

Representatives from federal agencies, U.S. utilities, and the United Kingdom's Central Electricity Generating Board listen to an explanation of the research at Mercer Generating Station during a workshop on aquaculture sponsored by PSE&G.



BIRTH OF A GIANT

The Menlo Park lamp was a laboratory curiosity. What the world really needed was a means of generating and distributing electricity – plus such miscellaneous mundane things as lamp bases, sockets, switches, insulated wire, and meters.

Edison was determined to make electricity widely available. The generation and distribution of power would become Edison's greatest task.

After completing the famous Pearl Street generating station in New York in 1882, with power to light 5,000 lamps, Edison installed a 330-volt generator in Roselle, New Jersey. This was the first community in the world lighted by electricity.

Others also pursued the electric power quest, most notably Edward Weston of Newark. Weston set up the world's first commercial dynamo factory in Newark in 1877.

Electric energy was well on the way by 1890. However, comparatively few people used the new power at first. Electricity would be a 20th century giant, despite its 19th century birth.

Commission, the City of Newark, several counties and muncipalities. Our investigations of regional recycling schemes that could recover methane gas from refuse sludge mixtures continue. We are also attempting to recover gas from existing land fill sites.

Coal Gasification

Your Company is contributing funds to the American Gas Association for a joint government-gas industry development program which is supporting several coal gasification projects. PSE&G is also contributing funds to the Electric Power Research Institute which is involved in developing other fuels from coal, including solvent refined coal and low Btu gas.

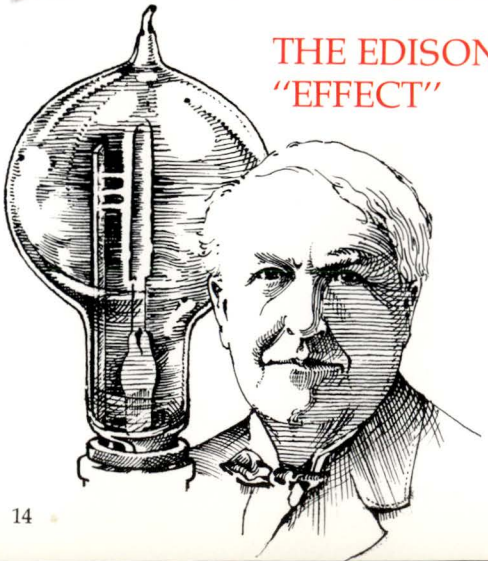
Electric Vehicles

In 1975 the Company's electric vehicle program continued to provide research data and operating experience as part of a nationwide testing program sponsored by the Electric Vehicle Council. Our three electric vans are being used for meter work, carrying light loads and other tasks that involve short trips. Experience to date has proven the vehicles to be well suited to urban and suburban traffic situations. Electric vehicles hold the potential for practical, non-polluting transportation as well as a future market for off-peak electric power.

Fuel Cells

PSE&G continued to participate, with eight other utilities, in a program sponsored by the Power Systems Division of United Technologies Corporation to develop 26 megawatt

In research conducted jointly with Princeton University's Center for Environmental Studies and the Electric Power Research Institute (EPRI), PSE&G is test metering residential heat pump installations. This support of an important national effort is to determine heat pump efficiency, reliability, and energy-saving potential.



THE EDISON "EFFECT"

Experimenters testing carbon filament lamps at Menlo Park soon recognized that the lamps had a predictable black deposit of soot inside the glass. Then, in 1880, one lamp showed a thin, clear, and unexplained line of "no-deposit" in the soot.

Thomas Edison studied the extraordinary effect. In 1883, he found that by inserting a piece of straight wire into a lit incandescent lamp, he could create a current of electricity without a physical connection.

Edison had discovered the basis for radio – an inexhaustible source of free electrons – at a time when the world had no use for free electrons. Edison filed away the then-useless "Effect," as it came to be known.

Free electrons came to full attention and use after 1901, when Guglielmo Marconi of Italy and Lee DeForest, a young technician working in his Jersey City laboratory, competed to make radio practical. DeForest's experiments led to his Audion radio tube, the useful application of the Edison Effect. A bright electronic era had dawned.

fuel cell power plants for installation in substations. The design has been initiated for a one megawatt demonstration power plant which will validate the performance, operating characteristics and design features for 26 megawatt substation size fuel cells.

Commercial and Marketing

Every effort is being made to improve customer communications. This has led to better understanding of the reasons for rising energy costs, the need for nuclear power, and the wise use of energy.

In this regard, we have initiated several programs to train employees in customer relations. For example, 640 employees are undergoing 35 hours of classroom training which will provide them with techniques for improving the relationships between the customer and the Company. All customer-contact employees are also being trained in telephone courtesy.

Kilowatthour sales declined by three per cent below 1974. The decline was attributable to the depressed economy of the state, the low level of building construction, conservation of energy, and a summer which was 13 per cent cooler than 1974.

Electric space heating sales were less than in recent years. Increasing costs of electric energy, decreased building activity in all markets and depressed economic conditions were responsible.

In the residential market, 1,207 installations were added, the smallest number since 1964. Total residential installations on the lines at the end of the year were 24,917. In the industrial and commercial market, 541 installations totaling 66,015 kilowatts, a 21 per cent increase over 1974, were added. This will result in estimated additional annual revenue of $3,499,000.

Therm sales of gas decreased five per cent below the previous year. The Company's inability to accept new or additional gas business, customers' conservation and general economic conditions, all contributed to the decline.

At year end, we were serving electricity to 1,641,353 customers and gas to 1,286,884 customers.

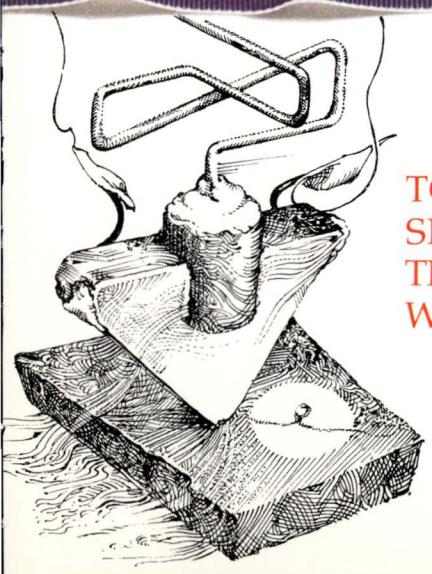
Interruptible Service

At the end of 1975, we were serving 83 gas customers under interruptible contracts. Interruptions totaled 108 equivalent full days during the calendar year as compared with 101 days in 1974. In December a new provision was added to the Company's gas tariff which permits certain high priority uses of gas by interruptible customers to be transferred to firm gas rates. These high priority uses are generally described as plant protection, feedstock and process use where a gaseous fuel is the only feasible fuel.

Area Development

During the year, 512 major industrial and commercial firms with approximately 20,000 employees located or expanded in PSE&G territory. A total of 77 companies employing 12,676 moved, leaving a net gain of approximately 6,900 jobs.

The New Jersey Economic Development Authority aided many smaller enterprises. The authority, established by the New Jersey Legislature in 1974, is empowered to issue tax exempt revenue bonds and lend the funds it raises to private companies at low interest rates. At a time when low interest, long-term capital is generally unavailable from other sources, this authority has arranged approximately $204 million in loans for more than 113 new business development projects, creating approximately 11,500 permanent jobs and another 10,000 construction jobs.



TO SHRINK THE WORLD

On December 23, 1947, three Bell Laboratory scientists started a world revolution whose end is not yet in sight. That day they demonstrated at Murray Hill that a small semi-conductor device could amplify a speech signal about 20 times.

The transistor had been born.

When the history of the 20th century is written, the key word should be transistors. *It has saved vast amounts of energy, spawned space exploration, created pocket radios, gave birth to the computer age, and changed every life.*

The transistor has shrunk the world. Without it, man probably would not have walked on the moon.

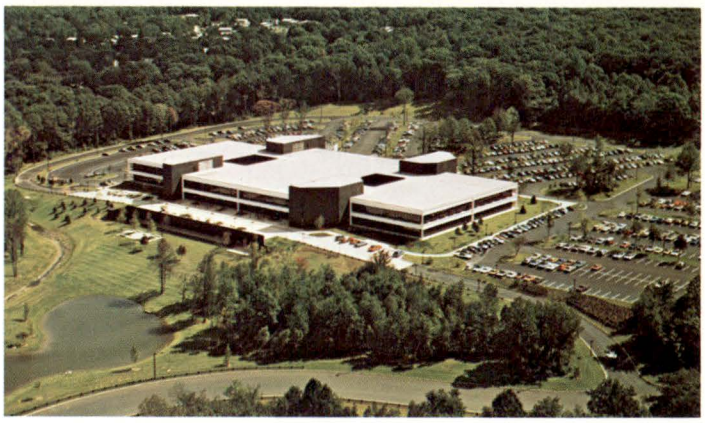
Transistors made possible the age of miniaturization. Today, a complete electric circuit containing a thousand transistors can fit into a space less than 1/8th inch square! *Tiny is the transistor. Amazing is the world it has wrought.*

In addition, the authority has been working to attract new industrial and commercial firms. It also plans to develop urban industrial parks in five North Jersey cities – Newark, Elizabeth, Jersey City, Bayonne and Hoboken.

Construction in the New Jersey meadowlands area continues to accelerate.

At the Sports Complex site in East Rutherford, the grandstand for a racetrack is nearing completion and the 77,000-seat football stadium, which is scheduled for use by the New York Giants in the fall of 1976, is now taking shape. An indoor arena, a hotel, an exposition center and other related facilities will be added.

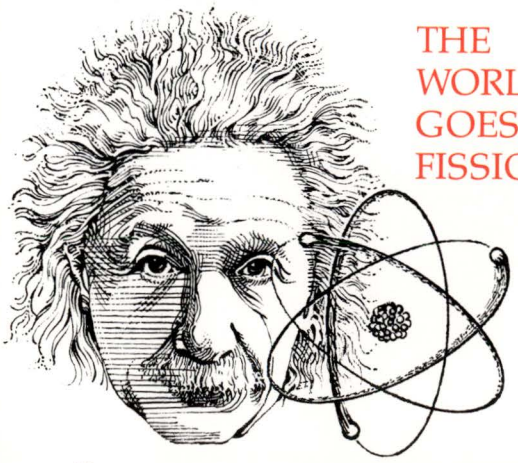
Nearby Hartz Mountain Industries is now offering for sale townhouses which are part of the first phase of its $25 million residential community on the east bank of the Hackensack River in Secaucus. The project will eventually include 640 condominium townhouses, to be built on a 134-acre site. This is the first housing project under the Hackensack Meadowlands Development Commission's Master Plan.



View of the 77,000-seat stadium, future home of the New York Giants professional football team, under construction in East Rutherford. The stadium is part of a 780-acre, $300 million sports complex, which will include a race track, indoor arena, and other supporting facilities.

U.S. headquarters and distribution center of Panasonic, the Japanese manufacturer of electronic products. Located in Secaucus, the $50 million complex is one of over 280 facilities operated by foreign firms in the Company's service area.

Prudential Insurance Company's new 280,000 square foot corporate computer center in Roseland. Prudential has recently completed, or has under construction, three additional major office facilities in the Company's territory.



THE WORLD GOES FISSION

The Greek philosopher, Democritus, who first used the word atom *in 400 BC, believed the atom was "not cuttable". Ever since, scientists have sought to prove him wrong – and, in the proving have created new sources of energy.*

Scientists took up the search early in the 20th century. Albert Einstein suggested in 1905 that mass and energy could be converted into one another ($E=mc^2$). When two German scientists proved the theory by splitting a uranium atom in 1938, Einstein had fled Germany to live in Princeton.

Theorists first concentrated on the splitting (fission) of heavy uranium atoms. New Jersey played a vital role. Bloomfield scientists had made pure uranium as early as 1922. During the 1940's, a Princeton professor "boiled" 75 tons of ordinary water down to 10 drops of heavy water, vital for atomic energy.

Since 1945, international leaders have been pledged to use atomic energy in the service of man. Electric generating stations using nuclear energy provide hope for a stable energy source to replace diminishing fossil fuels.

The Commission has also approved a large office-motel complex on a 258-acre site. Currently, a 10-story office building is under construction and future plans call for construction of a 300-unit Hilton Hotel. Hartz has already overseen $150 million in industrial construction at this location.

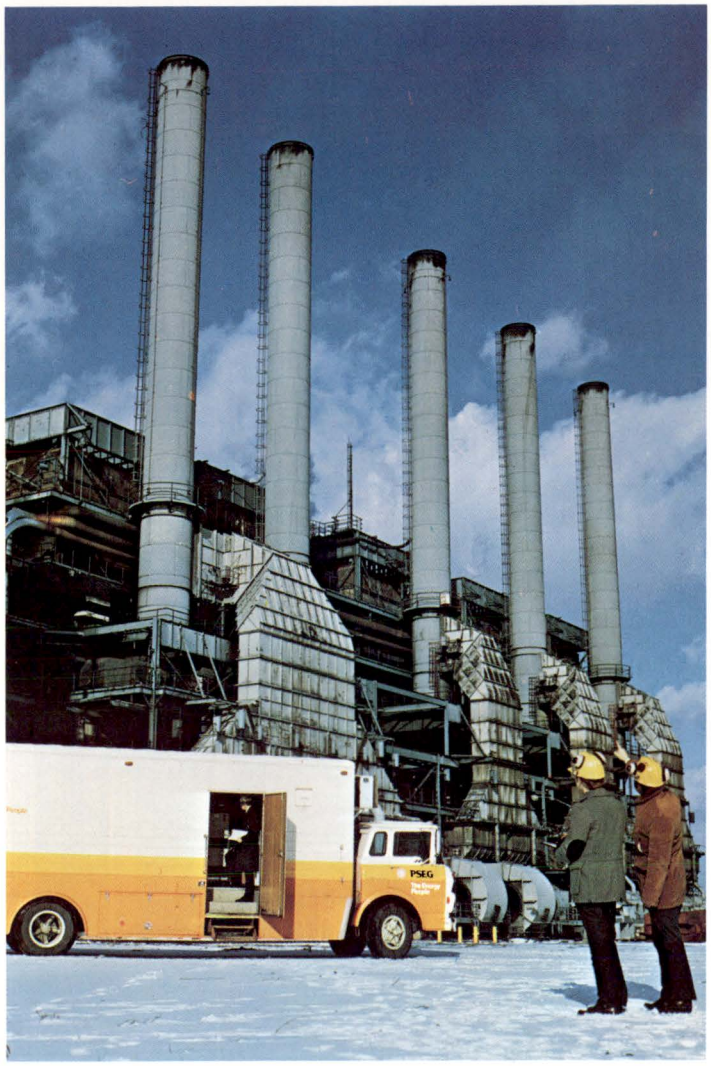
Also in the meadowlands area, the New York Times has leased 265,000 square feet of space in Carlstadt. The Times is developing a modern satellite printing plant requiring a capital investment of $35 million at this location.

The Hackensack Meadowlands Development Commission has also announced plans for a $26 million solid waste management program for the area. The overall plan calls for baling and resource recovery facilities to be developed and installed by January 1, 1977 and November 1, 1977, respectively.

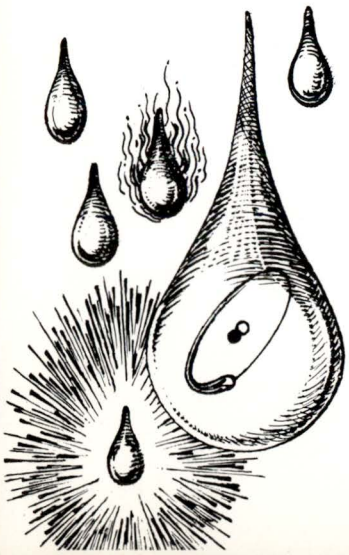
Community Involvement

During 1975, our Urban Affairs Department activities have concentrated on strengthening ties with organizations working on inner-city problems. The Department has also continued to support, financially and through the participation of Company personnel, programs designed to improve the quality of life for the urban population. Cultural, recreational and educational youth programs were supported, as well as a number of minority organizations seeking to improve the employment and housing situation.

Edward R. Eberle, retired chairman of the board of PSE&G, was chairman of Governor Brendan T. Byrne's Economic Recovery Commission. Area development personnel contributed to this effort which investigated reasons behind New Jersey's current depressed economic condition and recommended solutions. In addition to providing research and resource information, our Area Development people worked with the various committees of the Commission and assisted in developing recommendations aimed at improving the State's economy.



Completely self-contained monitoring van operated by the Company's Energy Laboratory is shown sampling effluent from stack at Linden Generating Station. All major gaseous constituents of flue gas are measured by this monitoring van to help maintain strict environmental standards. This special testing supplements the routine emission control by the fixed monitoring equipment at each generating station.



HEAT AND LIGHT FROM WATER

Imagine a pail of sea water being used to provide enough electricity to light an entire city – and you get an idea of the potential cheap energy available in the fusing *rather than the* splitting *(fission) of atoms.*

There is no simple way to explain either fission or fusion. Both provide vast amounts of energy. Thus far, however, only fission can be controlled for peacetime purposes.

When the fusing of light atomic nuclei to form heavier nuclei is controlled, much of the credit will go to Princeton scientists who have been working on such thermonuclear reactions since 1951. Strong industry and government support underlies this quest for an almost inexhaustible energy supply.

It has been estimated that if controlled thermonuclear reactors can be made, they will supply one thousand times the annual present power consumption for a billion years. Equally important, the most likely fusion fuel, deuterium, *is found in water. Water! That's right! Tomorrow's world may be heated and lighted by water transformed!*

Environmental Affairs

In its continuing efforts to preserve and improve our air and water quality, as well as other aspects of our environment, the Company spent approximately $110 million in 1975, including the $74 million incremental cost of low sulfur fuels.

Our Environmental Affairs Department worked closely with federal, state and local agencies, environmental and civic groups, inter- and intra-Company associates, and the general public on environmental matters. A special effort is being made to develop an improved working relationship with environmental groups.

The department continues to represent the Company at public hearings, giving testimony and written comments on all related aspects of the environment and the Company's operations.

Communications Efforts

The Company's public information program continued to emphasize the importance of nuclear energy to help gain independence from foreign oil supplies and to help stabilize energy costs. It was supplemented by audio-visual programs and a variety of printed materials.

Our Community Relations staff, the Environmental Affairs Department, and our home service advisers presented programs to more than 400,000 people. Company executives, members of the Environmental Affairs Department, Information Services Department, and Home Service Department also appeared on a number of radio and television programs.

In preparation for our nation's bicentennial, a new multi-media show was created and produced for the Second Sun Nuclear Information Center. Titled "New Jersey 200," it tells the story of New Jersey's contributions to the birth and growth of America.

Employees

At year end, there were 13,348 employees working for the Company, a reduction of 684 during the year. Normal attrition accounted for much of the decrease. However, it was found necessary again this year to lay off more than 200 employees in departments where the work load had decreased because of economic conditions.

Wages and salaries for the year totaled $220,648,687, including disability benefits and workmen's compensation of $8,831,673. Negotiations covering union-represented employees resulted in two-year agreements which provided for general wage increases of 8.378% effective May 1, 1975 and 7.98% in May of this year. Improvements in benefit programs were also made.

Personnel development programs continued to attract a high degree of participation at all organizational levels. There were 475 employees who attended courses to sharpen their supervisory and managerial skills. During the year, a new program was developed to help management personnel improve their communication techniques . In addition, 536 employees attended job related courses in nearby colleges under the Company's tuition aid program.

With respect to the employment of women and minorities, our statistical record is encouraging in light of the reduction in the work force. Of the more than 13,300 employees, 11% are from minority groups. These statistics are only part of the story. Affirmative action has led to the placement of women and minorities in numerous managerial and engineering positions. Efforts continued to place women in positions traditionally held in the past by men.

TO THE SUN AND BEYOND

Primitive man worshipped the sun as a giver of life (as do summer-time humans basking along the Jersey Shore). Mankind always has dreamed of harnessing that sun – to save its warmth and light to use against the cold and dark of night.

The dreams go on, tinged now with touches of realistic nightmare awareness that man's ability to use energy far outstrips his power to make it.

Studies in many New Jersey laboratories are aimed at partially reining in the sun – through solar batteries, through saving daytime heat for nighttime use, through experiments in using the sun's heat to create new earthly energies.

Harness the sun? Make it work even more for humanity? Why not? Two centuries ago, it seemed absurd to suggest that steam could replace water power. A century ago, laughter greeted anyone who might suggest that electricity would light homes and power factories. In pre-transistor days, a blast-off to the moon was beyond all logic.

Harness the sun? Why not? Mankind is yet young.

Transport of New Jersey

In 1975 Transport of New Jersey (TNJ) and its subsidiaries experienced a net loss of $1.8 million compared with a net loss of $3.6 million in 1974. The 1975 net loss reflected State subsidies of $17.2 million under general service contracts between TNJ and its subsidiary, Maplewood Equipment Company, and the Commuter Operating Agency (COA) of the New Jersey State Department of Transportation. In 1974 TNJ received $8.5 million in state subsidies.

Fares Increased

In November, the COA directed TNJ to raise its intrastate fares by five cents for two-zone trips and ten cents for trips of three and more zones, effective December 15. This represents the only fare increase for intrastate bus service since May 1972. The first zone fare of forty cents, which has been in effect for more than three years, remains the same.

Bus-Buy-Out Program

The highlight of 1975 for Transport of New Jersey was its participation in the New Jersey "Bus-Buy-Out" program which was first proposed in April 1973. This program, jointly sponsored by the State Department of Transportation and the Federal Urban Mass Transportation Administration, was designed to upgrade bus transportation facilities in New Jersey.

In October 1975, TNJ sold to the New Jersey Department of Transportation 514 of its used buses at their appraised value of approximately $13 million. These buses were then leased back to the Company at no cost for use in daily transit passenger service. The State agency eventually will install air conditioning and the latest anti-pollution devices on these buses.

Additionally, under this "Bus Buy-Out" program forty per cent of the monies which TNJ received from the sale of its buses will be returned to the Department of Transportation to be used as the State's local share which, along with federal funds, will purchase an additional 416 new commuter and transit buses for use by TNJ. Delivery of these buses is expected during 1976.

Because of the sale of equipment, Transport was required to deposit the sum of $1.3 million with the Trustee, under a First and Refunding Mortgage Bond Indenture, thereby cancelling the Mortgage lien on all of Transport's properties. A payment of $1.2 million was also made to the Trustee in Bankruptcy in the matter of Manufacturers Credit Corporation, et al, for the acquisition of real estate and garages of the Inter-City Complex for use in the operations of TNJ's subsidiary, Maplewood Equipment Company. Transport is receiving an annual rental from Maplewood Equipment Company for the use of these properties.

The balance of the proceeds from the sale of the Buses are retained by Transport as its assets for use in the improvement of its bus transportation service.

Subsidies Necessary

TNJ, along with its subsidiary Maplewood Equipment Company, provides transportation for nearly one-half million passengers daily. This is substantially more than the total number of passengers carried by all New Jersey commuter railroads and underscores the importance of TNJ's operations to the citizens – and to the economy – of the State. Unfortunately, despite strenuous cost-cutting measures, the future operation of TNJ is dependent upon the continuation of State or Federal subsidies.

Officers

John J. Gilhooley
Chairman of the Board and President

S. A. Caria
Executive Vice President

Madison L. Edgerton
Senior Vice President for Traffic and Community Affairs

Richard Fryling
Vice President for Law and Secretary

George K. Klein
Treasurer and Assistant Secretary

Jesse J. Cooper
Comptroller and Assistant Treasurer

Summary of Significant Accounting Policies

System of Accounts

The Company is under the jurisdiction of the Federal Power Commission (FPC) and the Board of Public Utility Commissioners of the State of New Jersey (PUC) and maintains its accounts in accordance with their prescribed Uniform Systems of Accounts, which are substantially the same. As a result of the rate-making process the accounting principles applied by the Company differ in certain respects from those applied by nonregulated businesses.

Investment in Subsidiaries

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

Revenues

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

Fuel Costs

The Company's electric and gas rates include adjustment clauses which permit recovery of increases in electric fuel costs, purchased gas and materials used to manufacture gas over base period costs in months subsequent to their incurrence. In accordance with regulatory approval, the Company has charged operations for increases in electric fuel costs in the period of recovery while all gas costs have been charged to operations when incurred.

Effective June 16, 1975, in accordance with a rate order received from the PUC, an amount equal to the balance of unbilled fuel costs, at December 31, 1974, is being amortized over a period of eight years.

Effective January 2, 1976, in accordance with a PUC order received late in 1975, the Company is allowed to recover the projected cost of purchased gas and materials used to manufacture gas for the year 1976 on a current annual basis. The adjustment clause for gas costs will be at a fixed rate for a twelve-month period. Under or over recoveries will be deferred and included in the following year's projected cost for determining the adjustment factor for gas rates.

Gross Receipts Tax

As a result of rate orders received from the PUC, the Company, effective January 1, 1973, began accruing gross receipts tax on current revenues rather than on the previous basis of taxes paid. The provision for gross receipts tax on 1972 revenues is being charged to operations by an amount equivalent to .5% of revenues subject to the gross receipts tax.

Depreciation and Utility Plant

Depreciation, for financial reporting purposes, is computed under the straight-line method and is based on estimated average remaining lives of the several classes of depreciable property. These estimates are reviewed continuously and adjustments, as approved by the PUC, are made as required. Depreciation provisions for the years 1975 and 1974 stated in percentages of original cost of depreciable property are 3.20% and 3.02%, respectively.

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

Income Taxes

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

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

The Company prorates investment tax credits utilized over the average life of the related plant.

Allowance for Funds Used During Construction

Allowance for funds used during construction (ADC) is a cost accounting procedure whereby the approximate net composite interest and equity costs of capital funds used to finance construction are transferred from the income statement to construction work in progress (CWIP) in the balance sheet. This procedure is intended to remove the effect of the cost of financing construction activity from the income statement, and results in treating such cost in the same manner as construction labor and material costs. The rate used for calculating ADC was 8% in 1975 and 1974.

In a rate order effective June 16, 1975, the PUC allowed the Company to recover the financing cost on $125,000,000 of CWIP through current operating revenues. As a result, no ADC has been accrued on $125,000,000 of CWIP since that date. In a subsequent order, effective November 7, 1975, the PUC allowed the current recovery of the financing cost on an additional $125,000,000 of CWIP and since that date no ADC has been accrued on a total of $250,000,000 of CWIP.

On May 20, 1975, the FPC issued for comment a notice of proposed revision of the Uniform Systems of Accounts which provides a formula for determining maximum allowable ADC rates, and a credit to interest charges for the portion of ADC allocable to borrowed funds, and limits ADC currently reported as other income and deductions to that portion allocable to other funds used in construction. If the amendments are adopted as proposed, the Company would not expect any material adverse effect on the results of operations. However, earnings available for coverage tests under the provisions in the Company's Mortgage and Restated Certificate of Incorporation could be reduced, and thus the amount of mortgage bonds and preferred stock that could be issued in the future might be less than would be permitted under the present method of calculation.

Pension Plan

Pension costs are accounted for on the basis of an acceptable actuarial method and are charged to operating expenses, Utility Plant and other accounts. The Company's policy is to fund pension costs accrued. Prior service costs are being funded over a period of 31 years from January 1, 1976.

Extraordinary Property Losses

Extraordinary Property Losses are deferred and amortized over periods prescribed by the PUC, the longest of which ends December 1, 1993.

Statement of Income

For the Years Ended December 31,	1975	1974
Operating Revenues (note 9)	(Thousands of Dollars)	
Electric	$1,213,488	$1,100,965
Gas	417,037	354,908
Total Operating Revenues	1,630,525	1,455,873
Operating Expenses		
Operation		
Fuel for Electric Generation and Interchanged Power—net	478,040	456,104
Gas Purchased and Materials for Gas Produced	198,589	143,956
Other Operation Expenses	202,201	192,567
Maintenance	83,494	91,467
Depreciation	122,634	106,683
Taxes Other than Federal Income Taxes	240,967	213,576
Federal Income Taxes (note 1):		
Current	1,202	(10,263)
Deferred	53,166	31,324
Total Operating Expenses	1,380,293	1,225,414
Operating Income	250,232	230,459
Other Income		
Allowance for Funds Used During Construction	43,325	56,027
Miscellaneous Other Income—net (note 2)	2,913	(180)
Losses of Subsidiaries—net (note 3)	(1,155)	(1,857)
Total Other Income	45,083	53,990
Income Before Interest Charges	295,315	284,449
Interest Charges		
Long-Term Debt	134,411	114,267
Short-Term Debt	1,551	16,059
Other	747	283
Total Interest Charges	136,709	130,609
Net Income	158,606	153,840
Dividends on Cumulative Preferred Stock and $1.40 Dividend Preference Common Stock	36,008	31,813
Balance Available for Common Stock	$ 122,598	$ 122,027
Shares of Common Stock Outstanding		
End of Year	56,523,160	52,531,003
Average for Year	54,512,838	51,917,807
Earnings per average share of Common Stock	$2.25	$2.35
Dividends paid per share of Common Stock	$1.72	$1.72

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

Balance Sheet

December 31, 1975 and 1974

Assets

	1975	1974
	(Thousands of Dollars)	
Utility Plant—original cost		
Electric Plant	$3,175,218	$3,103,440
Gas Plant	820,171	785,596
Common Plant	35,463	33,470
Utility Plant in Service	4,030,852	3,922,506
Less Accumulated Depreciation	1,078,121	965,157
Net Utility Plant in Service	2,952,731	2,957,349
Construction Work in Progress, including nuclear fuel, 1975, $47,044; 1974, $30,131	869,261	695,655
Plant Held for Future Use, net of accumulated depreciation	20,652	18,180
Net Utility Plant	3,842,644	3,671,184
Other Property and Investments		
Nonutility Property, net of accumulated depreciation—1975, $465; 1974, $282	6,874	48,266
Investments in and Advances to Subsidiaries (note 3)	23,349	22,016
Other Security Investments, cost or less (note 2)	64,728	60,030
Total Other Property and Investments	94,951	130,312
Current Assets		
Cash (note 4)	24,528	30,669
Accounts Receivable, net of accumulated provision for doubtful accounts—1975, $2,860; 1974, $2,603	224,582	210,982
Refundable Federal Income Taxes (note 1)	1,015	9,057
Fuel, at average cost	106,197	91,090
Unbilled Fuel Costs	45,422	41,635
Materials and Supplies, principally at average cost	16,084	22,743
Prepayments	2,133	2,267
Total Current Assets	419,961	408,443
Deferred Debits		
Gross Receipts Tax	105,580	113,595
Extraordinary Property Losses	7,708	5,676
Other, principally debt expense	2,629	2,051
Total Deferred Debits	115,917	121,322
Total	$4,473,473	$4,331,261

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

Liabilities

	1975	1974
	(Thousands of Dollars)	
Capitalization		
Common Equity		
Common Stock (see statement, page 25)	$ 855,874	$ 797,386
Premium on Capital Stock	550	550
Paid-In Capital	26,065	26,065
Retained Earnings Reinvested in Business (note 5)	540,041	515,267
Total Common Equity	1,422,530	1,339,268
Preferred Stock (see statement, page 25)	509,994	434,994
Total Stockholders' Equity	1,932,524	1,774,262
Long-Term Debt (see statement, page 26)	1,953,073	1,965,765
Total Capitalization	3,885,597	3,740,027
Current Liabilities		
Long-Term Debt due within one year (see statement, page 26)	5,133	27,268
Commercial Paper (note 6)	10,000	99,422
Accounts Payable	56,613	61,352
Taxes Accrued, including gross receipts tax, 1975, $226,090; 1974, $185,469	241,375	197,106
Deferred Income Taxes (note 1)	69,859	46,191
Interest Accrued	31,383	30,029
Other	59,584	47,813
Total Current Liabilities	473,947	509,181
Deferred Credits		
Accumulated Deferred Income Taxes (note 1)	72,881	51,212
Accumulated Deferred Investment Tax Credits (note 1)	34,379	26,550
Other	6,669	4,291
Total Deferred Credits	113,929	82,053
Commitments and Contingent Liabilities (note 8)		
Total	$4,473,473	$4,331,261

Statement of Retained Earnings Reinvested in Business

For the Years Ended December 31,	1975	1974
	(Thousands of Dollars)	
Balance January 1,	$515,267	$483,543
Add Net Income	158,606	153,840
Total	673,873	637,383
Deduct		
Cash Dividends		
Preferred Stock at required annual rates	34,041	29,932
$1.40 Dividend Preference Common Stock	1,881	1,881
Common Stock	93,692	90,061
Total Cash Dividends	129,614	121,874
Capital stock expenses	4,218	242
Total Deductions	133,832	122,116
Balance December 31 (note 5)	$540,041	$515,267

Statement of Changes in Financial Position

For the Years Ended December 31,	1975	1974
	(Thousands of Dollars)	
Source of Funds:		
Net Income	$158,606	$153,840
Non-cash Items:		
Depreciation	125,427	109,563
Amortization of Gross Receipts Tax	8,016	7,397
Provision for Deferred Income Taxes—net	21,669	15,153
Investment Tax Credit Adjustments—net	7,829	(5,837)
Allowance for Funds Used During Construction	(43,325)	(56,027)
Equity in Net Loss of Subsidiaries	1,262	3,245
Other	(1,442)	1,648
Total from operations	278,042	228,982
Proceeds from sales of:		
Long-Term Debt		238,404
Preferred Stock	72,415	
Common Stock	56,855	87,104
Total Security Sales	129,270	325,508
Proceeds from the sale of nonutility equipment	40,027	
Miscellaneous	3,592	1,688
Total Funds Provided	$450,931	$556,178
Application of Funds:		
Additions to Utility Plant, excluding allowance for funds used during construction	$254,093	$329,673
Investment in Distrigas of New York Corp.	4,694	15,300
Reductions of Long-Term Debt	10,548	31,818
Dividends	129,614	121,874
Miscellaneous	5,230	10,067
Changes in Working Capital:		
Short-Term Debt—(Increase) Decrease	89,422	5,863
Other—Increase (Decrease)	(42,670)	41,583
Total Funds Applied	$450,931	$556,178

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

Statement of Capital Stock

December 31,	Outstanding Shares	1975	1974	Current Redemption Price Per Share	Refunding Restricted Prior to (note A)
		(Thousands of Dollars)			
Cumulative Preferred Stock					
$100 par value—authorized 7,500,000 shares					
Series issued:					
4.08%	250,000	$ 25,000	$ 25,000	$103.00	
4.18%	249,942	24,994	24,994	103.00	
4.30%	250,000	25,000	25,000	102.75	
5.05%	250,000	25,000	25,000	103.00	
5.28%	250,000	25,000	25,000	104.00	
6.80%	250,000	25,000	25,000	106.00	
9.62%	350,000	35,000	35,000	109.50	July 1, 1980
7.40%	500,000	50,000	50,000	108.00	April 1, 1976
7.52%	500,000	50,000	50,000	108.00	April 1, 1977
8.08%	150,000	15,000	15,000	108.00	May 1, 1977
7.80%	750,000	75,000	75,000	108.00	November 1, 1977
7.70%	600,000	60,000	60,000	108.49	April 1, 1978
12.25% issued in 1975 (note B)	350,000	35,000		112.00	February 1, 1985
Unissued—2,800,058 shares					
$25 par value—authorized 10,000,000 shares					
9.75% Series issued in 1975	1,600,000	40,000		27.50	January 1, 1981
Unissued—8,400,000 shares					
Total Cumulative Preferred Stock (note C)		$509,994	$434,994		
Dividend Preference Common Stock and Common Stock					
$1.40 Dividend Preference Common Stock (no par)—1,343,999 shares authorized, issued and outstanding current redemption price $35.00 per share (note D)		$855,874	$797,386		
Common Stock (no par)—authorized 100,000,000 shares (note E); issued and outstanding as of December 31, 1975, 56,523,160 shares (3,992,157 shares issued for $58,488 in 1975 and 4,670,294 shares issued for $87,308 in 1974)					

Notes:

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

B—On February 1, 1980 and annually thereafter not less than 17,500 shares or more than 35,000 shares must be redeemed through the operation of a sinking fund at a redemption price of $100 per share plus accumulated and unpaid dividends to the date of such redemption. The sinking fund requirement to redeem not less than 17,500 shares is cumulative.

C—As of December 31, 1975 the annual dividend requirement on Preferred Stock was $38,119,000. The embedded dividend cost was 7.54%.

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

E—Includes 344,898 shares of Common Stock reserved for possible issuance under the Automatic Dividend Reinvestment Plan.

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

Statement of Long-Term Debt

December 31,	1975	1974
	(Thousands of Dollars)	
First and Refunding Mortgage Bonds Series (note A)		
2⅞% June 1, 1979	$ 54,990	$ 56,050
2¾% May 1, 1980	19,160	19,485
3¼% October 1, 1983	22,976	23,551
3¼% May 1, 1984	50,000	50,000
4⅜% November 1, 1986	50,000	50,000
4⅞% September 1, 1987	60,000	60,000
4⅝% August 1, 1988	60,000	60,000
5⅛% June 1, 1989	50,000	50,000
4¾% September 1, 1990	50,000	50,000
4⅜% August 1, 1992	40,000	40,000
4⅜% June 1, 1993	40,000	40,000
4⅝% September 1, 1994	60,000	60,000
4¾% September 1, 1995	60,000	60,000
6¼% June 1, 1997	75,000	75,000
7 % June 1, 1998	75,000	75,000
7⅝% April 1, 1999	75,000	75,000
9⅛% March 1, 2000	98,000	98,000
8⅜% A May 15, 2001	69,300	69,300
7⅝% B November 15, 2001	80,000	80,000
7½% C April 1, 2002	125,000	125,000
8½% D March 1, 2004	90,000	90,000
12 % E October 1, 2004	99,000	100,000
8 % June 1, 2037	7,463	7,463
5 % July 1, 2037	7,538	7,538
Total First and Refunding Mortgage Bonds	1,418,427	1,421,387

	1975	1974
	(Thousands of Dollars)	
Debenture Bonds unsecured		
3½% October 1, 1975		22,250
4⅝% March 1, 1977	31,000	31,945
4¾% October 1, 1981	35,761	36,615
4⅝% October 1, 1983	29,645	30,628
5¾% June 1, 1991	48,306	49,597
7¼% December 1, 1993	34,298	35,000
9 % November 1, 1995	66,784	69,000
7¾% August 15, 1996	67,876	69,226
8¾% November 1, 1996	52,523	53,551
6 % July 1, 1998	18,195	18,195
Total Debenture Bonds	384,388	416,007
Other Long-Term Debt		
Five-Year Term Notes due November 26, 1979 (note B)	150,000	150,000
6½% Note due serially from May 15, 1977 to November 15, 1983	3,600	3,600
Total Other Long-Term Debt	153,600	153,600
Total Long-Term Debt principal amount outstanding (note C)	1,956,415	1,990,994
Less amount due within one year (note D)	5,133	27,268
Long-Term Debt excluding amount due within one year (note D)	1,951,282	1,963,726
Add Net Unamortized Premium	1,791	2,039
Long-Term Debt and Net Unamortized Premium	$1,953,073	$1,965,765

Notes:

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

B—Five-Year Term Notes were issued to three banks bearing interest at 117% of each bank's prime or alternate base rate in the first year, and increasing to a maximum of 121% of the prime or alternate base rate during the final year. The notes are subject to prepayment at any time without penalty.

C—As of December 31, 1975 the annual interest requirement on Long-Term Debt was $132,604,000 of which $92,811,000 was the requirement for First and Refunding Mortgage Bonds. The embedded interest cost on Long-Term Debt was 6.76%.

D—The aggregate principal amount of requirements for sinking funds and maturities for each of the five years following December 31, 1975 is as follows:

Year	Sinking Funds	Maturities	Total
		(Thousands of Dollars)	
1976	$ 5,133	$ —	$ 5,133
1977	10,106	31,480	41,586
1978	10,310	480	10,790
1979	9,560	203,730	213,290
1980	9,300	18,940	28,240
	$44,409	$254,630	$299,039

For sinking fund purposes, certain First and Refunding Mortgage Bond issues require annually the retirement of $13,100,000 principal amount of bonds or the utilization of bondable property additions at 60% of cost and the portion expected to be met by property additions has been excluded from the table above. Also, the Company may, at its option, retire additional amounts up to $6,200,000 annually through sinking funds of certain debenture bonds.

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

Notes to Financial Statements

1. Federal Income Taxes

A reconciliation of reported Net Income with pre-tax income and of Federal income tax expense with the amount computed by multiplying pre-tax income by the statutory Federal income tax rate of 48% is as follows:

	1975	1974
	(Thousands of Dollars)	
Net Income	$158,606	$153,840
Federal income taxes included in:		
Operating income:		
Current provision	1,202	(10,263)
*Provision for deferred income taxes – net	45,337	37,161
Investment tax credit adjustments – net	7,829	(5,837)
Total deferred	53,166	31,324
Total included in operating income	54,368	21,061
Miscellaneous other income – net	154	(495)
Total Federal income tax provisions	54,522	20,566
Total	213,128	174,406
Losses of subsidiaries – net	1,155	1,857
Pre-tax income	$214,283	$176,263
Tax expense at 48% of pre-tax income	$102,856	$84,606
Adjustments to pre-tax income, computed at 48%, for which deferred taxes are not provided under current rate making policies:		
Tax depreciation in excess of book depreciation	(13,956)	(21,930)
Allowance for funds used during construction	(20,796)	(26,893)
Overhead costs capitalized	(4,408)	(4,664)
Other	(9,174)	(10,553)
Total	(48,334)	(64,040)
Total Federal income tax provisions	$54,522	$20,566
*Represents the tax effects of the following items:		
Additional tax depreciation	$20,685	$13,069
Unbilled revenues	7,514	10,647
Unbilled fuel costs	1,818	15,049
Gross receipts taxes	14,336	(3,658)
Other	984	2,054
Total	$45,337	$37,161

Investment tax credits of approximately $36,000,000 are available as of December 31, 1975 as a carryover to future years. The Tax Reduction Act of 1975 provides that for the years 1975 and 1976 investment tax credits can be utilized to offset 100% of tax liability before investment credit.

Energy Development Corporation, the Company's wholly owned subsidiary engaged in exploration for natural gas, follows the full-cost method of accounting for book purposes and provides for deferred income taxes resulting from the current deduction for income tax purposes of intangible drilling costs.

2. Other Security Investments

The Company has purchased $60,000,000 principal amount of interest-bearing first mortgage notes of Distrigas of New York Corporation (DONY), a non-affiliated company, to assist in the construction of DONY's Staten Island LNG terminal. In recognition of the serious problems being encountered by DONY in obtaining (a) sufficient quantities of LNG with related regulatory approvals to permit the economical operation of the terminal facilities and (b) permits and authorizations to operate the facilities, the Company in January 1975, effective for the year 1974, deferred recognition of interest income on these notes, retroactive to the date interest began to accrue. Of the total interest deferred in 1974, which was charged to Miscellaneous Other Income, $2,154,000 related to 1973.

Approximately $95,000,000 has been expended on the terminal to date with Cabot Corporation, the parent company of DONY, having invested $35,000,000 of equity funds. Cabot announced, in early 1975, that it would not provide any additional funds. As a result, in order to protect its interest and investment in the terminal, the Company has negotiated an agreement to purchase, early in 1976, the capital stock of DONY, and its affiliate, Distrigas Pipeline Corporation, together with certain interests in real estate from Cabot for approximately $6,000,000. In addition, during the negotiations, the Company advanced to DONY about $4,600,000 for the payment of New York City taxes and other maintenance expenses.

The conditions necessary to permit the successful operation of the terminal have not been met at this time. Any loss the Company may incur if these conditions are not resolved is not presently determinable; however, in the opinion of the management of the Company such loss, if any, would not have a material effect on the financial position of the Company or the results of its operations. The ultimate financial effect of these transactions may depend, among other things, upon the Company's ability to find alternate uses for the facilities and the treatment granted by the PUC for rate making purposes. Reference is made to Imported LNG Project on page 11 for additional information.

3. Investment in and Advances to Subsidiaries

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

December 31,	1975	1974
	(Thousands of Dollars)	
Transport of New Jersey		
Investment	$10,523	$12,277
Energy Development Corporation		
Investment	1,941	1,448
Advances	10,880	8,286
Eascogas LNG, Inc.		
Investment	5	5
Total	$23,349	$22,016

The Company's equity in the losses of Transport of New Jersey was $1,649,000 in 1975 and $2,163,000 in 1974, which are included in losses of subsidiaries reported in the statement of income. These losses of Transport are net of credits of $105,000 in 1975 and $1,388,000 in 1974 for the income tax effect of including Transport in the Company's consolidated Federal income tax returns.

4. Compensating Balances

At December 31, 1975 and December 31, 1974 cash includes approximately $20,590,000 and $21,375,000, respectively, representing compensating balances maintained under informal arrangements with various banks to support lines of credit of $187,200,000 and $158,950,000, respectively. Of the amounts of compensating balances shown above, $11,742,000 at December 31, 1975 and $12,175,000 at December 31, 1974 were maintained to compensate for other bank services as well as to support lines of credit.

5. Retained Earnings and Dividend Restrictions

Certain indentures supplemental to the First and Refunding Mortgage, certain of the Debenture Bond indentures and the Restated Certificate of Incorporation, as amended, contain, among other things, provisions relating to the payment of dividends on both Common Stock and $1.40 Dividend Preference Common Stock and provisions relating to the use of retained earnings. These restrictions do not presently limit the payment of dividends out of current earnings. The amount of retained earnings free of these restrictions as of December 31, 1975 was $530,041,000.

6. Bank Loans and Commercial Paper

Bank loans, none of which were outstanding at the end of the periods, represent the Company's unsecured promissory notes issued under informal credit arrangements with various banks and have terms of eleven months or less. Commercial paper represents the Company's unsecured bearer promissory notes with a term of nine months or less sold to dealers at a discount. Average interest rates and average and maximum outstanding balances of short-term debt are as follows:

	1975	1974
	(Thousands of Dollars)	
Maximum amount of short-term borrowings outstanding at any month end during the year	$52,200	$278,897
Average short-term borrowings during the year (A)	$24,435	$139,220
Weighted average interest rate of borrowings during the year (B)	6.35%	11.40%
Weighted average interest rates for commercial paper outstanding at year end	5.45%	9.72%

(A) Computed by multiplying the principal amounts of short-term debt by the days outstanding and dividing the sum of the products by the number of days such short-term debt was outstanding in the respective years.

(B) Computed by dividing the total interest expense by the average short-term debt.

7. Pension Plan

The Company has a non-contributory, trusteed plan covering all permanent employees. Pension costs for the past two years were charged as follows:

	1975	1974
	(Thousands of Dollars)	
Operating Expenses	$24,456	$20,714
Utility Plant and Other Accounts	7,978	7,727
Total Pension Costs	$32,434	$28,441

As of December 31, 1975, the unfunded prior service cost was approximately $257,860,000 and vested benefits exceeded the fund assets plus accruals by approximately $167,600,000.

Amendments to conform the Company's Pension Plan with the requirements of the Employee Retirement Income Security Act of 1974 are expected to be adopted in the near future. Additional pension costs resulting from the amendments are not expected to be material.

8. Commitments and Contingent Liabilities

As part of the Company's construction program, substantial construction commitments had been made. Cash expenditures for the years 1976 through 1980 are estimated to be $2.9 billion in connection with this program. Reference is made to Nuclear Generating Facilities on page 8 for additional information.

The Company is a member of Nuclear Mutual Limited (NML) which provides insurance coverages, up to $150,000,000, for property damage to nuclear generating facilities of member companies. In the event of losses at any

plant covered by NML the Company would be subject to a maximum assessment of fourteen times its annual premium, which currently would not be material for a single assessment.

As of December 31, 1975, vested benefits exceeded fund assets by approximately $70,000,000 under pension plans of the Company's unconsolidated subsidiary, Transport of New Jersey, and its subsidiary, Maplewood Equipment Company. Under an interpretation of the Employee Retirement Income Security Act of 1974, the Company could be liable to the Pension Benefit Guaranty Corporation, a corporation established within the United States Department of Labor, for deficiencies in plan assets if the subsidiaries' pension plans were terminated. With respect to a failure of Transport to meet its legal obligations under its pension plan, the Company, under an agreement entered into in May 1972, agreed to provide a limited guaranty of Transport's obligations under its pension plan in the event Transport failed to meet such obligations, limited to pension benefits accrued to the date of the agreement in the total amount of not more than $76,000,000. The actuarially computed value of the Company's obligation under the guaranty was approximately $50,000,000 as of December 31, 1975. Any payments made under the guaranty would have the effect of reducing the Company's potential liability to the Pension Benefit Guaranty Corporation.

In July 1973, Philadelphia Electric Company consummated arrangements for the supply of all of the nuclear fuel for Peach Bottom 2 and 3 through a nuclear energy supply contract. The Company will be responsible for payment of its proportionate interest (42.49%) of the cost of the fuel burned and of certain operating costs and interest expense during the term of the contract. Unit 2 was placed in commercial operation in July 1974 and Unit 3 in December 1974. Nuclear energy costs, calculated at a zero net salvage value, have been charged to fuel expense on the basis of the number of units of thermal energy produced as they relate to total thermal units to be produced over the life of the fuel.

For information regarding the purchase of an LNG terminal and related facilities, see Note 2.

9. Other Matters

Information describing financing during the year 1975 and subsequent to December 31, 1975 appears on page 5 and information regarding rate relief appears on page 6.

Independent Accountants' Opinion

HASKINS & SELLS Certified Public Accountants
550 Broad Street, Newark, N.J. 07102

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

We have examined the balance sheet of Public Service Electric and Gas Company as of December 31, 1975 and 1974 and the related statements of income, retained earnings reinvested in business, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Public Service Electric and Gas Company as of December 31, 1975 and 1974 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

February 13, 1976

Operating Statistics

(000 omitted where applicable)	1975	1974	% Annual Increase—1975 compared with 1974	1965
Electric				
Revenues from Sales of Electricity (a)				
Residential	$ 413,005	$ 364,674	13.25	13.25
Commercial	429,428	377,184	13.85	14.52
Industrial	341,749	336,250	1.64	12.97
Public Street Lighting	23,375	20,473	14.17	8.84
Total Revenues from Sales to Customers	1,207,557	1,098,581	9.92	13.49
Interdepartmental	1,573	1,183	32.97	13.18
Total Revenues from Sales of Electricity	1,209,130	1,099,764	9.94	13.49
Other Electric Revenues	4,358	1,201	262.86	23.45
Total Operating Revenues	$1,213,488	$1,100,965	10.22	13.51
Energy Adjustment Revenues (included above)	$ 419,154	$ 414,798	1.05	39.71
Sales of Electricity—kilowatthours (a)				
Residential	7,598,964	7,514,365	1.13	5.80
Commercial	8,994,855	8,687,964	3.53	7.01
Industrial	10,144,917	11,244,117	(9.78)	1.72
Public Street Lighting	256,755	253,395	1.33	1.92
Total Sales to Customers	26,995,491	27,699,841	(2.54)	4.34
Interdepartmental	39,910	31,072	28.44	4.20
Total Sales of Electricity	27,035,401	27,730,913	(2.51)	4.34
Kilowatthours Produced, Purchased, and Interchanged—net	29,255,628	29,730,774	(1.60)	4.33
Load Factor	53.3%	53.7%		
Heat Rate—Btu of fuel per net kwh generated	10,582	10,779	(1.83)	
Net Installed Generating Capacity at December 31—kilowatts	8,829	8,892	(.71)	6.70
Net Peak Load—kilowatts (60-minute integrated)	6,270	6,316	(.73)	5.31
Cooling Degree Hours	6,543	7,501	(12.77)	(1.20)
Average Annual Use per Residential Customer—kwh	5,348	5,312	.68	4.89
Meters in Service at December 31	1,689	1,683	.36	.69
Gas				
Revenues from Sales of Gas (a)				
Residential	$ 259,095	$ 220,364	17.58	7.14
Commercial	102,656	86,463	18.73	11.02
Industrial	54,369	46,971	15.75	10.58
Street Lighting	116	94	23.40	4.74
Total Revenues from Sales to Customers	416,236	353,892	17.62	8.39
Interdepartmental	647	481	34.51	14.37
Total Revenues from Sales of Gas	416,883	354,373	17.64	8.39
Other Gas Revenues	154	535	(71.21)	.20
Total Operating Revenues	$ 417,037	$ 354,908	17.51	8.39
Raw Materials Adjustment Revenues (included above)	$ 106,795	$ 62,448	71.01	23.47
Sales of Gas—therms (a)				
Residential	968,487	977,994	(.97)	2.03
Commercial	447,600	459,074	(2.50)	6.46
Industrial	344,987	407,840	(15.41)	3.71
Street Lighting	404	428	(5.61)	(2.34)
Total Sales to Customers	1,761,478	1,845,336	(4.54)	3.31
Interdepartmental	3,204	3,088	3.76	8.70
Total Sales of Gas	1,764,682	1,848,424	(4.53)	3.32
Gas Produced and Purchased—therms	1,823,191	1,913,826	(4.74)	3.05
Effective Daily Capacity at December 31—therms	19,575	19,324	1.30	5.98
Maximum 24-hour Gas Sendout—therms	11,077	11,763	(5.83)	2.62
Heating Degree Days (a)	4,653	4,629	.52	(1.10)
Average Annual Use per Residential Customer—therms	862	872	(1.15)	1.59
Meters in Service at December 31	1,355	1,352	.22	.59

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

1973	1972	1971	1970	1965
$274,974	$238,025	$219,614	$176,116	$119,052
264,450	230,176	205,318	163,996	110,661
216,543	188,667	172,902	138,407	100,963
17,086	15,773	14,947	13,114	10,023
773,053	672,641	612,781	491,633	340,699
750	646	605	506	456
773,803	673,287	613,386	492,139	341,155
1,305	1,546	1,251	816	530
$775,108	$674,833	$614,637	$492,955	$341,685
$141,081	$107,582	$111,506	$ 43,756	$ 14,793
8,008,127	7,399,963	7,183,821	6,835,470	4,323,572
8,916,829	8,289,066	7,633,053	7,045,161	4,567,356
11,830,307	11,375,579	11,091,985	11,053,298	8,553,109
249,837	246,496	241,449	235,488	212,253
29,005,100	27,311,104	26,150,308	25,169,417	17,656,290
29,160	25,807	25,500	25,634	26,444
29,034,260	27,336,911	26,175,808	25,195,051	17,682,734
31,164,926	29,509,136	28,055,190	27,022,247	19,144,548
52.2%	54.2%	54.0%	57.1%	58.5%
10,695	10,685	10,642	10,878	9,973
8,306	7,836	7,483	6,597	4,615
6,816	6,201	5,925	5,398	3,737
10,911	7,287	8,717	8,307	7,386
5,703	5,307	5,184	4,967	3,318
1,672	1,656	1,643	1,633	1,577
$186,325	$183,953	$170,380	$159,259	$129,981
71,533	70,953	63,164	56,330	36,081
42,624	40,381	36,831	32,272	19,881
89	88	85	82	73
300,571	295,375	270,460	247,943	186,016
464	552	333	248	169
301,035	295,927	270,793	248,191	186,185
117	143	76	106	151
$301,152	$296,070	$270,869	$248,297	$186,336
$ 39,124	$ 34,913	$ 27,636	$ 17,577	$ 12,969
977,468	1,042,793	1,014,887	1,002,149	791,919
457,955	485,358	454,237	418,803	239,313
494,320	494,454	486,685	437,086	239,569
444	449	444	443	512
1,930,187	2,023,054	1,956,253	1,858,481	1,271,313
3,472	4,463	2,999	2,361	1,391
1,933,659	2,027,517	1,959,252	1,860,842	1,272,704
2,002,206	2,112,844	2,004,791	1,930,507	1,350,522
17,668	16,999	16,372	15,150	10,949
12,341	12,125	12,872	11,872	8,550
4,245	4,879	4,833	5,078	5,195
873	932	908	901	736
1,347	1,338	1,330	1,323	1,278

Financial Statistics

(000 omitted from applicable dollar amounts)	1975		1974	
Statement of Income (a)	Amount	%	Amount	%
Operating Revenues				
Electric	$1,213,488	74	$1,100,965	76
Gas	417,037	26	354,908	24
Total Operating Revenues	1,630,525	100	1,455,873	100
Operating Expenses				
Fuel for Electric Generation and Interchanged Power (net)	478,040	29	456,104	31
Gas Purchased and Materials for Gas Produced	198,589	12	143,956	10
Other Operations	202,201	12	192,567	13
Maintenance	83,494	5	91,467	6
Depreciation	122,634	8	106,683	7
Taxes Other than Federal Income Taxes	240,967	15	213,576	15
Federal Income Taxes:				
Current	1,202		(10,263)	(1)
Deferred	53,166	4	31,324	3
Total Operating Expenses	1,380,293	85	1,225,414	84
Operating Income				
Electric	217,429	13	187,593	13
Gas	32,803	2	42,866	3
Total Operating Income	250,232	15	230,459	16
Other Income				
Allowance for Funds Used During Construction	43,325	3	56,027	4
Miscellaneous Other Income—net	2,913		(180)	
Losses of Subsidiaries—net	(1,155)		(1,857)	
Total Other Income	45,083	3	53,990	4
Income Before Interest Charges	295,315	18	284,449	20
Interest Charges				
Long-Term Debt	134,411	8	114,267	8
Short-Term Debt	1,551		16,059	1
Other	747		283	
Total Interest Charges	136,709	8	130,609	9
Income before cumulative effect of a change in accounting method	158,606	10	153,840	11
Cumulative effect to January 1, 1973 of accruing estimated unbilled revenues of $41,488, net of related taxes				
Net Income	158,606	10	153,840	11
Preferred Stock Dividends	34,127	2	29,932	3
Balance	124,479	8	123,908	8
$1.40 Dividend Preference Common Stock Dividends	1,881		1,881	
Balance Available for Common Stock	$ 122,598	8	$ 122,027	8
Shares of Common Stock Outstanding				
End of Year	56,523		52,531	
Average for Year	54,513		51,918	
Earnings per average share of Common Stock	$2.25		$2.35	
Dividends Paid per Share	$1.72		$1.72	
Payout Ratio	76%		73%	
Ratio of Earnings to Fixed Charges Before Income Taxes (c)	2.56		2.33	
Book Value per Common Share (d)	$24.02		$24.25	
Utility Plant	$4,920,768		$4,636,344	
Accumulated Depreciation and Amortization	$1,078,124		$ 965,160	
Capitalization				
Mortgage Bonds	$1,418,854	36	$1,422,525	38
Debenture Bonds	380,619	10	389,640	10
Other Long-Term Debt	153,600	4	153,600	4
Total Long-Term Debt	1,953,073	50	1,965,765	52
Preferred Stock	509,994	13	434,994	12
$1.40 Dividend Preference Common Stock and Common Stock	855,874	22	797,386	21
Premium on Capital Stock	550		550	
Paid-In Capital	26,065	1	26,065	1
Retained Earnings	540,041	14	515,267	14
Total Common Equity	1,422,530	37	1,339,268	36
Total Capitalization	$3,885,597	100	$3,740,027	100

(a) See Summary of Significant Accounting Policies, page 20, and Notes to Financial Statements, page 27.

(b) Excludes non-recurring special credit equal to $.41 per share.

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

(d) Total Common Equity divided by year-e Common Stock shares plus doubled the $1.40 Dividend Preference Common Sto shares.

1973		1972		1971		1970		1965	
Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
$ 775,108	72	$ 674,833	70	$ 614,637	69	$ 492,955	67	$ 341,685	65
301,152	28	296,070	30	270,869	31	248,297	33	186,336	35
1,076,260	100	970,903	100	885,506	100	741,252	100	528,021	100
240,782	22	203,204	21	171,323	20	119,889	16	52,816	10
119,746	11	117,838	12	100,205	11	86,286	11	60,255	11
174,508	17	168,381	17	153,457	17	139,621	19	97,510	18
88,257	8	80,215	8	66,789	8	62,204	8	40,744	8
98,239	9	91,037	10	84,474	9	78,291	11	52,862	10
167,545	15	132,827	14	112,576	13	103,108	14	73,304	14
(7,983)		(15,433)	(2)	16,682	2	9,498	1	35,848	7
11,235	1	14,442	2	1,484		(1,765)		2,293	1
892,329	83	792,511	82	706,990	80	597,132	80	415,632	79
152,492	14	141,181	14	142,585	16	109,315	15	84,649	16
31,439	3	37,211	4	35,931	4	34,805	5	27,740	5
183,931	17	178,392	18	178,516	20	144,120	20	112,389	21
56,529	5	45,011	5	33,465	4	20,435	3	1,617	
2,566		913		1,226		2,130		472	
(1,863)		(6,079)	(1)	(2,504)		(1,650)	(1)	2,357	1
57,232	5	39,845	4	32,187	4	20,915	2	4,446	1
241,163	22	218,237	22	210,703	24	165,035	22	116,835	22
104,322	10	101,413	10	84,199	10	70,444	10	37,008	7
5,092		505		2,768		2,999		267	
266		116		237		(190)		423	
109,680	10	102,034	10	87,204	10	73,253	10	37,698	7
131,483	12	116,203	12	123,499	14	91,782	12	79,137	15
18,540	2								
150,023	14	116,203	12	123,499	14	91,782	12	79,137	15
28,880	3	19,236	2	13,564	2	9,153	1	5,722	1
121,143	11	96,967	10	109,935	12	82,629	11	73,415	14
1,881		1,881		1,881		1,881		1,881	
$ 119,262	11	$ 95,086	10	$ 108,054	12	$ 80,748	11	$ 71,534	14
47,861		43,861		39,475		35,975		31,004	
45,680		41,541		36,876		33,504		31,004	
$2.20 (b)		$2.29		$2.93		$2.41		$2.31	
$1.72		$1.70		$1.64		$1.64		$1.38½	
78%		74%		56%		68%		60%	
2.22		2.08		2.60		2.34		4.12	
$24.14		$23.48		$23.14		$21.79		$17.36	
$4,369,141		$3,999,474		$3,577,248		$3,157,661		$2,070,280	
$ 916,346		$ 831,673		$ 765,642		$ 703,173		$ 452,258	
$1,236,364	36	$1,239,602	39	$1,116,127	40	$ 983,483	41	$ 689,196	43
420,387	12	430,857	14	440,028	16	398,837	16	198,793	12
103,600	3								
1,760,351	51	1,670,459	53	1,556,155	56	1,382,320	57	887,989	55
434,994	13	374,994	12	234,994	9	184,994	8	124,994	8
710,078	21	622,878	20	528,577	19	442,565	18	333,398	21
550		539		252		252		138	
26,065	1	26,065	1	26,065	1	26,065	1	26,065	2
483,543	14	443,443	14	420,919	15	373,411	16	225,253	14
1,220,236	36	1,092,925	35	975,813	35	842,293	35	584,854	37
$3,415,581	100	$3,138,378	100	$2,766,962	100	$2,409,607	100	$1,597,837	100

Management's Discussion and Analysis of the Statement of Income

The results shown in the Statement of Income in the foregoing Financial Statistics are not necessarily indicative of future earnings. Higher operating costs and carrying charges on increased investment in plant, if not offset by proportionate increases in operating revenues resulting from periodic rate relief or sales growth, will continue to adversely affect earnings. Whether the Company will experience increases in sales in the future will be affected by the extent of energy conservation practiced by the Company's customers, the rate of economic growth in the State of New Jersey, and the ability of the Company to obtain fuel for electric generation and natural gas and its supplements.

The following factors had a significant effect on the Company's results of operations for the periods indicated.

Electric Operating Revenues

Increases in electric operating revenues in the periods 1971 through 1975 are primarily attributable to rate increases and the recovery of increased energy costs through the adjustment clauses contained in the Company's rates. Although kilowatthour sales increased in 1971, 1972 and 1973, kilowatthour sales decreased 4% in 1974 and 3% in 1975 due to cooler summers, customer conservation efforts and the economic slowdown.

Gas Operating Revenues

Increases in gas operating revenues in the periods 1971 through 1975 are primarily attributable to rate increases and greater recovery of increased raw material costs through the adjustment clauses contained in the Company's rates. Although therm sales increased in 1971 and 1972, therm sales decreased 5% in 1973, 4% in 1974 and 5% in 1975, as a result of warmer than usual heating seasons, curtailments to interruptible customers, customer conservation efforts, and the economic slowdown.

Fuel for Electric Generation and Interchanged Power-net

Cost to the Company of coal and oil increased significantly during 1973 and 1974. Although unit costs continued to increase in 1975, total fuel cost decreased by $35,000,000 due to the greater use of lower-cost nuclear generating facilities and the increased purchase of interchanged power. Interchanged power purchased from the Pennsylvania-New Jersey-Maryland Interconnection increased by $63,000,000 in 1974 and by $57,000,000 in 1975, because it was more economical to purchase than produce the electricity with low sulfur fuels.

Gas Purchased and Materials for Gas Produced

Although gas therm sales to the Company's customers decreased by 4% in 1974 and 5% in 1975, the cost of gas purchased and materials for gas produced increased during these periods. Increases in both periods were principally the result of price increases, and the increased use of naphtha for the manufacture of synthetic natural gas during 1975.

Maintenance

Increases in 1972 and 1973 were attributable principally to escalating costs of labor, materials, supplies, and services. In addition, major repairs were necessary at Hudson Generating Station in 1972. The decrease in 1975 is primarily attributable to reduced maintenance of gas turbine units due to a decline in their usage caused by the availability of less expensive nuclear energy and purchased power.

Depreciation

The increase in 1975 is due to the increase in depreciable Utility Plant in Service principally as the result of Peach Bottom Generating Station and related transmission facilities and the Linden SNG plant being placed in service during 1974.

Taxes Other Than Federal Income Taxes

The increases are principally due to substantial increases in gross receipts tax resulting from greater revenues derived through the adjustment clauses in electric and gas rates and rate relief, and the change in the method of accounting for gross receipts tax from the tax paid basis to the basis of accruing such tax on current revenues, effective January 1, 1973.

Federal Income Taxes

Current

The negative provision for Federal Income Taxes – Current in 1972 was primarily attributable to the decrease in pre-tax income and the increase in timing differences related to the class life asset depreciation range system. The negative provision decreased $7,450,000 in 1973 principally because of the decreased allowable investment tax credits as explained below. Additional negative provisions of $2,280,000 for 1974 were substantially the result of the increased current deduction of fuel costs which was deferred on the books plus the deferral, for tax purposes, of increased unbilled revenue. The provision increased $11,465,000 in 1975 primarily due to the in-

crease in pre-tax income and the decrease in the current deduction of fuel costs, substantially offset by the increased utilization of gross receipts tax previously deferred for tax purposes and increased allowable investment tax credits.

Deferred

Increases in Federal Income Taxes – Deferred are attributable to increases in differences between book and taxable income which are deferred to the extent permitted by the PUC for rate-making purposes and in addition, the increase in allowable investment tax credits in 1975. The decrease in 1973 was attributable to the decrease in the allowable investment tax credits as a result of limitations under the Internal Revenue Code and operating loss carryback provisions.

Allowance for Funds Used During Construction (ADC)

The increases in ADC through 1973 are attributable to increased construction work in progress upon which ADC is computed. The decreases since 1973 are primarily due to Peach Bottom and related transmission facilities and the Linden SNG plant being placed in service during 1974 and the discontinuance in the last half of 1975 of the accrual of ADC on a portion of Construction Work in Progress as authorized in our last rate case.

Losses of Subsidiaries

A significant portion of the increase in losses in 1972 was attributable to a strike at Transport of New Jersey. Losses since 1972 have been minimized principally by receipt of state subsidies.

Total Interest Charges

The increases in each of the periods are principally due to issuance of additional debt and to higher interest rates on such debt.

Net Income

The decrease in Net Income for the year 1972 compared to the year 1971 was principally the result of increases in operating expenses (principally due to an increase in purchased power and major repairs at Hudson Generating Station) and net losses of subsidiaries, of which a significant portion was attributable to the strike in 1972 at Transport of New Jersey.

The increase in "Income before cumulative effect of a change in accounting method" for 1973 was principally the result of rate relief and the deferral of increased fuel costs.

The increase in "Income before cumulative effect of a change in accounting method" for 1974 was principally the result of rate relief and the deferral of increased fuel costs which were partially offset by increased interest charges. In addition, regulatory accounting requirements followed by the Company during the test operation of Peach Bottom 2 and 3 resulted in a non-recurring benefit to earnings of 17¢ per share in 1974. Under these requirements, the Company received the benefit of revenues at the prescribed rates for the test generation and continued to record ADC, while not charging depreciation expense.

The increase in Net Income for 1975 was primarily due to rate relief. While revenues have increased, kilowatthour and therm sales have decreased. The increases in revenues were partially offset by (1) increased charges for the cost of gas, (2) increased depreciation charges, (3) increased taxes, (4) a decrease in ADC, and (5) increased interest charges on long-term debt.

Changes In Organization

Edward R. Eberle retired as chairman of the board and chief executive officer effective June 30.

The Board of Directors designated Robert I. Smith, president, as chief executive officer, effective July 1.

The Board also elected John F. Betz, senior vice president – engineering and production, and William E. Scott, senior vice president – finance, to the newly-created position of executive vice president, effective July 1.

Edward G. Outlaw, senior vice president – planning and distribution, was redesignated senior vice president – operations, and Carroll D. James, vice president and assistant to the senior vice president – planning and distribution, was redesignated vice president and assistant to senior vice president – operations, also effective July 1.

Robert W. Hodge was elected vice president – commercial and marketing, succeeding Donald S. Lord, who died in March.

PSE&G Service Territory

Board of Directors

Reynold E. Burch, M.D.
Director of Maternity & Infant Care Project, Director of Greater Newark Coordinated Family Planning Project, and Clinical Associate Professor, Department of Obstetrics and Gynecology, New Jersey Medical School, College of Medicine and Dentistry of New Jersey, Newark, New Jersey
Member of Audit Committee

C. Malcolm Davis
Chairman of the Board and Director of Fidelity Union Bancorporation, and Chairman of the Board and Director of Fidelity Union Trust Company, Newark, New Jersey
Member of Executive and Finance Committees, and Chairman of Nominating Committee

W. Robert Davis
Chairman of the Board, Bancshares of New Jersey, Moorestown, New Jersey; Chairman of the Board, The Bank of New Jersey, Camden, New Jersey; and Chairman of the Board, The Bank of New Jersey, N.A., Moorestown, New Jersey
Member of Audit Committee

Edward R. Eberle
Consultant to and former Chairman of the Board of the Company
Chairman of Executive Committee and member of Finance and Nominating Committees

Margery Somers Foster
University Professor of Economics, former Dean of Douglass College, Rutgers, The State University of New Jersey, New Brunswick, New Jersey
Member of Audit Committee

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

Donald B. Kipp
Counsel to Pitney, Hardin & Kipp, Counsellors at Law, Newark and Morristown, New Jersey
Chairman of Audit and Compensation Committees, and member of Executive Committee

Kenneth C. Rogers
President, Stevens Institute of Technology, Hoboken, New Jersey
Member of Compensation and Nominating Committees

William E. Scott
Executive Vice President of the Company
Member of Executive Committee and Chairman of Finance Committee

Clifford D. Siverd
Chairman of Finance Committee, Director and former Chairman of the Board, American Cyanamid Company, Wayne, New Jersey (pharmaceutical, consumer and building, agricultural and chemical products)
Member of Audit, Compensation, and Nominating Committees

Robert I. Smith
President and Chief Executive Officer of the Company
Member of Executive and Finance Committees

Edwin H. Snyder
Former Chairman of the Board of the Company

Robert V. Van Fossan
President, Chief Executive Officer, and Director, The Mutual Benefit Life Insurance Company, Newark, New Jersey
Member of Finance Committee

Nathan H. Wentworth
Chairman of Executive Committee, Director and former Chairman of the Board, The Continental Corporation, New York, New York (property and casualty, life and accident and health, and other types of insurance, and other financial services); and The Continental Insurance Companies, New York, New York
Member of Compensation and Finance Committees

Officers

Robert I. Smith
President and Chief Executive Officer

John F. Betz
Executive Vice President

William E. Scott
Executive Vice President

Everett L. Morris
Senior Vice President – Corporate Development

Edward G. Outlaw
Senior Vice President – Operations

James B. Randel, Jr.
Senior Vice President – Consultant

Harold W. Sonn
Senior Vice President – Administration

Frederick M. Broadfoot
Vice President – Law

Malcolm Carrington, Jr.
Vice President and Secretary

John A. Casazza
Vice President – Planning and Research

Robert M. Crockett
Vice President – Fuel Supply

Richard M. Eckert
Vice President – Engineering and Construction

Robert W. Hodge
Vice President – Commercial and Marketing

Charles H. Hoffman
Vice President – Energy Pooling

Carroll D. James
Vice President and Assistant to Senior Vice President – Operations

Edward J. Lenihan
Vice President – Public and Employee Relations

Robert W. Lockwood
Vice President – Corporate Services

Robert C. Lydecker
Vice President and Assistant to the President

Wallace A. Maginn
Vice President and Treasurer

John F. McDonald
Vice President – Governmental Affairs

Parker C. Peterman
Vice President and Comptroller

Frederick W. Schneider
Vice President – Production

Robert J. Selbach
Vice President – Transmission and Distribution

PSE&G

Public Service
Electric and Gas
Company

Newark, New Jersey