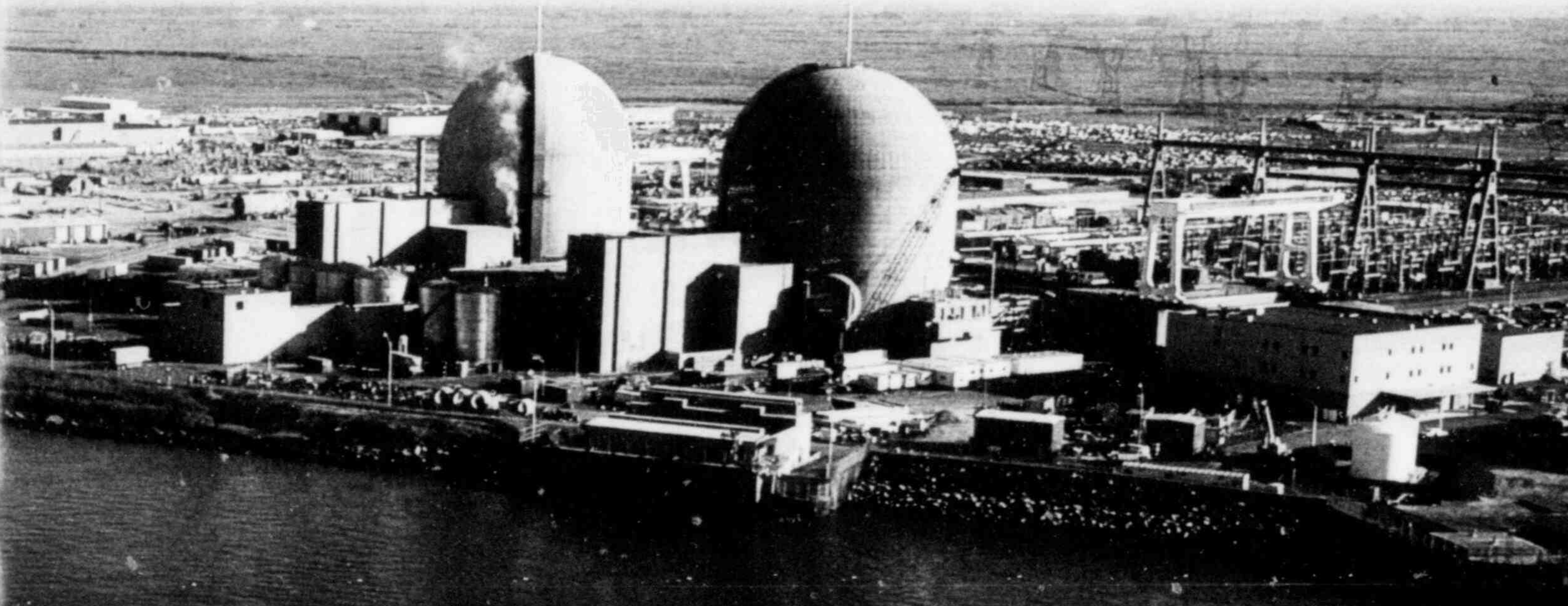
1982 Annual Report

PSE&G



PSE&G

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

Stockholder Information — Toll Free

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

About the Company

Public Service Electric and Gas Company is the largest utility in New Jersey and serves approximately 5.4 million people, nearly three-quarters of the state's population. The Company's service area, covering some 2,600 square miles, runs diagonally across the state's industrial and commercial corridor from the New York state border on the north to south of Camden. This highly diversified and heavily populated area includes the six major cities of New Jersey as well as nearly 300 suburban and rural communities.

About the Cover

Panoramic air view of PSE&G's nuclear complex on the lower Delaware River in southern New Jersey encompasses cover of this 1982 annual report. On the front, Salem Generating Station and its two containment structures are predominant with power transmission lines stretching out in the distance. On the back, progress is shown on construction of the Hope Creek Generating Station. During 1982, the Company's nuclear activities were consolidated at the site of these facilities.

Table of Contents

1982 Annual Report

Financial Highlights

	1982	1981	% Increase
Earnings per average share of Common Stock	$3.24	$2.63	23
Shares of Common Stock Average	89,233,000	80,962,000	10
Year-end	94,845,000	86,089,000	10
Dividends paid per share of Common Stock	$2.53	$2.44	4
Book Value per share of Common Stock	$25.90	$25.66	1
Total Operating Revenues	$3,873,976,000	$3,471,652,000	12
Total Operating Expenses	$3,419,517,000	$3,117,385,000	10
Earnings Available for Common Stock	$ 288,962,000	$ 212,599,000	36
Gross Additions to Utility Plant	$ 813,375,000	$ 683,849,000	19
Total Utility Plant	$8,100,579,000	$7,320,764,000	11

Annual Meeting

Please note that the Annual Meeting of Stockholders of the Company will be held at Newark Symphony Hall, 1020 Broad Street, Newark, New Jersey, Tuesday, April 19, 1983, at 2:00 P.M. A summary of the meeting will be sent to all stockholders of record at a later date.

Robert I. Smith, Chairman, addresses shareholder informational meeting in West Palm Beach, Florida, one of three held in that state in November. More than 22,000 shareholders, about 9 per cent of the Company's total, live in Florida. These informational meetings are part of PSE&G's extensive investor relations program.

Message to Shareholders

Although it was a year marked by economic recession, your Company made significant progress during 1982 with improvements realized in various phases of operations and — more importantly — in financial results.

A major event during the year was the signing of an agreement designed to promote the timely completion of the Hope Creek I generating unit. Another important achievement was the establishment of the newly-formed Nuclear Department at the site of our nuclear generating stations.

Other noteworthy accomplishments were the completion of a reorganization of customer and marketing activities; the development of an accelerated conservation and load management program; and an upgrading of production and distribution facilities. Overall, 1982 was a year of improved efficiency and customer service.

A high degree of service reliability was maintained throughout the year despite a 41-day strike by two unions representing approximately 4,600 employees. The strike began when contracts expired at midnight on April 30 and ended in June when new two-year agreements were reached.

Earnings Increase

Earnings per share of Common Stock rose to \$3.24 from \$2.63 in 1981. Total revenues increased to \$3.87 billion from \$3.47 billion.

The gains in earnings and revenues were mainly attributable to an increase of \$390 million in base rates on an annual basis effective in February 1982 that was approved by the New Jersey Board of Public Utilities (BPU).

The quarterly dividend on common stock was increased to 64 cents a share in the second quarter of 1982 from 61 cents. This was the seventh consecutive year in which the dividend was increased. It is management's objective to raise dividends on a regular basis subject, of course, to adequate levels of earnings to support such dividends.

Sales Decline

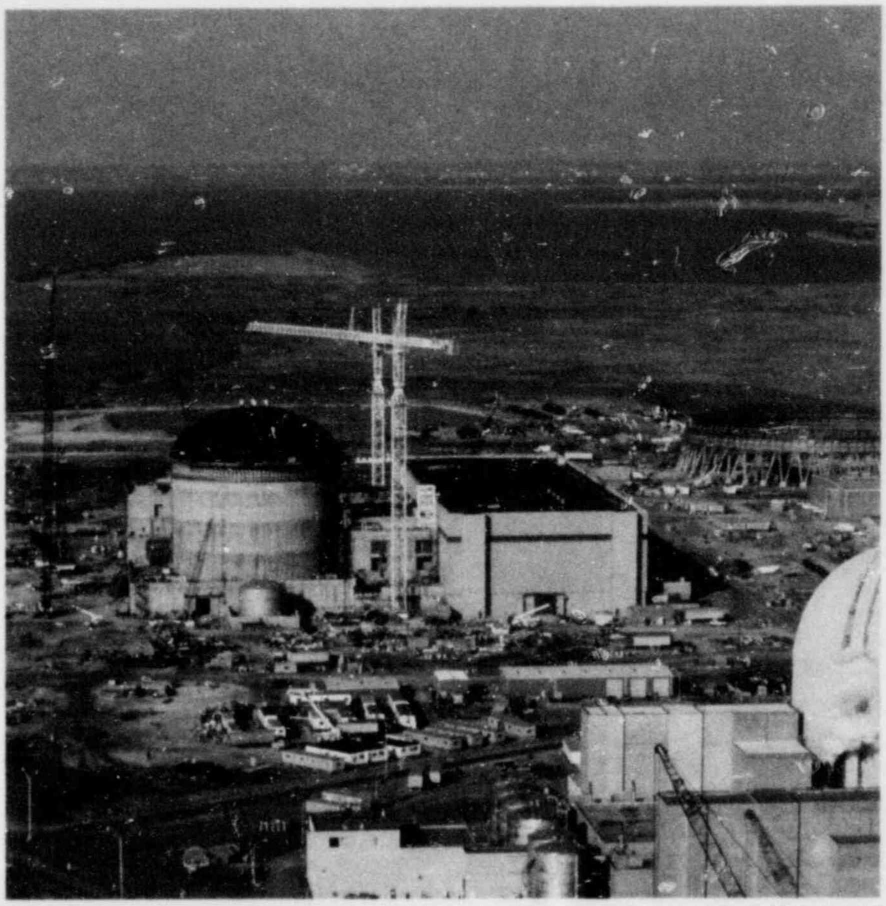
Reflecting the recessionary economy, overall electric kilowatthour sales declined 2.7 per cent for the year compared with 1981. Sales in the commercial category were an exception, rising 1.6 per cent and providing evidence of strong growth in service and distribution businesses in our territory.

Total gas therm sales decreased by 1.0 per cent. A gain of 4.7 per cent in sales to commercial customers was not sufficient to offset a decline of 9.4 per cent in the industrial classification that was mainly attributable to the economic recession. Sales to residential customers were virtually the same as in 1981, despite new connections, as warmer weather late in the year reduced demand for heating.

Nuclear Output Rises

During the year 34 per cent of our electric output came from nuclear generation, up from 25 per cent in 1981. The nuclear production was bolstered by

Construction work on the Hope Creek I generating unit was intensified in 1982 after cancellation of the second unit at the station. Among highlights of the year were the lifting of a 409-ton crane into the reactor building where it will be used for moving large pieces of equipment, and placement of the unit's 440-ton steel containment dome. At year end, the plant was more than 60 per cent completed.



excellent performance of No. 2 unit at Salem Generating Station in its first full year of commercial operation. The unit was available 97 per cent of the time in 1982, a remarkable record for a new unit.

Construction of the Hope Creek I generating unit, being built adjacent to Salem, was more than 60 per cent completed at the end of the year. The unit is scheduled to go on line in late 1986.

In August a cost-containment agreement for Hope Creek was signed by the Company with the New Jersey Department of Energy and the state Public Advocate. As part of the agreement, the Public Advocate agreed not to challenge the need for the unit before any state or federal agency. The agreement requires the approval of the BPU which has held hearings preparatory to making a decision.

The agreement provides a targeted in-service date of December 1986 and a targeted cost at the time of commercial operation of $3.795 billion. There would be a penalty in the form of reduced earnings to the Company if costs exceed $3.795 billion, unless the overruns were due to extraordinary events beyond our control. On the other hand, there would be a benefit to earnings if the unit should be completed for less than $3.55 billion.

Our present estimate is that the unit will cost between $3.55 billion and $3.79 billion.

In June, the Company began recovering the abandonment costs of the second Hope Creek unit, which was cancelled in December 1981. The recovery will be over a 15-year period and amounts to $172 million, after tax considerations. This recovery is on an accelerated basis, so that about half of the amount will be recouped in the first five years and will provide additional cash flow for the funding of Hope Creek I.

Nuclear Operations Centralized

Nuclear operations were strengthened during the year by the centralization of activities of the Nuclear Department in a new headquarters at the site of the Salem and Hope Creek stations. Most personnel involved in nuclear power operations were transferred from Newark to the department headquarters.

We are determined to make certain that we have the most thoroughly trained and qualified nuclear plant operators and support personnel. As part of this effort, we completed construction and opened a Nuclear Training Center for employees of the Nuclear Department.

Conservation Program

In line with our efforts to reduce the need for new facilities — and consequently capital expenditures — we developed a broad plan to promote the conservation and efficient use of energy by our customers. The plan includes subsidization of loans to finance home conservation measures, the encouragement of energy audits, weatherization assistance, and rebates for the installation of high efficiency equipment.

Because of the relatively low rate of growth in the projected demand for electricity, we do not foresee the need to construct any new generating capacity, other than Hope Creek I, until the late 1990's.

Consumer Panels

A new dimension was added to our customer relations and information effort with the establishment of three consumer advisory panels, geographically situated to serve our three customer and marketing services divisions. Membership on the panels has been drawn from a cross-section of customer and consumer groups.

Recession Impact Felt

Even though inflation has subsided and interest rates have declined, the deep economic recession continues to have a dampening effect on the Company's performance. We have intensified our efforts to reduce expenses wherever possible. Budgets have been severely cut and a cap has been placed on the number of employees.

Despite the most stringent measures, our cost of providing service continues to rise and we have been unable to realize our allowed rate of return.

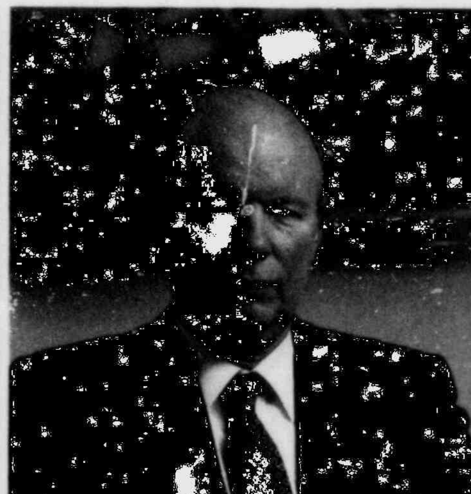
On January 7, 1983, the Company filed a petition with the New Jersey Board of Public Utilities for an increase in base rates to provide additional annual revenues of $464.5 million. The total includes $397.4 million for electric service, and $67.1 million for gas.

The BPU is presently considering a motion by the Public Advocate of New Jersey to dismiss the Company's petition. New rates can only be put in effect after required hearings.

Responsibilities Fulfilled

Our Company — 80 years old in 1983 — has demonstrated its ability to fulfill its responsibilities to customers, stockholders and employees throughout its history.

Ever mindful of the contribution to our Company's success by thousands of talented and dedicated employees, we appreciate the continuing support of Company shareholders in all our endeavors.



Robert I. Smith

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

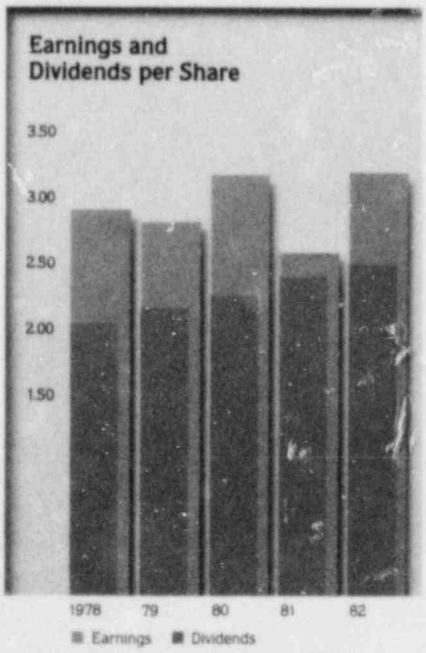
Harold W. Sonn

Harold W. Sonn
President and
Chief Operating Officer

February 14, 1983

Financial Review

Despite a lingering and deepening economic recession in 1982, revenues and earnings increased, although electric sales dropped 2.7 per cent and gas sales fell 1.04 per cent, compared with 1981. Declines in the rate of inflation and in interest rates were positive factors in an otherwise bleak economy that handicapped performance.

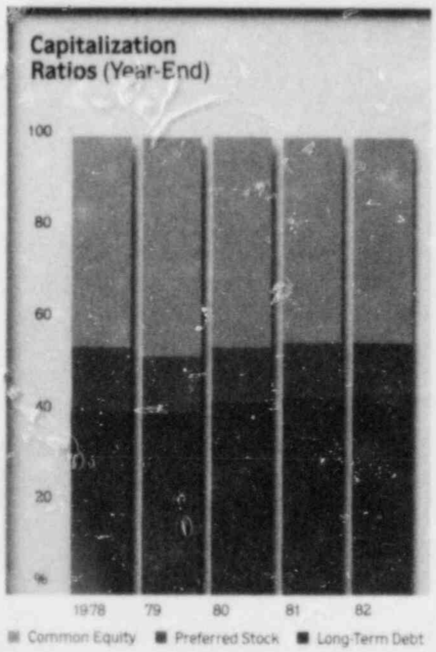


The gain in overall revenues to \$3.87 billion from \$3.47 billion in 1981 was due largely to the increase of \$390 million in rates on an annual basis that became effective on February 14. A \$73.9 million rise in the gas raw materials adjustment charge beginning in October also was a factor. These revenue increases were offset partially by a lowering of the electric energy adjustment charge which will reduce revenues by \$250 million for the 13-month period that began in June.

Electric revenues accounted for 66 per cent of the total, rising to \$2.54 billion, an increase of 9.5 per cent. Gas revenues composed the other 34 per cent, increasing to \$1.33 billion, or by 15.8 per cent.

The sources of the 1982 revenues by customer classification were:

	Electric	Gas	Combined
Residential	31%	54%	39%
Commercial	39	28	35
Industrial	28	18	25
Street Lighting and other	2	—	1
Total	100%	100%	100%



Expenses Continue to Increase

Operating expenses rose to \$3.42 billion, up \$302 million, or 9.7 per cent from \$3.12 billion in 1981.

Production costs increased by \$69.7 million, a rise of 3.5 per cent. Electric production expenses declined 4.9 per cent, mainly because of greater use of lower-cost nuclear and coal-fired generation. Gas production costs, which include the cost of natural gas, rose 18.5 per cent.

Prices of purchased natural gas continued to increase mainly because of higher wellhead prices permitted under the Natural Gas Policy Act of 1978. Costs of raw materials to manufacture gas also increased.

Labor costs increased by \$40.8 million, or 15.9 per cent. New two-year agreements reached in June, which ended a 41-day strike by two unions representing some 4,600 employees, provided wage increases of 8.25 per cent in the first year and 8.0 per cent in the second. Improvements in employee benefits made total increases of 10.81 per cent in the first year and 9.02 per cent in the second. The total cost on a company-wide basis is estimated at \$38 million in the first year of the contract and an additional \$34 million in the second.

As a result of the Company's higher revenues, New Jersey gross receipts taxes increased to \$514 million from \$462 million, a rise of 11.3 per cent.

Earnings Rise

The Company's earnings per share of Common Stock in 1982 increased to $3.24 from $2.63, an increase of 23.2 per cent. The improvement reflected the $390 million rate increase effective in February. The average number of common shares outstanding rose during the year to 89.2 million from 81.0 million in 1981.

Dividend Increased

The quarterly dividend on Common Stock was increased in the second quarter of 1982 to 64 cents a share from 61 cents paid in the first quarter. The increase was the seventh in as many years.

Total dividends paid for the year amounted to $2.53 per share compared with $2.44 in 1981.

Dividends paid in 1982 on all classes of stock are fully taxable. Due to special circumstances in some prior years, portions of dividends were determined to be a return on capital and therefore non-taxable as current income. Such circumstances included the cancellation of nuclear plant projects no longer needed and the sale of the Company's transportation subsidiary. Decisions on the taxability of dividends are governed by Internal Revenue Service rules and are based on calculations of the Company's estimated tax liability.

Petition Filed for Increase of $465 Million in Rates

On January 7, 1983, the Company petitioned the New Jersey Board of Public Utilities (BPU) for an annual increase of $464.5 million in base rates. The request was necessary because the Company's cost of providing service continues to increase. Of the amount, $397.4 million would be in electric revenues, a 15.6 per cent increase, and $67.1 million in gas revenues, a 4.5 per cent increase. The petition asks for a return on rate base of 11.66 per cent and 17 per cent on common equity.

On January 18, the Public Advocate of New Jersey moved to dismiss the Company's petition contending that a previous BPU order requires the Company to show "emergent" circumstances to be allowed to file for rate relief before July 1, 1983. The Company has opposed the motion, which is currently being considered by the BPU. If the case is allowed to proceed, public hearings would be required, and the statutory review period would delay the effective date of any new rates until late in 1983.

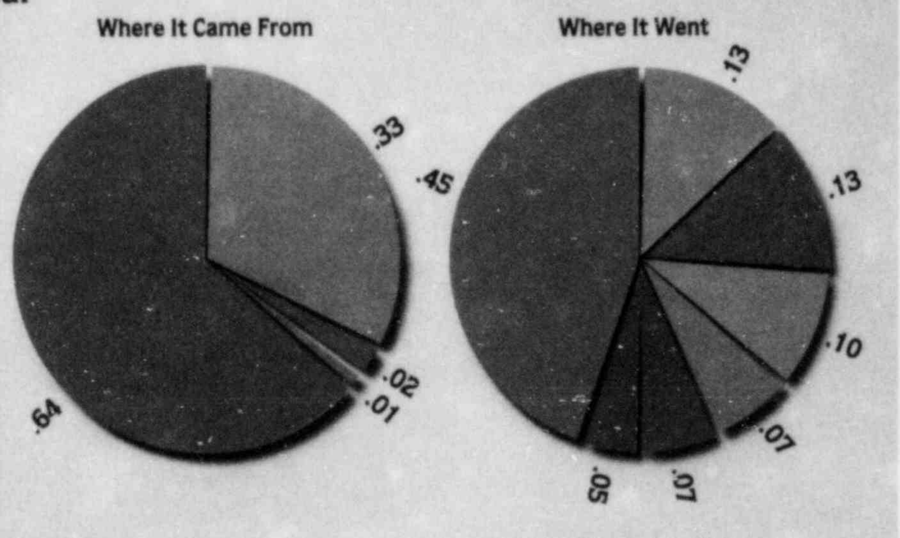
In its order in the Company's last rate case the BPU allowed a 10.67 per cent return on rate base and 16 per cent on common equity. The Company's actual return on equity of 12.2 per cent during 1982 was far short of the return allowed in the rate decision.

Electric Adjustment Charge Lowered

In June, the Company reduced its electric levelized energy adjustment charge by $250 million for the period through June 30, 1983. The reduction, which did not

The 1982 Income Dollar

Where It Came From	
Electric Revenues	$ .64
Gas Revenues	.33
Allowance for Funds Used During Construction	.02
Other Sources	.01
	$1.00
Where It Went	
Fuel, Purchased Power & Gas	$ .45
Salaries & Wages	.07
Materials & Services	.10
Taxes	.13
Interest	.05
Dividends	.07
Reinvested in Business	.13
	$1.00



affect earnings, lessened the impact on customers of the $338 million increase in electric base rates that became effective in February.

The reduction was made possible by additional nuclear generation from the second Salem unit, a decline in oil prices, purchases of power at lower cost, and completion of the recovery of nearly all electric energy costs from previous periods.

On January 13, 1983 the Company requested permission from the BPU to lower the energy adjustment charge by an additional $104 million for the 17-month period beginning February 1, 1983 through June 30, 1984. The proposed reduction was based on projections of a greater percentage of nuclear generation than previously estimated and lower oil and coal prices. The BPU took the request under consideration.

Gas Adjustment Charge Increased

Effective September 30, the BPU approved an increase in the gas raw materials adjustment charge to provide $73.9 million in additional revenues. The increase is designed to cover higher prices the Company expects to pay for natural gas through September 1983. Changes in federal regulation are permitting progressively higher natural gas prices.

Cost Containment Agreement on Hope Creek Unit

A cost containment agreement for the Hope Creek I nuclear generating unit was signed in August with the New Jersey Department of Energy, the state Public Advocate and Atlantic City Electric Company, which owns 5 per cent of the unit. The agreement is subject to approval by the BPU which began hearings preliminary to making a decision.

There is a provision in the agreement that the Public Advocate will not challenge the need for Hope Creek before any state or federal agency. Earlier, the Advocate had questioned the need for and the ultimate cost of the unit.

The agreement provides a targeted in-service date of December 1986 and a targeted cost at the time of commercial operation of $3.795 billion, including approximately $995 million of Allowance for Funds Used During Construction (AFDC).

The Company had estimated the cost of the unit between $3.55 billion and $3.795 billion, including $950 million of AFDC. The difference between the estimate and the targeted amount represents potential cost overruns that were indicated in an independent study the Company commissioned in 1981.

At the end of 1982, Hope Creek was more than 60 per cent completed and expenditures were closely tracking construction cost estimates. The Company's estimate of the cost of the unit is still between $3.55 billion and $3.795 billion, of which 5 per cent is the share of Atlantic City Electric Company.

The agreement provides that the Company's rate base revenue requirements at the time of commercial operation of the unit would be adjusted to reflect only 80 per cent of any reasonable cost overruns up to 10 per cent above the targeted amount. Should the unit's cost exceed the target figure by more than 10 per cent, only 70 per cent of the additional overruns would be included in the revenue-requirement calculation. Any such adjustment would have the effect of reducing earnings.

Under the agreement, adjustments would not be made for overruns due to extraordinary events.

On the other hand, there would be a benefit to the Company if the unit should be completed for less than $3.55 billion. Revenue requirements for rate making purposes would be calculated at actual plant cost plus an additional return on 20 per cent of the amount under $3.55 billion. No adjustment to revenue requirements would be made if the unit costs between $3.55 billion and $3.795 billion.

Construction Expenditures Up

Expenditures for construction, including Allowance for Funds Used During Construction (AFDC), payments for nuclear fuel and advances to subsidiaries, increased to $842 million in 1982 from $717 million in 1981. Construction expenditures in 1983 are estimated at $904 million, including $129 million of AFDC.

Expenditures for all projects, including Hope Creek I, in the five years through 1987, are estimated at $3.8 billion, including $736 million of AFDC. Of the total, expenditures for nuclear generating facilities and fuel will be about $2.35 billion or 62 per cent of the overall figure. As indicated in the accompanying table, annual expenditures are projected to peak in 1984, and then decline to less than one-half in 1987 after completion of Hope Creek I.

Over the next five years, the Company expects with adequate rate relief to generate at least half

Activities of members of the Board of Directors are not limited to meetings and committee assignments but include inspection trips to various Company locations. In November 1982 the directors, accompanied by senior management, inspected the Company's nuclear facilities. The trip included tours of the Salem and Hope Creek stations and of the new Nuclear Training Center.

of its construction expenditures internally, excluding AFDC. The balance of the requirements will be provided through permanent financing by the issuance of Mortgage Bonds, Preferred Stock and Common Stock.

Estimated Construction Expenditures (Including AFDC)

Year	1983	1984	1985	1986	1987
			(Millions)		
Totals	$904	$971	$884	$659	$401

Securities Sold

During 1982 the Company raised more than $443 million through the sale of Mortgage Bonds, Preferred Stock and Common Stock.

In April the Company issued $23,500,000 principal amount of 12½ per cent, 30-year First and Refunding Mortgage Pollution Control Bonds.

Four million shares of Common Stock were sold in August to a group of underwriters at $22.53 a share. Proceeds to the Company from this sale totaled $90,120,000.

In September, the Company sold $100,000,000 principal amount of 14⅜ per cent, 30-year First and Refunding Mortgage Bonds. At the same time 350,000 shares of 12.80 per cent Cumulative Preferred Stock, $100 par value, were sold.

In December, the Company sold $100,000,000 principal amount of 12⅛ per cent, 30-year First and Refunding Mortgage Bonds.

The Company also raised $80.7 million through the sale of almost four million shares of Common Stock under the Dividend Reinvestment and Stock Purchase Plan, and $16.4 million through issuance of shares under the Employee Stock Purchase Plan, the Tax Reduction Act Employee Stock Ownership Plan, and the Thrift Plan.

Proceeds from the sale of these securities were used to repay short-term debt incurred in connection with the Company's construction program. Short-term needs were financed through the sale of commercial paper. At year end there was no short-term debt outstanding.

Avenues Opened for Financing Abroad

Early in the year the Company negotiated a $75 million revolving credit agreement with several major European banks to provide an alternative source of short-term capital. Subsequently, PSE&G Overseas Finance N.V., a wholly-owned Netherlands Antilles subsidiary, was formed. The financial subsidiary will be able to provide the Company with access to long-term capital markets abroad.

Dividend Reinvestment Plan Adds Participants

There were 67,572 holders of Common Stock participating in the Company's Dividend Reinvestment and Stock Purchase Plan at the end of 1982. This was a 26.5 per cent increase from the 53,435 enrolled at year-end 1981.

Members of the Board of Directors and senior management were given an update on plant operations at the Salem Generating Station and a progress report on Hope Creek construction during their tour of the facilities. Nuclear Department personnel conducted the tours. The November meeting of the Board was held at the Nuclear Training Center.

Effective January 1, 1983 greater flexibility was provided in the optional cash investment feature of the Plan. Stockholders may now make optional cash investments at anytime up to $20,000 a year. The limit was previously set at $5,000 in each quarter.

Holders of record of $1.40 Dividend Preference Common Stock and Preferred Stock, both $100 and $25 par, also may participate in the Plan. Dividends on these issues are used to purchase Common Stock at 100 per cent of market price average. Common Stock dividends are reinvested at 95 per cent of the market price average.

Federal income tax rules provide that individual stockholders may exclude from gross income, and thereby defer taxes on dividends reinvested in Common Stock under provisions of the Plan. Individuals may defer taxes on up to $750 in reinvested dividends and those filing joint returns may defer up to $1,500 of such dividends under qualified public utility plans each year. This provision will be in effect for the years 1982 through 1985 inclusive.

Stockholders

At the end of 1982, stockholders of record totalled 268,696 compared with 273,132 at the close of 1981, a decrease of 1.6 per cent. They included 230,485 owners of Common Stock; 11,806 holders of $1.40 Dividend Preference Common Stock; 14,946 holders of Preferred Stock — $100 Par; and 11,459 holders of Preferred Stock — $25 Par.

Nuclear Operations Consolidated

Nuclear operations of the Company were consolidated during the year at the site of the Salem and Hope Creek Generating Stations with the establishment there of the headquarters of the newly-formed Nuclear Department.

The department, created in the Fall of 1981, has the responsibility for the safe and efficient operation of the Company's nuclear facilities. Most employees involved in nuclear activities were transferred from Newark to Salem during the year.

Outstanding Performance by Salem No. 2

An outstanding performance by the No. 2 nuclear unit at the Salem Generating Station in its first full year of commercial operation was a major factor in boosting nuclear production to 34 per cent of total electric output in 1982.

Overall nuclear production came from four units in which the Company shares ownership with other utilities. The units are the two at the Salem station, which the Company built and operates, and two at the Peach Bottom station in Pennsylvania. The Company has a 42.59 per cent interest in Salem and a 42.49 per cent interest in Peach Bottom.

Salem No. 2 was available 97 per cent of the time in 1982 and for the first eight months of the year led all U.S. nuclear units in total output, an excellent record for a new unit. For all of 1982, the unit's output was second in the nation only to Peach Bottom No. 3, one of two nuclear units at that station.

Salem No. 1 was shut down for refueling and maintenance on October 15. During the operating cycle between refuelings the unit was available nearly 98 per cent of the time. Return of the unit to service, originally scheduled for early January 1983, was delayed. Repairs in a low pressure river service water system that cools equipment in various support systems required more extensive work than originally anticipated.

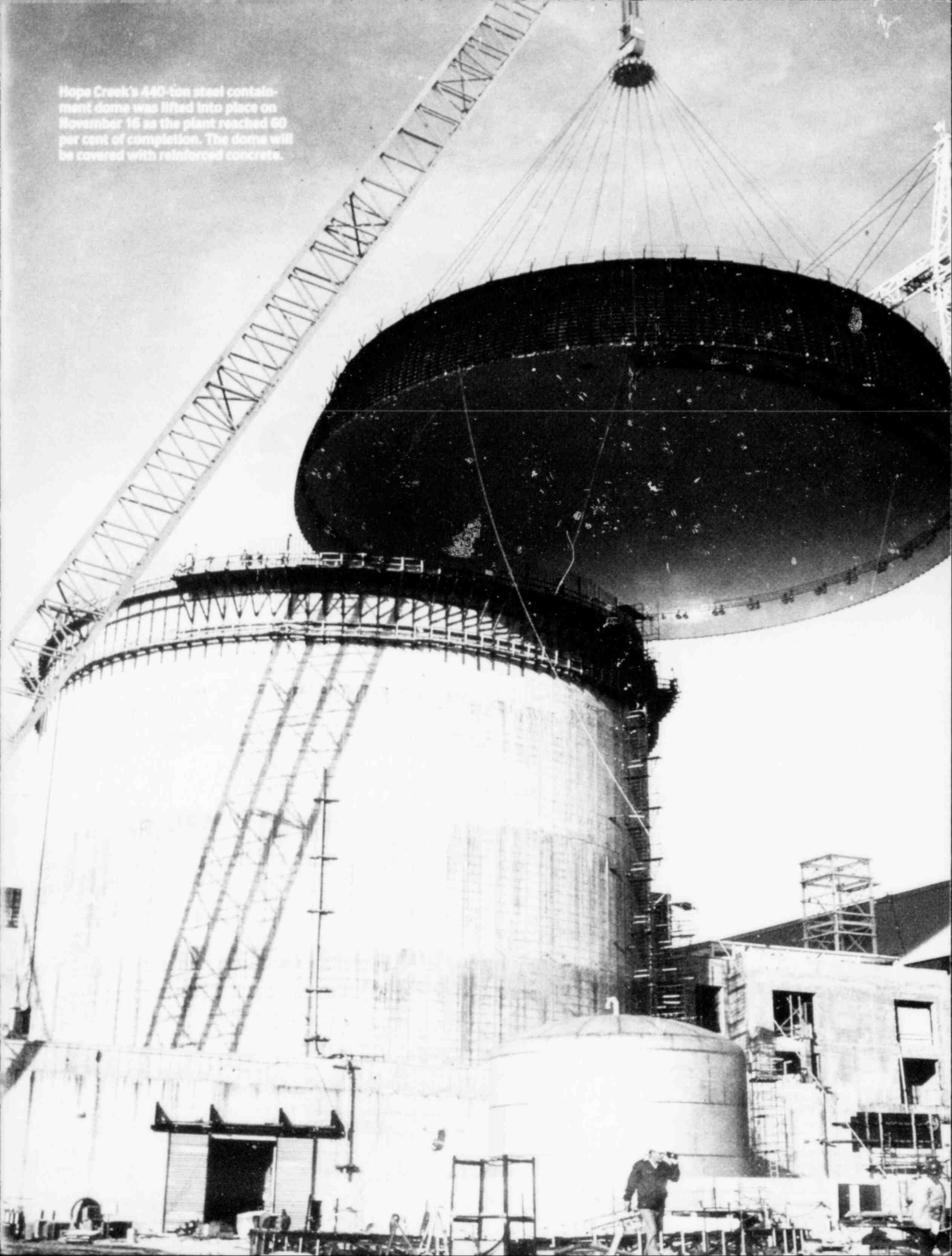
A broad curriculum that covers the various aspects of nuclear operations is provided at the Nuclear Training Center. Dedication of the Center is planned to take place in April 1983.

Nuclear Training Center Opened

Construction was completed during the year on the Nuclear Training Center which is located in Salem, N.J., about eight miles from the Salem and Hope Creek stations. Classes for personnel of the stations, which previously had been held in temporary quarters, were begun at the center.

In addition to classrooms, the center has laboratories, shops and other facilities to support a wide variety of training courses.

Major installations at the center will be the plant simulators to train control room operating personnel of the stations. The Salem simulator was delivered in early 1983. Delivery of the Hope Creek simulator is scheduled in 1984.



Hope Creek's 440-ton steel containment dome was lifted into place on November 16 as the plant reached 60 per cent of completion. The dome will be covered with reinforced concrete.

production & Distribution

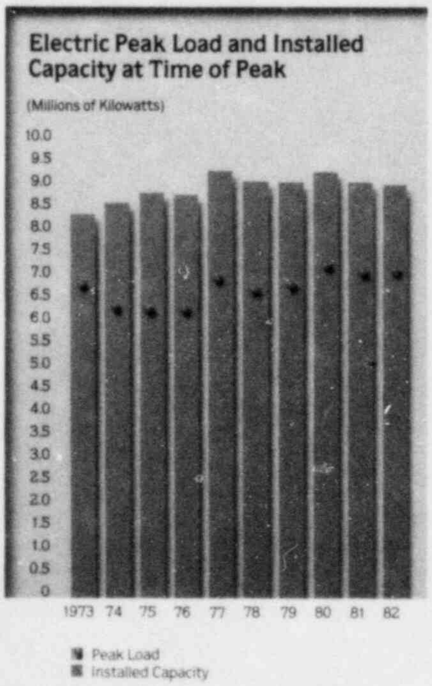
Electric output declined by 2.0 per cent in 1982 as sales dropped because of the continuing economic recession, customer conservation, and cooler summer weather that reduced demand for air conditioning. Total megawatthours produced, purchased and interchanged amounted to 31.6 million, compared with 32.2 million in 1981.

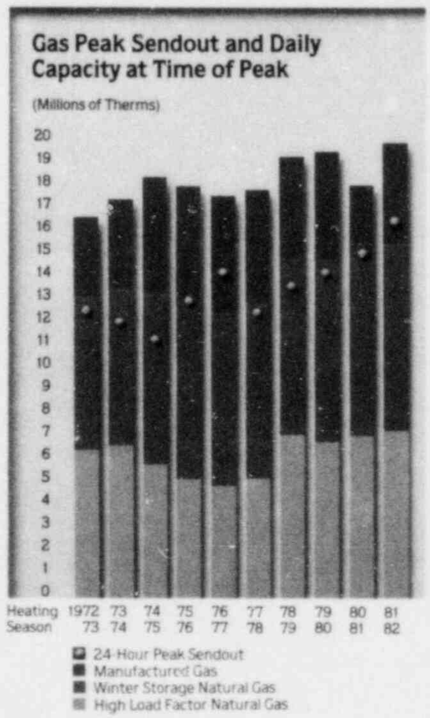
Peak demand of 7,042 megawatts occurred on July 19, an increase of 0.1 per cent from the peak of 7,034 megawatts on July 9, 1981. The record high of 7,159 megawatts was reached on July 21, 1980.

The maximum day's output of 134,654 megawatthours also occurred on July 19. The figure was 1.1 per cent less than the 136,113 megawatthours output on July 9, 1981, and 4.2 per cent below the all-time high of 140,591 megawatthours on July 21, 1980.

At the time of the system peak load, the Company had an installed generating capacity of 8,995 megawatts, or an installed capacity reserve of 28 per cent. At the end of the year installed generating capacity also was 8,995 megawatts.

The accompanying table shows the planning peak electric loads, installed operating capacities and per cent reserves anticipated for the next ten years.





Generating Capacity Forecast

Year	Planning Peak Load	Installed Capacity	Per Cent Reserve
	(Megawatts)		
1983	7,025	8,999	28
1984	7,220	8,999	25
1985	7,390	8,999	22
1986	7,555	9,099	20
1987	7,740	10,013	29
1988	7,915	10,013	27
1989	8,070	10,013	24
1990	8,200	10,013	22
1991	8,315	10,013	20
1992	8,395	10,329	23

Less Oil Used for Generation

The Company continued to cut back its use of oil for electric generation in 1982. As a result, only 10 per cent of the year's electric output was fueled by oil, down from 13 per cent in 1981.

The reduction was achieved by increased nuclear and coal-fired generation. Nuclear provided 34 per cent of the electric output, up from 25 per cent in 1981. Coal accounted for 30 per cent compared with 27 per cent the previous year.

A total of 463 million therms of natural gas, equivalent to 7.6 million barrels of oil, was used at a cost savings of approximately $62 million, although gas use was lower than in 1981. Additional savings of $2.3 million were realized through spot market purchases of coal and oil.

During the year, 5.8 million barrels of oil, down 23 per cent from 1981, and 2.1 million tons of coal, up 5 per cent, were purchased for New Jersey electric production facilities.

PSE&G's capability to obtain greater amounts of low-cost, coal-generated power from utilities in western Pennsylvania and the Midwest was improved with the installation of 230,000-volt capacitor banks at two switching stations. Work was the first phase of a Pennsylvania-New Jersey-Maryland Interconnection project to improve transmission capability.

Fuel Prices Stabilize

Oil and coal prices were fairly stable. The average price of low sulfur heavy fuel oil purchased to generate electricity was $33.08 per barrel, 7.0 per cent lower than in 1981. Coal prices for New Jersey facilities increased 4.6 per cent above the 1981 level. The increase was due to increased transportation costs and higher mine labor costs.

Comparative fuel costs in 1982 per million British thermal units were: oil $5.51; coal $2.28; gas $3.98 and nuclear 66 cents.

The Company's electric output by sources in 1982 compared with 1981 follows:

Source	1982	1981
Coal	30%	27%
Oil	10	13
Natural Gas	12	17
Nuclear	34	25
Purchased and Interchanged	14	18
	100%	100%

Uranium Prices Continue to Decline

During 1982, the demand for uranium on a national basis continued to decline and prices on the spot market reached a low of $17 a pound in August. Major U.S. producers purchased surplus uranium to meet their obligations rather than operating mining and milling facilities at a higher cost.

The Company has long term contracts for the supply of uranium. It is expected that sufficient uranium will be provided from these contracts and from contracts to be negotiated in the future to operate the two Salem units and Hope Creek I through the early 1990's.

The availability of lower cost uranium from these sources has resulted in the further deferment of deliveries under a long-term contract with Kerr-McGee Nuclear Corporation. It is anticipated that the project for supplying this contract will remain in a standby condition until January 1986. Resumption of production after that date will be at the option of the Company.

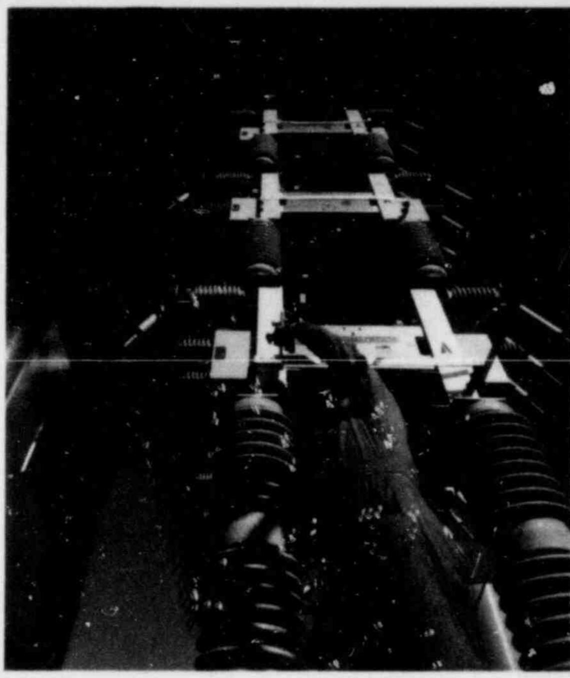
Under the Kerr-McGee contract, $40.5 million had been advanced as of December 31, 1982 to finance mining and milling facilities. The Company advanced 70 per cent of the amount and the co-owners of the Salem and Hope Creek stations advanced the balance. Of these advances, $14.5 million, including $4.7 million of interest, has been recovered through credits against the purchase price of uranium concentrates delivered by Kerr-McGee.

Recoupment of unrecovered advanced payments will depend upon the sale of uranium to the Company or other buyers, or Kerr-McGee's sale of the project properties.

Con Edison Link Completed

After several years of construction, a second 345,000-volt cable connecting the Hudson Generating Station with Consolidated Edison Company's Farragut substation in Brooklyn was placed in service in July.

The cable was part of a comprehensive project to reinforce existing interconnections with Con



Edison. In addition, the project included a second 345,000-volt interconnection between the Company's Waldwick switching station in Bergen County and Con Edison's Ramapo substation in Rockland County, N.Y.

The new interconnections and associated 230,000-volt reinforcements within the Company system will permit increased interchange of power between the two companies and provide more reliable and economic operations.

Mercer Station Among Most Efficient

Mercer Generating Station, which has two large coal-burning units each with a capacity of 306 megawatts, in 1982 ranked among the most efficient facilities in the nation for the second consecutive year.

The 20-year old station had an overall heat rate efficiency of 9,331 Btu/Kwhr. Heat rate is a method employed to measure the

Critical maintenance has been expedited and costs reduced for work previously contracted outside the company through the operation of the Central Maintenance Shop. Work at the shop includes overhaul and repair of steam and gas turbines.

efficiency of the conversion of energy available in fuel to electrical energy. It is one of several factors used to assess the economic operation of a generating unit or plant. Mercer station achieved a heat rate efficiency of 9,272 Btu/Kwhr in 1981 and ranked fourth in the nation when figures were compiled in mid-1982.

Over the last several years the Company has emphasized a program of maintenance and rehabilitation of generating units and stations. This rehabilitation, which included the Mercer station, has increased the capability of generating units in achieving higher levels of efficiency, availability and reliability.

Distribution System Expanded

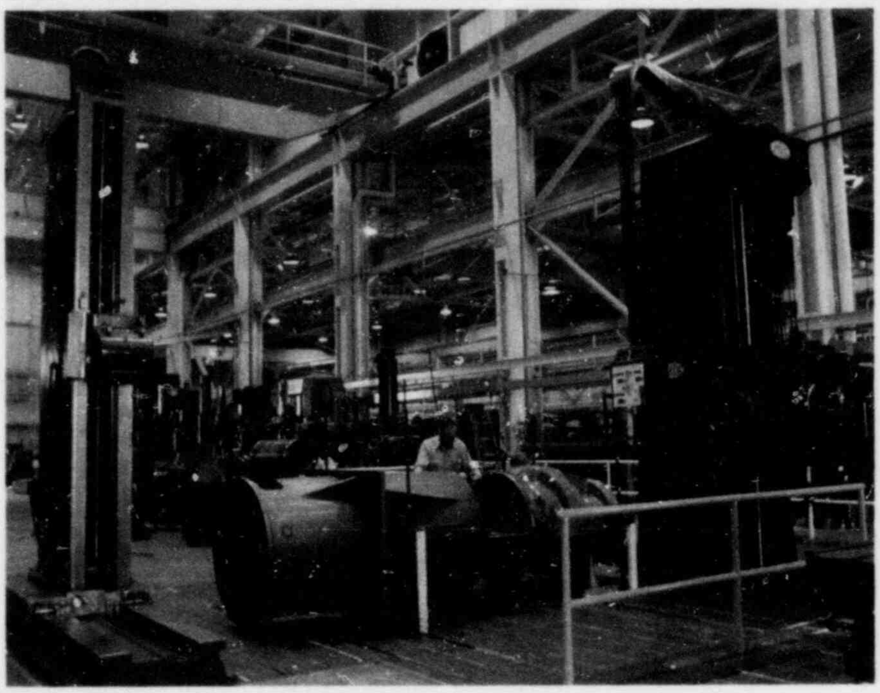
The Company's distribution system was expanded with the installation of a new substation and seven new 13,000-volt circuits.

In 1981 the Company voluntarily initiated a program to eliminate all pole-top capacitors filled with polychlorinated biphenyls (PCBs) over a ten-year period. The schedule was revised in 1982 to comply with the provisions of a Federal law passed in August requiring removal of the capacitors by 1988.

Gas Sendout Unchanged

In 1982 the Company's total gas sendout was 2.15 billion therms, virtually the same as that sent out during 1981. The warmest December on record offset gains due to customer conversions from oil to gas heating and colder weather early in the year.

A new record peak day sendout of 16,201,000 therms was set on January 17, 1982 when the average temperature was −4°F. This was 9.4 per cent over the previous record of 14,812,000 therms set on January 12, 1981 when the average temperature was 6°F.



Daily Gas Capacity Improved

The Company's daily gas capacity increased by 129,000 therms in 1982. This increase reflected the additional purchase of firm pipeline transportation service for deliveries of gas from storage. The daily capacity of 19,139,000 therms on December 31 was composed of:

Type of Gas	Therms Per Day
Natural Gas	14,592,000
Liquefied Petroleum Gas	1,981,000
Oil Gas	1,186,000
Synthetic Natural Gas	1,125,000
Refinery Gas	255,000
Total	19,139,000

Adequate Supplies of Gas Continue

Deliveries of pipeline gas by interstate suppliers were curtailed by only 0.2 per cent compared with 0.7 per cent in 1981 and 1.2 per cent in 1980, making three consecutive years that virtually full contract amounts were available to the Company.

The natural gas supplies received in 1982 were obtained under long-term contracts with three interstate pipelines, from wells owned by Energy Development Corporation, a Company subsidiary, and through several short-term arrangements with other gas companies.

The amount of natural gas purchased for distribution to customers totaled 2.02 billion therms, approximately the same as in 1981.

The average cost of natural gas was $3.59 per million Btu in 1982 compared to $2.95 per million Btu in 1981. This increase of 21.7 per cent was attributable to the higher wellhead prices allowable under the Natural Gas Policy Act of 1978 and rate increases put in effect by the Company's pipeline suppliers.

Supplemental Supplies

The Company supplements its natural gas supplies with gas purchased from Exxon's Bayway Refinery and, in the coldest periods of the winter season, with gas manufactured in Company-owned facilities.

Refinery gas purchases in 1982 amounted to 93.8 million therms, compared to 92.3 million therms in 1981. The cost of this gas averaged $4.76 per million Btu compared to $6.04 per million Btu in 1981. This reduction in cost was principally the result of a renegotiation of the pricing provisions in the contract.

The total production of manufactured gases amounted to 30.2 million therms in 1982 compared to 29.0 million therms in 1981.

Approval Sought for LNG Facilities

The Company continued to seek the required Federal Energy Regulatory Commission (FERC) approval to place in service two liquefied natural gas tanks and related facilities on Staten Island, New York, to store domestic natural gas for use by the Company and others during periods of peak demand.

Operation of the tanks, owned by Energy Terminal Services Corporation (ETSC), a Company subsidiary, will require construction of a liquefaction unit and other facilities including a pipeline under the Arthur Kill to New Jersey. The Company's investment in ETSC at the end of 1982 was $76.3 million.

During early 1982 the processing of the applications before FERC proceeded with the submission of evidence and hearings on economic, need, environmental and safety issues. The FERC staff issued a Final Supplement to its Environmental Impact Statement which concluded that the proposed facility would be designed with sufficient safeguards to either prevent accidents or reduce the impact of credible accidents.

At year end, the FERC proceedings were still pending. ETSC must also satisfy requirements of the U.S. Department of Transportation relating to pipeline safety.

Record Earnings by Exploration Unit

Energy Development Corporation, (EDC), the Company's exploration subsidiary, achieved record earnings for the fourth consecutive year despite reduced natural gas and oil production.

Revenues from the sale of natural gas and oil totaled $73.2 million, a decrease of 2.7 per cent from 1981. Net income increased 4.8 per cent to $12.0 million as a result of reduced operating expenses.

Deliveries of natural gas to the Company totaled 159 million therms in 1982. The subsidiary is the third largest source of gas supply to the Company.

EDC operations reflected the industry-wide slump in drilling activity. During the year EDC drilled a total of 57 wells, a decline of 15 per cent from 1981. Of the total, 29 were onshore and 28 offshore.

Onshore operations were concentrated in the Gulf Coast region of Texas and Louisiana. The result of onshore drilling was 14 successful wells and 15 that were abandoned. At year end three onshore wells were still being drilled.

Offshore activity included exploratory drilling on six untested lease blocks and development drilling to delineate prior discoveries. During the year 24 wells were classified as successful and four were abandoned. There were two offshore wells still being drilled at year end.

Gas System Grows

More than 280 miles of main and service lines were added to the underground gas distribution system during 1982. The total was slightly less than in 1981 because of a decline in the number of customers who converted to gas from oil heat. The connection of nearly 150,000 customers since 1978, primarily conversions, necessitated numerous reinforcement projects to insure adequate pressures and supplies throughout the service territory.

Customer & Marketing Services

A computer-based system together with up-to-date facilities have provided higher efficiency in operations and enhanced service to customers. Representatives are able to respond more expeditiously to customer inquiries with pertinent data, including records of customer accounts, readily available on video display screens. Service also has been streamlined at centers in downtown urban areas.

A major reorganization and relocation of customer and marketing operations, begun in 1980, was virtually completed in 1982.

Under a new field organization there are three divisions — northern, central and southern — which oversee nine district offices, 15 customer service centers and two separate meter reading offices. In addition, there is a centralized customer services division which is responsible for two inquiry and accounting centers and a bill payment processing center.

Greater efficiency and productivity has been realized along with improved customer service under the new arrangement which reflects changing population patterns, particularly growth of suburban areas, in the Company's service territory.

Large, antiquated commercial offices have been replaced by leasing a lesser amount of office space in modern buildings. Customer service centers, conveniently located in downtown urban areas, provide places where customers can continue to pay bills and make service inquiries.

The modernization program, together with a new sophisticated computer system, has provided a major advance in the handling of customer accounts, inquiries and work orders.

The first full year of operation of the two customer inquiry and accounting centers, opened during 1981 in Newark and Bordentown, also has resulted in a significant improvement in service.

More than 3.4 million customer service and billing calls were handled with an average response time of 51 seconds. Additional improvements in service will take place over the next several years as new developments are implemented.

Meter reading was improved and costs were reduced by the use of hand-held microprocessors in a trial program. The microprocessors will be used system-wide in 1983.

At the end of 1982, the Company had 1,705,481 electric customers and 1,319,745 gas customers.

The Company formed three consumer advisory panels with representatives drawn from the northern, central and southern customer service divisions. The panels represent various social, economic and civic interests and will serve as new communication links with customers. First meetings of the panels featured a slide presentation covering various facets of the Company's operations.

Gas Heating Program Accelerated

In the first three quarters of 1982, customer requests for gas service declined because of the weak economy and a stabilization in oil prices. An accelerated marketing and advertising program was undertaken that emphasized the advantages of gas for heating, including the fact that gas continues to cost less than oil.

During the year, 24,761 new gas customers were connected of whom 22,335 were residential, 2,183 commercial and 243 industrial. The residential customers included 17,267 who converted from oil to gas heat. Of these, 9,329 were connected in the last quarter of the year.

In the electric heating market, growing customer acceptance of heat pumps continued to increase because of the cost effectiveness of these energy conserving systems. During the year, 337 commercial and industrial and 2,021 residential heat pumps were installed.

State and municipal authorities continued to upgrade street lighting facilities which resulted in 10,257 installations of efficient high sodium lights. In addition, 5,837 dusk-to-dawn units were installed, bringing the total to more than 89,000. These installations benefit customers by providing greater safety and security and the Company by the use of electricity in off-peak periods.

Total gas and electric connections made in 1982 will provide an estimated $85 million annually in additional revenues.

'AquaSol' Program Gets Under Way

The Company's solar water heating program, an outgrowth of a three-year demonstration project, was implemented in 1982. The first installation was completed late in the year and the Company plans a promotional campaign in 1983.

The program, named "Aqua-Sol", offers residential customers whose homes meet certain criteria a choice of two systems at a cost of between $3,500 and $4,000.

One system uses electricity for backup and the other utilizes natural gas. A family of five could expect a solar system to provide up to half of their annual hot water requirements.

Bill Collection Improvement Program

A bill collection improvement program designed to reduce the number of late payments and uncollectible accounts was initiated. Additional personnel were assigned to collections and new procedures were implemented.

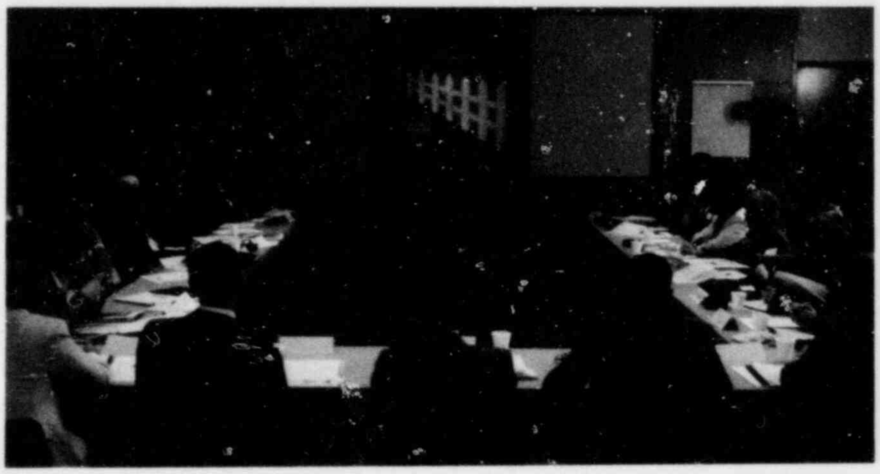
The full impact of these initiatives is not expected to be seen in collection results until 1983 since they were fully operational only during the last half of 1982.

A late payment charge for commercial and industrial customers was approved by the New Jersey Board of Public Utilities, effective in January 1983. The charge places a portion of the rising cost of collection on customers who pay bills late.

Efforts Expanded to Prevent Energy Theft

The Company's energy theft prevention program was strengthened during the year. In a pilot project, an eight-member team of specially-trained employees was formed to coordinate efforts in the prevention, detection and investigation of thefts of energy, as well as the collection of revenues due.

The expanded program will include inspections of metering and service equipment, installation of security devices, computerized statistical analysis designed to indicate abnormal usage, and legal actions. The pilot project will provide a basis for a system-wide program.



Conservation & Load Management

An associate marketing engineer checks a customer's boiler system to determine the feasibility of conversion to gas. Marketing engineers act as liaisons between the Company and industrial and commercial customers.

In 1982, the Company developed an accelerated plan for conservation, cogeneration and load management. The New Jersey Board of Public Utilities (BPU) approved the plan in November and directed other utilities in the state to file similar programs.

The plan resulted from a BPU order in March providing for recovery by the Company of the abandonment costs of the No. 2 Hope Creek unit. The Company worked with the BPU to develop a plan that would enhance conservation and energy efficiency.

The Company programs are responsive to an increasing desire of customers to conserve energy and to help customers, especially those in low income brackets, to deal with increasing energy costs. The potential cost-benefits of these programs are somewhat uncertain and each will be re-evaluated on a periodic basis so as to optimize conservation expenditures.

The programs include subsidization of loans to finance major home energy saving measures, the promotion of low cost home energy audits and weatherization assistance. Included also are rebates to customers who install high efficiency air conditioners and heat pumps, home seal-up services and the utilization of cogeneration.

Subsidized loans to customers for financing the installation of energy saving equipment will be made through banks. The loans are on a zero-interest basis for customers with family incomes of less than $30,000 a year. Loans to families with income from $30,000 to $50,000 carry an interest subsidy equal to one-half the prevailing consumer loan rate.

The energy audits are provided under the existing Home Energy Savings Program (HESP). The promotion includes additional

Three Energy Update Seminars were conducted for management personnel of large industrial and commercial customers. These sessions provided energy information to assist customers in planning, budgeting and operating their facilities.

As part of the Company's conservation and load management activities a number of devices are being evaluated. In a coolness storage unit (left), ice is made at night when demand for electricity is low, and then used for cooling during daytime periods of peak electric demand. Another device, a heat pump water heater, removes heat from air in home basements and utilizes it in water heating systems.

advertising and a complimentary insulation kit to those who have their home audited.

Energy audits for small commercial and industrial businesses also are conducted for a nominal fee. Other facets of the program will include a conservation center staffed by experts with a toll-free number to handle customer inquiries, and a mobile energy conservation exhibit.

Weatherization assistance includes the offering of do-it-yourself kits to low-income customers as well as grants through a state agency. Weather stripping and caulking are parts of the seal-up services offered in the new program. These will be provided at a nominal fee to gas or electric heating customers. Certain weatherization services will be offered free of charge to selected low-income residents in the Company's service territory.

Rebates to customers who install high efficiency air conditioners and heat pump equipment are part of the load management aspect of the plan. A study also is being made of the energy savings potential of a refrigerator rebate program.

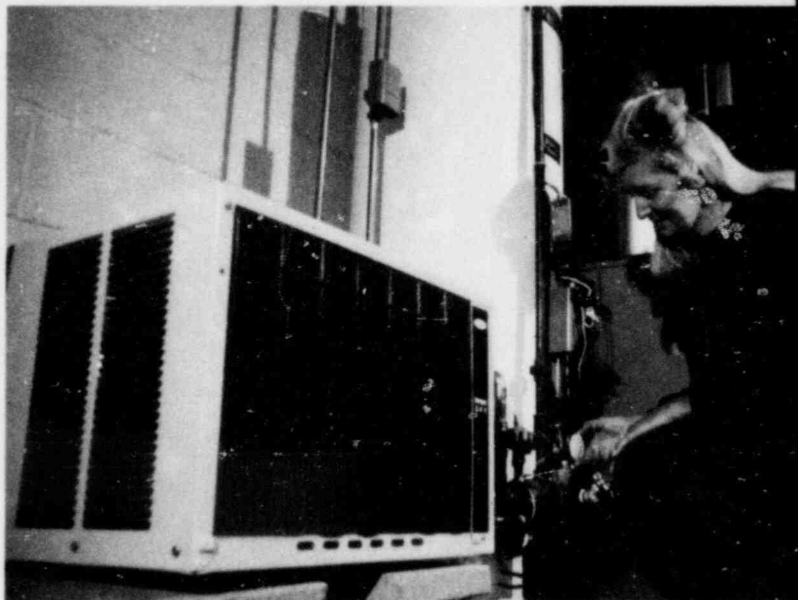
In addition, the Company will offer reports and graphs to large volume customers served under time-of-day large power and light and high tension rate schedule classifications that will give them analytical tools in determining how to better manage their use of electrical energy.

In the area of cogeneration, the Company is developing an informational program for new and existing customers to increase their awareness of this process. Included is a screening guide to assess cogeneration feasibility. A computerized technical and economic analysis program will be made available to customers considering cogeneration projects.

The Company will purchase energy from cogenerators and small power producers. Contracts have been signed to purchase electrical output from two projects, the Paterson Falls Hydroelectric Station and the Trenton Integrated Community Energy System. In addition, negotiations are under way with others, including the Port Authority of New York and New Jersey, for energy from proposed resource recovery facilities.

Cogeneration is not new with the Company. Electricity and process steam have been cogenerated since 1957 at the Linden Generating Station. The steam from the cogeneration process is exchanged with the adjacent Exxon Bayway Refinery for boiler fuel and water.

The Company already has developed a load management program designed to result in a reduction in projected peak demand by some 1,000 megawatts by 1995, including interruptible load estimates of about 465 megawatts. The program involves influencing customer use of electricity through means of specialized devices, control equipment and innovative rate making. The interruptible service rate now available to large industrial and commercial customers already has resulted in about 130 megawatts of controllable load.



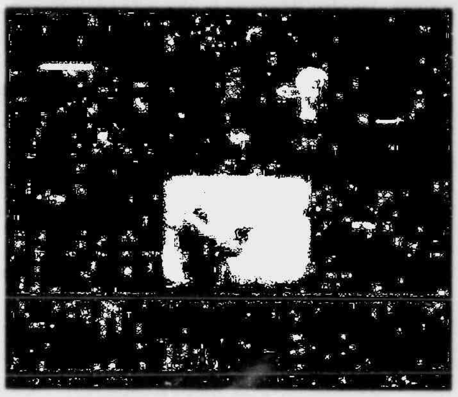
Area Development

A promotional program was launched to attract high technology industries to New Jersey. Television, radio and print media were utilized to feature testimonials from leading business executives in the state. Shown during taping of a commercial is Robert H. Franklin, PSE&G Vice President – Public Relations, (left) and Josh Weston, President and Chief Executive Officer of Automatic Data Processing Company.

The trend in New Jersey, particularly in the Company's territory, toward a service-oriented economy from one with a heavy industrial base, continued during the year. Despite a somewhat soft market, the location and construction of new office facilities stayed at a high level, spurred by ever-increasing cost of space in New York City. Southern New Jersey also continued to attract firms seeking office space.

Recognizing the state's strength, the Company has conducted highly-rewarding promotional campaigns that have attracted numerous office, research, light industrial and distribution facilities of national and international corporations.

Demand for office space in New Jersey by domestic and foreign firms remained relatively strong in 1982. This was aided by a campaign that promoted New Jersey as the "Headquarters State."



High Technology Firms Sought

In the second half of the year, efforts focused on attracting high technology industries for which the state has distinct advantages. New Jersey has more scientists, engineers and technicians per capita than any other state in the nation. There are more than 650 academic and industrial laboratories and one out of every ten private and federal research dollars is spent in the state.

High technology firms provide the state with an opportunity to replace companies and jobs lost in the traditional manufacturing sector and to accelerate economic growth.

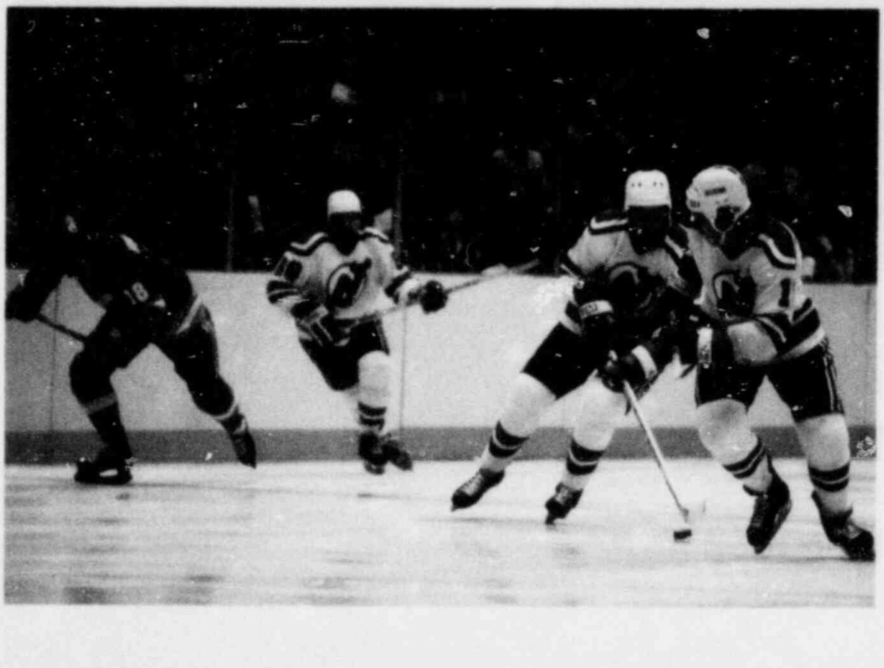
During the year, 306 major industrial and commercial firms, employing approximately 17,700, located or expanded in the Company's service territory. Lost were 44 companies, employing 7,200, leaving a net gain of about 10,500 jobs.

Typical of commercial development in PSE&G's service area is this project under construction in Teaneck. The complex, named Glenpointe, will include a 14-story, 350-room Loews hotel, two office buildings, 40 shops and 300 town houses.

Rapid Meadowlands Development

Major development continued during the year in the Meadowlands with the most significant project being "Harmon Meadow," the newest project of Hartz Mountain Industries. The $1 billion development will include more than three million square feet of office space; a 100,000-square-foot retail complex; 4,000 residential units and a 156-room Hilton Hotel.

The Hackensack Development Meadowlands Commission oversees development of the 20,000-acre district in Hudson and Bergen counties. Since its inception in 1968, the Commission has issued 2,208 building permits that have resulted in $493 million in construction and the creation of more than 39,000 permanent jobs.



Urban Revitalization

Progress continued in urban revitalization in downtown Newark and New Brunswick during the year. Construction advanced in Newark on The Prudential Insurance Company's $53 million Gateway III office building, and the $33 million One Washington Park building neared completion. Johnson & Johnson's $73 million new corporate headquarters was in the final construction stages and a $20 million Hyatt-Regency Hotel opened in New Brunswick.

The Port Authority of New York and New Jersey announced that, if legislative approval is obtained, it plans to provide $100 million in site improvements toward a proposed $500 million renewal project in Hoboken.

The project, to be located along the Hudson River, north of the former Erie Lackawanna Railroad Terminal, would include a 400-room hotel, 670 residential units, retail stores, 1.4 million square feet of office space and a large marina.

More than eight million persons attended events during 1982 at the New Jersey Sports and Exposition Authority's complex in the Meadowlands. Professional hockey was added to the attractions as the Meadowlands arena became the home of the New Jersey Devils of the National Hockey League. The complex also includes Giants Stadium and the Meadowlands Racetrack.

Research & Development

A significant step in PSE&G's aquaculture program was achieved in 1982 when "Pocono Springs" rainbow trout were sold in supermarkets. Marketing followed about 10 years of research in aquaculture using the warm-water discharge from the Mercer Generating Station. Limestone Springs hatchery operations in Richland, Pa., leased in 1979, expanded production of trout to a million pounds per year.

Total research and development expenditures in 1982 were $16.8 million. Partially offsetting these costs was $3.8 million obtained from sales and reimbursements. Of the balance, $4.7 million was spent for internally-conducted activities and $8.3 million went to support research by industry-sponsored organizations.

A major portion of the Company's research activities are carried out by PSE&G Research Corporation, a subsidiary established in 1977 to facilitate work on near and long-term energy projects.

During the year, the Research Advisory Council, formed in 1979, continued to provide advice to PSE&G Research Corporation and serve as a communications link with the public. The council, composed of 21 prominent citizens representing a broad public interest, reviews research and development programs, including the level of funding, from an economic and social viewpoint.

Waste Energy Applications

Since 1979, the Company has operated an experimental system to recover methane from a landfill in Cinnaminson, N.J. Methane is a gas generated by decaying matter in the landfill. The gas is being sold to a metal processing plant near the site.

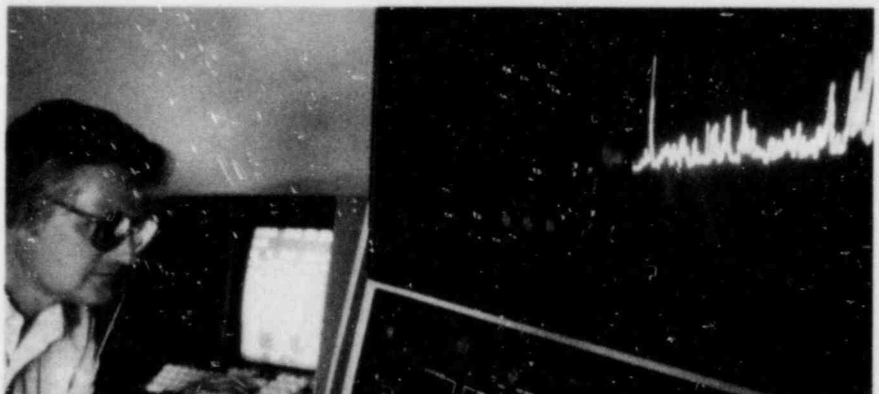
During the year, methane from the landfill also was used to heat a small greenhouse in which vegetables and flowering plants were grown. The plants responded well to the growing conditions induced by heat produced by burning the landfill gas.

The Company also was selected during the year to install a gas recovery system at a landfill adjacent to the new headquarters and environmental center of the Hackensack Meadowlands Development Commission. The system will supply gas to a generating unit which will feed power into the electric grid.

Hydrogen Generating System Tested

A prototype advanced electrolyzer, a device for making hydrogen from water, was installed at Sewaren Generating Station during the year. The testing of the electrolyzer is a joint project of the Company, the Electric Power Research Institute, and the General Electric Company.

The project will seek to demonstrate, over a two-year period, the economic and technical feasibility of producing hydrogen for Company use instead of purchasing it from outside firms. Hydrogen is used for cooling



Computerized scanning electron microscope at PSE&G Research and Testing Laboratory is vital for testing metal samples in evaluation of piping and other equipment utilized at Company facilities. Testing includes analysis of failures. Metallurgical analysis is one of a number of services marketed commercially by the Laboratory.

generators during the production of electricity.

Advanced design electrolyzers hold the promise of a more economic and reliable source of hydrogen. The prototype electrolyzer utilizes a solid polymer electrolyte originally developed for fuel cells and oxygen generators used in the space program.

Solar Electric Study

The Company and RCA Laboratories in Princeton, N.J. completed a study in 1982 on the potential long-range applications of photovoltaic generation as a central station type of power plant in New Jersey. RCA has been doing research work since 1974 on thin-film amorphous-silicon solar cells which appear to have potential for providing a major cost breakthrough.

Based on RCA projected costs for a conceptual photovoltaic power plant to be built in the 1990's, electric power produced from the sun could become economically competitive with conventional peaking generation.

Photovoltaic generation would require extensive capital investment and more land space than conventional alternatives but it could make some contribution to meeting future energy needs.

Energy Storage

The Company has been a leader in the development of energy storage systems. These systems store electricity generated at times of low demand when it is less expensive to produce for use later at periods of peak demand.

The major project in this area is the Battery Energy Storage Test (BEST) facility which is located in Hillsborough, N.J., adjacent to a Company substation. Construction of the facility was completed in 1981 and testing operations began in 1982 using a 1.8 megawatt-hour lead-acid battery, the world's largest. Results of initial tests indicate that batteries can play a significant role in making electric system operations more efficient.

During the year the Company was allocated an additional $1.9 million in funds to continue battery testing and to install an advanced zinc-chloride battery system produced by Energy Development Associates, a subsidiary of Gulf + Western Industries. Funding of the project is provided principally by the U.S. Department of Energy and the Electric Power Research Institute, the research arm of the electric utility industry.

Laboratory Work Expanded

The Company's Research and Testing Laboratory continued in 1982 to help insure a high level of operating efficiency and reliability in service for customers. The Laboratory provides testing and analysis programs that measure the quality of materials and equipment used throughout the Company's system.

These programs were expanded to emphasize the use of nondestructive examination and vibration analysis of equipment to monitor performance and lessen failures in energy production and distribution.

Laboratory services in testing and analysis are commercially available to other utilities, industries and organizations. For the past several years this type of work has produced additional revenue for the Company. In 1982, such work included the testing and calibration of power systems at industrial sites as well as several municipally-owned substations.

Community & Employee Relations

Two PSE&G financial specialists were among 900 men and women volunteers from across the nation who served during the 1982 summer on President Reagan's Private Sector Survey on Cost Control in the federal government. The two PSE&G representatives were Eileen Moran, a senior financial analyst, and Frank Cassidy, manager of engineering economics, shown in Washington during a break from their survey work.

The Company during 1982 continued to participate in various community activities in its service territory. Employees served in many volunteer positions in numerous civic, cultural and educational organizations.

Particular emphasis was placed on maintaining the Company's long-standing commitment to agencies and groups that work to improve the quality of life of communities, especially in urban areas.

Special programs emphasizing educational development for youths in minority groups in urban areas received support.

Two training programs were conducted for unemployed youth among minorities who were referred to the Company by the Greater Newark Private Industry Council. The purpose of the programs was to provide skills for the unemployed that are needed within the business community.

Communications

A wide-range communications program was conducted in 1982 to supply information about the Company and its activities to stockholders, the financial community, the media and the public at large.

Information was provided on a regular basis to the media and the financial community. In addition, senior company executives in November addressed the New York Society of Security Analysts.

The Company's Speakers' Bureau presented more than 295 talks before approximately 14,000 persons.

More than 17,600 persons visited the Second Sun the Company's energy information center at the Salem Generating Station.

Presentations were made on energy-related topics and other subjects of community interest to civic, social and school groups. More than 190,000 persons attended these presentations.

An Energy Education Advisory Committee consisting of 15 elementary, secondary and college educators was formed by the Company during the year. The committee will provide recommendations for the development of energy educational activities. Initially, the committee reviewed and evaluated educational texts and other materials on energy which resulted in the Company's purchase of sets of appropriate material that will be made available to schools on a loan basis.

Employees

Company employees at the end of 1982 totaled 13,118 compared with 12,782 at the close of 1981. Wages and salaries for the year totaled $379 million including $11 million of disability benefits and workers compensation.

The Company continued to stress its Affirmative Action Programs in the employment of women and members of minority groups.

At the end of the year there were 1,918 female employees and 1,903 minority group employees.

Financial

The management of PSE&G is responsible for the integrity and objectivity of the financial statements of the Company. These statements are prepared by the Company in accordance with generally accepted accounting principles applied on a consistent basis and include the use of informed estimates where appropriate. Management believes that they present fairly the Company's financial condition. Information in other parts of this Annual Report is consistent with these financial statements.

The Company maintains an accounting system established with sound accounting and business policies which are communicated to the appropriate personnel. The system is designed to provide reasonable assurance that transactions are executed in accordance with management's authorizations and that assets are safeguarded. The concept of reasonable assurance recognizes that the costs of internal controls should not exceed the related benefits. The system, together with its related internal controls, is continually reviewed by the Company's staff of internal auditors.

Management believes the effectiveness of this system is enhanced by a program of continuous and selective training of employees. In addition, management has communicated to all employees its Policies on Business Conduct, Company Assets and Internal Control.

The firm of Deloitte Haskins & Sells, independent certified public accountants, is engaged to examine the Company's financial statements and issue an opinion thereon. Their examination is conducted in accordance with generally accepted auditing standards and includes a review of internal controls and tests of transactions.

The Board of Directors carries out its responsibility of financial disclosure through the Audit Committee currently consisting of five directors who are not employees of the Company. The Audit Committee meets periodically with management as well as with representatives of the internal auditors and independent certified public accountants and reviews the work of each to ensure that their respective responsibilities are being carried out, and to discuss related matters. Both groups have full and free access to the Audit Committee.

Accounting Principles

Financial statements are presented in accordance with generally accepted accounting principles (GAAP). As a result of accounting requirements imposed under rate-making decisions by the Board of Public Utilities of the State of New Jersey (BPU) and the Federal Energy Regulatory Commission (FERC), the applications of GAAP by the Company differ in certain respects from applications by non-regulated businesses. The Company is under the jurisdiction of the FERC and the BPU and maintains its accounts in accordance with their prescribed Uniform Systems of Accounts, which are the same.

Investments in Subsidiaries

The Company's investments in its subsidiaries, which in the aggregate are not significant as defined by the Securities and Exchange Commission, are reported in the accompanying financial statements on the equity method of accounting. The carrying value of investments in subsidiaries is reported under Other Property and Investments in the Balance Sheets, and under the equity method of accounting is adjusted for earnings or losses of such subsidiaries as reported under Other Income in the Statements of Income.

Revenues

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

Amortization of Deferred Items

Deferred debits are amortized and recovered through rates as prescribed by the BPU. Also see note 5 of Notes to Financial Statements for further information.

Fuel Costs

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

Utility Plant and Related Depreciation and Amortization

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

Depreciation and Amortization, for financial reporting purposes, are computed under the straight-line method. Depreciation is based on estimated average remaining lives of the several classes of depreciable property. Amortization of leasehold improvements is based on the term of the lease. Depreciation applicable to nuclear plant provides for estimated costs of dismantling or decommissioning. These estimates are reviewed continuously and necessary adjustments are made as approved by the BPU. Depreciation provisions stated in percentages of original cost of depreciable property are 3.52% for 1982, 3.49% for 1981 and 3.48% for 1980.

Amortization of Nuclear Fuel

Nuclear energy burnup costs are charged to fuel expense on the basis of the number of units of thermal energy produced as they relate to total thermal units expected to be produced over the life of the fuel. The rate calculated for fuel used at all of the Company's nuclear units includes a provision for estimated spent fuel disposal costs. By rate order effective February 14, 1982 amounts previously not permitted to be recovered were recorded and are being recovered through the levelized energy adjustment clause.

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 taxable income or loss of each.

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

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

The Company's tax normalization practices are in compliance with the requirements of the Economic Recovery Tax Act of 1981.

Allowance for Funds Used During Construction

Allowance for funds used during construction (AFDC) is a cost accounting procedure whereby the cost of financing construction (interest and equity costs) is transferred from the income statement to construction work in progress (CWIP) in the balance sheet. This results in treating such cost in the same manner as construction labor and material costs. The rates used for calculating AFDC were 8½% for 1982 and 8% for 1981 and 1980 which were within the limits set by FERC.

As a result of BPU rate orders, the Company is allowed to include a portion of CWIP in rate base on which a current return is permitted to be recovered through operating revenues. Starting in 1982, the BPU allowed the Company to include in rate base an additional $125,000,000 of CWIP, raising the total amount to $375,000,000. No AFDC is accrued on this level of CWIP which is included in rate base.

Pension Plan

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

For the Years Ended December 31,	1982	1981	1980
		(Thousands of Dollars)	
Operating Revenues			
Electric	$2,543,191	$2,322,042	$2,083,900
Gas	1,330,785	1,149,610	910,154
Total Operating Revenues	3,873,976	3,471,652	2,994,054
Operating Expenses			
Operation			
Fuel for Electric Generation and Interchanged Power — net	959,382	1,059,539	866,802
Gas Purchased and Materials for Gas Produced	821,479	692,319	513,988
Other	452,115	385,149	322,220
Maintenance	220,456	192,768	169,813
Depreciation and Amortization	192,860	178,532	169,987
Amortization of Property Losses (note 5)	43,345	15,362	11,024
Taxes Other than Federal Income Taxes	553,241	474,979	431,890
Federal Income Taxes (note 1)	176,639	118,737	131,178
Total Operating Expenses	3,419,517	3,117,385	2,616,902
Operating Income	454,459	354,267	377,152
Other Income			
Allowance for Funds Used During Construction — Equity	58,367	51,877	45,655
Earnings of Subsidiaries — net (note 2)	10,460	9,490	4,831
Miscellaneous — net	7,118	6,290	5,428
Total Other Income	75,945	67,657	55,914
Income Before Interest Charges	530,404	421,924	433,066
Interest Charges			
Long-Term Debt	198,413	184,133	173,199
Short-Term Debt	13,978	16,574	11,236
Other	8,246	882	5,127
Allowance for Funds Used During Construction — Debt	(33,060)	(43,802)	(31,897)
Net Interest Charges	187,577	157,787	157,665
Income Before Extraordinary Items	342,827	264,137	275,401
Extraordinary Items, net of income tax (notes 3 and 5)			6,316
Net Income	342,827	264,137	281,717
Dividends on Cumulative Preferred Stock and $1.40 Dividend Preference Common Stock	53,865	51,538	46,341
Earnings Available for Common Stock	$ 288,962	$ 212,599	$ 235,376
Shares of Common Stock Outstanding			
End of Year	94,844,596	86,089,491	76,614,995
Average for Year	89,233,028	80,962,344	73,068,848
Earnings per average share of Common Stock before Extraordinary Items	$ 3.24	$ 2.63	$ 3.13
Extraordinary Items, net of income tax (notes 3 and 5)			.09
Earnings per average share of Common Stock	$ 3.24	$ 2.63	$ 3.22
Dividends paid per share of Common Stock	$ 2.53	$ 2.44	$ 2.29

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

Balance Sheets

December 31,	1982	1981
Assets		
Utility Plant — Original cost	(Thousands of Dollars)	
Electric Plant	$4,638,440	$4,459,245
Gas Plant	1,083,183	1,020,236
Common Plant	137,650	126,561
Nuclear Fuel	60,987	55,445
Utility Plant in Service	5,920,260	5,661,487
Less Accumulated Depreciation and Amortization	2,065,510	1,874,668
Net Utility Plant in Service	3,854,750	3,786,819
Construction Work in Progress	2,157,900	1,637,277
Plant Held for Future Use	22,416	21,997
Net Utility Plant	6,035,066	5,446,093
Other Property and Investments		
Nonutility Property, net of accumulated depreciation — 1982, $2,675; 1981, $204	11,702	8,408
Investments in and Advances to Subsidiaries (note 2)	287,934	261,010
Total Other Property and Investments	299,636	269,418
Current Assets		
Cash (note 4)	9,981	5,595
Working Funds	24,308	10,665
Pollution Control Bonds Escrow Funds	4,108	
Temporary Cash Investments	49,900	
Accounts Receivable, net of allowance for doubtful accounts — 1982, $13,291; 1981, $12,563	376,589	377,924
Unbilled Revenues	182,287	176,948
Fuel, at average cost	261,917	218,223
Materials and Supplies, at average cost	44,659	40,071
Prepayments	8,743	8,646
Total Current Assets	962,492	838,072
Deferred Debits (note 5)		
Extraordinary Property Losses		
Hope Creek Unit 2	262,767	290,750
Atlantic Project	260,412	275,472
Other	3,330	3,632
Gross Receipts Taxes	12,899	31,867
Unamortized Nuclear Fuel Disposal Costs	47,269	
Unamortized Debt Expense	23,096	23,639
Total Deferred Debits	609,773	625,360
Total	$7,906,967	$7,178,943

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

	1982	1981
Liabilities		
Capitalization	(Thousands of Dollars)	
Common Equity		
Common Stock (see statements, page 32)	$1,610,879	$1,423,739
Premium on Capital Stock	557	557
Paid-In Capital	26,185	26,143
Retained Earnings (see statements, page 31)	888,262	827,497
Total Common Equity	2,525,883	2,277,936
Preferred Stock without mandatory redemption (see statements, page 32)	554,994	554,994
Preferred Stock with mandatory redemption (see statements, page 32)	111,250	77,913
Long-Term Debt (see statements, page 33)	2,579,782	2,410,823
Total Capitalization	5,771,909	5,321,666
Current Liabilities		
Long-Term Debt due within one year	48,243	2,230
Preferred Stock to be redeemed within one year	381	
Commercial Paper (note 6)		207,551
Accounts Payable	263,913	262,734
Taxes Accrued, including New Jersey Gross Receipts Taxes — 1982, $514,378; 1981, $475,856	535,318	492,010
Deferred Income Taxes, Unbilled Revenues (note 1)	83,852	81,396
Interest Accrued	57,925	47,750
Gas Purchased	107,583	83,641
Other	49,927	45,111
Total Current Liabilities	1,147,142	1,222,423
Deferred Credits		
Accumulated Deferred Income Taxes (note 1)		
Deferred Electric Energy and Gas Fuel Costs — net	(32,595)	45,619
Extraordinary Property Losses		
Hope Creek Unit 2	108,223	126,327
Atlantic Project	109,493	115,896
Depreciation and Amortization	358,545	312,595
Other	(6,851)	11,577
Accumulated Deferred Investment Tax Credits (note 1)	301,420	113,890
Over (Under) recovered Electric Energy and Gas Fuel Costs — net (note 5)	66,672	(98,146)
Nuclear Fuel Disposal Costs (note 5)	58,622	
Other	24,387	7,096
Total Deferred Credits	987,916	634,854
Commitments and Contingent Liabilities (note 8)		
Total	$7,906,967	$7,178,943

For the Years Ended December 31,	1982	1981	1980
Funds Provided		(Thousands of Dollars)	
Income before Extraordinary Items	$ 342,827	$264,137	$275,401
Add (Deduct) Items not affecting Working Capital			
Depreciation and Amortization	304,319	231,431	207,650
Recovery (Deferral) of Electric Energy and Gas Fuel Costs — net	164,818	104,199	(28,068)
Provision for Deferred Income Taxes (note 1)			
Depreciation and Amortization — net	45,950	37,716	39,136
Extraordinary Property Losses — net	(24,507)	119,991	(4,571)
Deferred Electric Energy and Gas Fuel Costs — net	(78,214)	(48,188)	12,634
Other — net	(18,428)	(4,640)	(3,262)
Investment Tax Credits — net	205,261	4,998	5,844
Allowance for Funds Used During Construction (AFDC)	(91,427)	(95,679)	(77,552)
Equity in Net Earnings of Subsidiaries	(10,460)	(9,490)	(8,610)
Other	(963)	(1,419)	141
Total Funds from Operations	839,176	603,056	418,743
Income from Extraordinary Items — net (notes 3 and 5)			6,316
Related Items not affecting Working Capital			
Sale of Transport of New Jersey (note 3)			18,155
Unrecoverable Costs of Atlantic Project (note 5)			13,219
Total Funds from Extraordinary Items			37,690
Total Funds from Internal Sources	839,176	603,056	456,433
Net proceeds from sales of			
Long-Term Debt	221,022	99,320	99,042
Preferred Stock	34,646	49,456	
Common Stock	186,883	171,420	144,839
Total Security Sales	442,551	320,196	243,881
Total Funds Provided	$1,281,727	$923,252	$700,314
Funds Applied			
Additions to Utility Plant, excluding AFDC	$ 721,948	$588,170	$547,978
Cash Dividends	281,459	249,061	215,158
Advances to Subsidiaries	16,464	31,026	45,154
Reductions of Long-Term Debt	50,553	5,572	34,345
Hope Creek Unit 2 Abandonment (note 5)			
Total Construction Costs, including AFDC of $33,000		(223,000)	
Recoverable Costs, including deferred cancellation costs		290,750	
Miscellaneous	11,602	17,506	(6,011)
Total Funds Applied	1,082,026	959,085	836,624
Changes in Working Capital — Increase (Decrease)			
Short-Term Debt	207,551	(26,686)	(85,990)
Long-Term Debt due within one year	(46,013)	30,835	(8,866)
Cash	4,386	1,844	(1,654)
Working Funds	13,643	1,288	1,154
Pollution Control Bonds Escrow Funds	4,108		(11,248)
Temporary Cash Investments	49,900		
Accounts Receivable	(1,335)	25,929	118,811
Unbilled Revenues	5,339	13,602	49,469
Fuel	43,694	35,164	7,363
Accounts Payable	(1,179)	(56,838)	(84,580)
Taxes Accrued	(43,308)	(55,860)	(73,500)
Deferred Income Taxes (note 1)	(2,456)	(6,257)	(22,756)
Gas Purchased	(23,942)	(8,762)	(25,934)
Other	(10,687)	9,908	1,421
Net Increase (Decrease) in Working Capital	199,701	(35,833)	(136,310)
Total Funds Applied and Changes in Working Capital	$1,281,727	$923,252	$700,314

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

Statements of Retained Earnings

For the Years Ended December 31,	1982	1981	1980
		(Thousands of Dollars)	
Balance January 1	$ 827,497	$ 813,181	$ 747,076
Add Net Income	342,827	264,137	281,717
Total	1,170,324	1,077,318	1,028,793
Deduct			
Cash Dividends			
Preferred Stock, at required rates	51,984	49,657	44,414
$1.40 Dividend Preference Common Stock	1,881	1,881	1,881
Common Stock*	227,594	197,523	168,863
Total Cash Dividends	281,459	249,061	215,158
Capital Stock Expenses	603	760	454
Total Deductions	282,062	249,821	215,612
Balance December 31	$ 888,262	$ 827,497	$ 813,181

*Restrictions on the payment of dividends are contained in the Charter, certain of the indentures supplemental to the Company's Mortgage, and certain debenture bond indentures. However, none of these restrictions presently limits the payment of dividends out of current earnings. The amount of retained earnings free of these restrictions at December 31, 1982 was $878,262,000.

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

Independent Accountants' Opinion

Deloitte Haskins+Sells

Certified Public Accountants
550 Broad Street
Newark, New Jersey 07102

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

We have examined the balance sheets and statements of capital stock and long-term debt of Public Service Electric and Gas Company as of December 31, 1982 and 1981 and the related statements of income, retained earnings, and changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements, appearing on pages 25 to 39, inclusive, present fairly the financial position of Public Service Electric and Gas Company as of December 31, 1982 and 1981 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

February 14, 1983

December 31,	Outstanding Shares (note A)	Current Redemption Price Per Share	Certain Refundings Restricted Prior to	1982	1981
				(Thousands of Dollars)	
Nonparticipating Cumulative Preferred Stock (note B)					
With Mandatory Redemption (note C)					
$100 par value — Series					
12.25%	266,306	$112.00	2/1/85	$ 26,631	$ 27,913
13.44% (500,000 shares issued in 1981)	500,000	113.44	4/1/86	50,000	50,000
12.80% (350,000 shares issued in 1982)	350,000	112.80	10/1/87	35,000	
Less amount to be redeemed within one year				381	
Preferred Stock with Mandatory Redemption				$111,250	$ 77,913
Without Mandatory Redemption (note D)					
$25 par value-Series					
9.75%	1,600,000	$ 26.50		$ 40,000	$ 40,000
8.70%	2,000,000	26.50		50,000	50,000
$100 par value-Series					
4.08%	250,000	103.00		25,000	25,000
4.18%	249,942	103.00		24,994	24,994
4.30%	250,000	102.75		25,000	25,000
5.05%	250,000	103.00		25,000	25,000
5.28%	250,000	103.00		25,000	25,000
6.80%	250,000	102.00		25,000	25,000
9.62%	350,000	107.00		35,000	35,000
7.40%	500,000	103.00		50,000	50,000
7.52%	500,000	103.00		50,000	50,000
8.08%	150,000	103.00		15,000	15,000
7.80%	750,000	103.00		75,000	75,000
7.70%	600,000	106.56		60,000	60,000
8.16%	300,000	106.86		30,000	30,000
Preferred Stock without Mandatory Redemption (no changes in 1981 and 1980)				$554,994	$554,994
Dividend Preference Common Stock and Common Stock					
$1.40 Dividend Preference Common Stock (no par) — 1,343,999 shares authorized, issued and outstanding; current redemption price $35.00 per share (note E)					
Common Stock (no par) — authorized 150,000,000 shares (note F); issued and outstanding as of December 31, 1982, 94,844,596 shares and as of December 31, 1981, 86,089,491 shares (8,755,105 shares issued for $187,140,000 in 1982; 9,474,496 shares issued for $171,636,000 in 1981; and 7,700,646 shares issued for $145,279,000 in 1980)				$1,610,879	$1,423,739

Notes

A. In addition, there are 1,733,752 shares of $100 par value and 6,400,000 shares of $25 par value Cumulative Preferred Stock which are authorized and unissued, and which upon issuance may or may not provide for mandatory sinking fund redemption.

B. As of December 31, 1982 the annual dividend requirement and embedded dividend costs were $14,462,000 and 13.18%, respectively, for Preferred Stock with mandatory redemption and $40,629,000 and 7.38%, respectively, for Preferred Stock without mandatory redemption.

If dividends upon any shares of such stock are in arrears to an amount equal to the annual dividend thereon, voting rights for the election of a majority of the Board of Directors become operative and continue until all acccumulated and unpaid dividends thereon have been paid, whereupon all such voting rights cease, subject to being again revived from time to time.

C. The 12.25% series is subject to a mandatory annual sinking fund redemption of 17,500 shares which is cumulative, plus redemption of up to an additional 17,500 shares at the option of the Company, all at a redemption price of $100 per share. An aggregate of 12,822 shares, 27,672 shares and 43,200 shares of the 12.25% series were purchased and redeemed in 1982, 1981 and 1980, respectively. On March 31, 1987, the 13.44% series will become subject to a mandatory annual sinking fund redemption of 25,000 shares which is cumulative, plus redemption of up to an additional 25,000 shares annually at the option of the Company, all at a redemption price of $100 per share. On September 30, 1988, the 12.80% series will become subject to a mandatory annual sinking fund redemption of 17,500 shares which is cumulative, plus redemption of up to an additional 17,500 shares annually at the option of the Company, all at a redemption price of $100 per share. These series are subject to optional redemption upon payment of the applicable optional redemption price. A redemption of shares of any series also requires payment of all accumulated and unpaid dividends to the date fixed for redemption.

D. Preferred Stock without mandatory redemption is subject to redemption solely at the option of the Company upon payment of the applicable redemption price plus accumulated and unpaid dividends to the date fixed for redemption.

E. 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. There were no changes in outstanding shares in 1982, 1981, or 1980.

F. Includes 18,273,462 shares of Common Stock reserved for possible issuance under the Company's Dividend Reinvestment and Stock Purchase Plan, Tax Reduction Act Employee Stock Ownership Plan, Employee Stock Purchase Plan and Thrift Plan.

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

December 31,	1982	1981
	(Thousands of Dollars)	
First and Refunding Mortgage Bonds (note A)		
Series		
3¼% October 1, 1983	$ 21,294	$ 21,304
3¼% May 1, 1984	50,000	50,000
4⅜% November 1, 1986	50,000	50,000
4⅞% September 1, 1987	60,000	60,000
4⅝% August 1, 1988	60,000	60,000
5⅛% June 1, 1989	50,000	50,000
4¾% September 1, 1990	50,000	50,000
4⅜% August 1, 1992	40,000	40,000
4⅜% June 1, 1993	40,000	40,000
4⅝% September 1, 1994	60,000	60,000
4¾% September 1, 1995	60,000	60,000
6¼% June 1, 1997	75,000	75,000
7 % June 1, 1998	75,000	75,000
7⅝% April 1, 1999	75,000	75,000
9⅛% March 1, 2000	98,000	98,000
8⅜% A May 15, 2001	69,300	69,300
7⅝% B November 15, 2001	80,000	80,000
7½% C April 1, 2002	125,000	125,000
8½% D March 1, 2004	90,000	90,000
12 % E October 1, 2004	10,730	10,730
8¾% F April 1, 2006	60,000	60,000
8.45% G September 1, 2006	60,000	60,000
8¼% H June 1, 2007	125,000	125,000
8⅛% I September 1, 2007	59,900	59,900
9⅜% J November 1, 2008	100,000	100,000
9¾% K July 1, 2009	100,000	100,000
12 % L November 1, 2009	125,000	125,000
12⅛% M June 1, 2010	100,000	100,000
15⅞% N August 1, 1991	100,000	100,000
14⅜% O September 1, 2012	100,000	
12⅛% P December 1, 2012	100,000	
8 % June 1, 2037	7,463	7,463
5 % July 1, 2037	7,538	7,538
Pollution Control Series		
6.30% A October 1, 2006	14,300	14,300
6.90% B September 1, 2009	42,620	42,620
6.90% C September 1, 2009	2,990	2,990
12½% D April 1, 2012	23,500	
Total First and Refunding Mortgage Bonds	$2,367,635	$2,144,145

Notes

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

B. As of December 31, 1982 the annual interest requirement on Long-Term Debt was $220,828,000 of which $201,166,000 was the requirement for First and Refunding Mortgage Bonds. The embedded interest cost on Long-Term Debt was 8.60%.

C. As of December 31, 1982, the Company had unexercised commitments under a Credit Agreement with 12 domestic banks for issuance of revolving loans up to an aggregate amount of $200,000,000 to be outstanding at any time to April 1, 1984. The

	1982	1981
	(Thousands of Dollars)	
Debenture Bonds unsecured		
4⅝% October 1, 1983	$ 24,800	$ 24,832
5¾% June 1, 1991	39,597	40,557
7¼% December 1, 1993	28,385	29,329
9 % November 1, 1995	54,694	56,145
7¾% August 15, 1996	57,340	59,040
8¾% November 1, 1996	42,010	43,059
6 % July 1, 1998	18,195	18,195
Total Debenture Bonds	265,021	271,157
Other Long-Term Debt		
6½% Note due serially to November 15, 1983	720	1,200
Total Long-Term Debt		
Principal amount outstanding (notes B and C)	2,633,376	2,416,502
Less amount due within one year (note D)	48,243	2,230
Long-Term Debt excluding amount due within one year (note D)	2,585,133	2,414,272
Net Unamortized Discount	(5,351)	(3,449)
Long-Term Debt less Net Unamortized Discount	$2,579,782	$2,410,823

Company may terminate the commitments, in whole or in part, without penalty or premium. Under the agreement, any borrowings outstanding at April 1, 1984 are convertible, at the Company's option, into three year term loans. The Company is required to pay commitment fees of ⅜ of 1% per annum on the first $125,000,000 and ⅛ of 1% per annum on the next $75,000,000 of any unused portion. The Company has the right, with the consent of the banks, to extend the agreement on a year to year basis.

D. The aggregate principal amounts of requirements for sinking funds and maturities for each of the five years following December 31, 1982 is as follows:

Year	Sinking Funds	Maturities	Total
		(Thousands of Dollars)	
1983	$1,429	$ 46,814	$ 48,243
1984	6,197	50,000	56,197
1985	6,200		6,200
1986	6,200	50,000	56,200
1987	6,200	60,000	66,200
	$26,226	$206,814	$233,040

For sinking fund purposes, certain First and Refunding Mortgage Bond issues require annually the retirement of $22,400,000 principal amount of bonds or the utilization of bondable property additions at 60% of cost. The portion expected to be met by property additions has been excluded from the table above. Also, the Company may, at its option, retire additional amounts up to $6,200,000 annually through sinking funds of certain debenture bonds. The election of any such option is included in long-term debt due within one year.

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

1. Federal Income Taxes

A reconciliation of reported Net Income with pre-tax income and of Federal income tax expense with the amount computed by multiplying pre-tax income by the statutory Federal income tax rate of 46% is as follows:

	1982	1981	1980
	(Thousands of Dollars)		
Net Income	$342,827	$264,137	$281,717
Federal income taxes included in:			
Operating income			
Current provision	34,762	2,603	58,641
Provision for deferred income taxes — net*	(72,743)	111,136	66,693
Investment tax credits — net	214,620	4,998	5,844
Total included in operating income	176,639	118,737	131,178
Miscellaneous other income — net	3,265	3,586	1,703
Extraordinary Items			(54,885)
Total Federal income tax provisions	179,904	122,323	77,996
Subtotal	522,731	386,460	359,713
Earnings of subsidiaries — net	(10,460)	(9,490)	(4,831)
Pre-tax income	$512,271	$376,970	$354,882
Tax expense at the statutory rate	$235,645	$173,406	$163,246
Adjustments to pre-tax income, computed at statutory rate, for which deferred taxes are not provided under current rate-making policies:			
Tax depreciation under book depreciation	21,837	18,608	16,161
Allowance for funds used during construction	(42,056)	(44,012)	(35,674)
Overhead costs capitalized	(11,500)	(8,858)	(7,262)
Extraordinary Items			(32,543)
Other	(277)	445	(2,890)
Subtotal	(31,996)	(33,817)	(62,208)
Amortization of deferred tax items	(23,745)	(17,266)	(23,042)
Subtotal	(55,741)	(51,083)	(85,250)
Total Federal income tax provisions	$179,904	$122,323	$ 77,996

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

Current Liabilities			
Unbilled revenues	$ 2,456	$ 6,257	$ 22,756
Deferred Credits			
Hope Creek Abandonment	(18,104)	126,327	
Atlantic Abandonment	(6,403)	(6,336)	(4,587)
Additional tax depreciation	48,791	41,479	31,799
Repair allowance property	(4,524)	(5,236)	6,362
Gross receipts taxes	(2,912)	(2,033)	(985)
Deferred fuel costs — net	(78,214)	(48,188)	12,634
Nuclear Plant Decommissioning Costs	(4,651)		
Nuclear Fuel Disposal Costs	(10,150)	(1,775)	(1,492)
Loss on reacquired debt	(415)	(571)	(570)
Other	1,383	1,212	776
Subtotal	(75,199)	104,879	43,937
Total	$ (72,743)	$111,136	$66,693

As a result of an Internal Revenue Service (IRS) audit for taxable years 1976 through 1978, the IRS has proposed an increase in taxable income which would increase tax liability by approximately $8 million, after using available investment credits of $44 million. This is primarily the result of including unbilled revenues as taxable income in the year estimated services were provided. The Company has not agreed to the results of this audit and is presently appealing the IRS assessment.

Investment tax credits — net for 1982 includes credits carried forward from 1978 through 1981. The balance of investment tax credits not utilized as of December 31, 1982, in the amount of $44 million, is available as a carryover to future years and will expire in 1997. Should the IRS prevail in its assessment, this investment credit carryover would be eliminated. Investment tax credits can be utilized to offset 90% of 1982 tax liability before investment credit, 80% of 1981 tax liability and 70% of 1980 tax liability.

The Company has a Tax Reduction Act Employee Stock Ownership Plan (TRASOP) under provisions of the Internal Revenue Code of 1954, as amended (the Code). Such provisions permit the Company to elect an additional 1% investment tax credit if the Company transfers to the TRASOP an equivalent amount of cash for the purchase of shares of Common Stock. The Company may also claim an additional ½% investment tax credit if it contributes an equivalent amount of cash to the TRASOP, but only to the extent that such amount is matched by contributions by participants. The Company presently estimates that all TRASOP credits claimed will be utilized no later than in its 1983 tax return.

2. Investments in and Advances to Subsidiaries

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

December 31,	1982	1981	1980
	(Thousands of Dollars)		
Energy Development Corporation			
Investment	$ 37,628	$ 25,663	$ 14,245
Advances	172,368	151,168	123,034
	209,996	176,831	137,279
Other Subsidiaries, primarily LNG Project Advances	77,938	84,179	83,215
Total	$287,934	$261,010	$220,494

The major subsidiary included in "Other Subsidiaries" above is Energy Terminal Services Corporation (ETSC). Its principal asset, which has not been placed in operation, is a Liquefied Natural Gas (LNG) terminal on Staten Island in the New York City harbor area. Annual expenditures for protection and maintenance of the terminal, including local real estate taxes, are approximately $4.0 million.

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

If necessary permits are not received and the facilities are not placed in service, the Company would anticipate seeking favorable rate treatment from the BPU for any loss which may occur. Any loss not provided for, in the opinion of management, would not have a material effect on the financial position or results of operations of the Company.

3. Sale of Transport of New Jersey

On October 14, 1980, the Company sold all of the outstanding capital stock of Transport of New Jersey (TNJ) to New Jersey Transit Corporation (NJTC), an agency of the State of New Jersey, for $32.1 million. This resulted in a pre-tax loss of $30.0 million which was more than offset by income tax benefits to the Company of $49.5 million. Such tax benefits resulted in a non-recurring credit to earnings for 1980 of $19.5 million or 27¢ per average share of Common Stock.

4. Compensating Balances

Cash at December 31, 1982 and December 31, 1981 consisted primarily of compensating balances under informal arrangements with various banks to compensate them for services and to support lines of credit of $180.9 million and $178.2 million, respectively. There are no legal restrictions placed on the withdrawal or other use of these bank balances. In addition, at December 31, 1982 and December 31, 1981, the Company had $35.0 million and $30.0 million, respectively, of lines of credit which were compensated for by fees.

5. Deferred Items

Abandonment of Hope Creek Unit No. 2

On December 23, 1981, the Company abandoned the construction of Hope Creek Generating Station Unit No. 2 in Lower Alloways Creek Township, New Jersey. Total unrecovered costs of $290.8 million, including an estimated $67.8 million of cancellation and close-out costs, were charged to Extraordinary Property Losses and the associated tax reduction of $126.3 million was included in Accumulated Deferred Income Taxes.

On March 4, 1982, the BPU authorized the transfer of $112 million of Hope Creek 2 costs to Hope Creek 1 and recovery of all after-tax abandonment costs for Hope Creek 2 from customers through the levelized electric energy adjustment clause. The recovery is over 15 years on an accelerated method which commenced June 1982. During 1983, the amount of amortization will be $33.2 million, less related taxes of $13.5 million.

Abandonment of Atlantic Project

In December 1978, the Company cancelled its floating nuclear plant project which was to have consisted of four generating units. The BPU is allowing the Company to recover the costs relating to the project over a period of 20 years commencing on April 17, 1980 exclusive of $18.6 million which, after a related tax reduction of $5.4 million, resulted in a net extraordinary charge to income in 1980 of $13.2 million or 18¢ per average share of Common Stock.

Costs are being amortized in the amount of $15.1 million annually, less related taxes of $6.3 million.

Gross Receipts Taxes

Effective January 1, 1973, the Company began accruing New Jersey gross receipts taxes on current revenues rather than on the previous basis of taxes paid. The gross receipts taxes on 1972 revenues were deferred and are being charged to operations by an amount equivalent to ½% of revenues subject to the gross receipts tax. During 1983 the Company expects to amortize the remaining $12.9 million, less related taxes of $5.9 million.

Unamortized Debt Expense

These costs, associated with the issuance or reacquisition of debt, are deferred and amortized over the lives of the related issues. Amounts shown in the Balance Sheets consist principally of costs associated with the Company's tender offer for its 12% Series E Mortgage Bonds which will mature in October 2004. The Company expects to amortize $1.1 million of these costs in 1983.

Over (Under) recovered Electric Energy and Gas Fuel Costs — net

The net overrecovered costs as of December 31, 1982 consist primarily of overrecovered electric costs of $45.2 million and overrecovered gas costs of $34.0 million, which will be refunded to customers through reduced bills during the remainders of the respective current levelized periods. The offsetting balance of $12.5 million represents underrecovered electric costs from prior periods which are expected to be recouped by the end of February 1984.

Nuclear Fuel Disposal Costs

In February 1982 previously unallowed nuclear fuel disposal costs were recorded and amortization of such costs commenced. Salem 2 costs are being amortized over two years and Peach Bottom 2 and 3 costs are being amortized over seven years. The unamortized balance consists of $1.6 million applicable to Salem 2 and $45.6 million applicable to Peach Bottom. During 1983 the Company expects to amortize $8.9 million of such costs less related taxes of $4.1 million. In 1982 the Company recorded $58.6 million of estimated nuclear fuel disposal costs applicable to Peach Bottom 2 and 3 together with a deferred liability pending the establishment of a payment schedule by the Department of Energy (D.O.E.). Until regulations are issued by the D.O.E., the Company is presently unable to determine when payments of the deferred liability will commence or the amounts of such payments.

6. Bank Loans and Commercial Paper

Bank loans represent the Company's unsecured promissory notes issued under credit arrangements with various banks and have a term of eleven months or less. Such notes were issued to a limited extent in 1981.

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

	1982	1981
	(Thousands of Dollars)	
Maximum amount outstanding at any month end	$216,015	$207,551
Average daily outstanding (A)	$107,950	$101,226
Weighted average annual interest rate (B)	12.95%	16.27%
Weighted average interest rate for commercial paper outstanding at year end	None	12.72%

(A) Computed by dividing the sum of the daily principal amounts outstanding during the year by the total number of days in the year

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

7. Pension Plan

The Company has a non-contributory, trusteed plan covering all employees who complete one year of service. As of December 31, 1982, the unfunded prior service costs were approximately $323,370,000. Information on accumulated plan benefits and net assets follows:

December 31,	1982	1981
	(Thousands of Dollars)	
Actuarial present value of accumulated plan benefits		
Vested	$357,290	$326,343
Nonvested	45,782	33,616
	$403,072	$359,959
Assumed rate of return	10.0%	10.5%
Market value of Plan Net Assets	$367,702	$283,021

The Company's annual contribution is actuarially determined to provide for full funding by December 31, 2001. Pension costs for the past three years were charged as follows:

	1982	1981	1980
	(Thousands of Dollars)		
Operating Expenses	$50,286	$47,505	$38,042
Utility Plant and Other Accounts	10,344	10,954	10,284
Total Pension Costs	$60,630	$58,459	$48,326

The Company offered a special early retirement program during the period from June 1, 1980 to October 1, 1980 to employees meeting certain age and service requirements. Under the program, 1,367 employees retired. Employees who retired under the program are paid an unreduced pension under the Company's Pension Plan and a special supplement, initially $500 per month and increasing to $650 per month, payable out of the Company's general funds. The special supplement ceases at age 65, upon death, or upon re-employment by the Company. It is estimated that the special supplement will cost the Company $50 million over ten years beginning 1980. As allowed by the BPU, these costs are being recovered as incurred. The unreduced pension provision under the Plan requires additional funding which is included in the unfunded prior service cost.

8. Commitments and Contingent Liabilities

The Company has substantial commitments as part of its construction program as well as commitments to obtain sufficient sources of fuel for electric generation and adequate gas supplies. Construction expenditures of $3.8 billion, including $736 million of AFDC, are expected to be incurred during the years 1983 through 1987.

A contract with Kerr-McGee Nuclear Corporation to supply uranium concentrates was amended in 1980 to substantially curtail open pit mine operations. In November 1982 an agreement was reached with Kerr-McGee which calls for an extension of the curtailed operations until January 1, 1986. As of December 31, 1982, the Company and the co-owners of the Salem and Hope Creek Generating Stations had advanced $40.5 million to Kerr-McGee against deliveries of uranium concentrates.

Credits have been received amounting to $14.5 million, including interest of $4.7 million. The recoupment of $30.7 million, the balance of such advances, of which approximately 30% is the responsibility of the other co-owners, is dependent upon the sale of uranium concentrates by Kerr-McGee to the Company or other buyers or upon the sale by Kerr-McGee of the project properties. The Company cannot presently predict the extent to which such advance payments will ultimately be recovered. For additional information see page 13.

The Company's insurance coverages for its nuclear operations are as follows:

Type and Source of Coverage	Maximum Coverage	Maximum Retrospective Assessment for a single incident
	(Millions of Dollars)	
Public Liability		
American Nuclear Insurers	$160	$None
Federal Government (A)	400	8.5 (B)
	$560 (C)	$ 8.5
Property Damage		
Nuclear Mutual Limited (D)	$500	$30.4
Nuclear Electric Insurance Limited (D)	415	7.7
American Nuclear Insurers	67	None
	$982	$38.1
Replacement Power		
Nuclear Electric Insurance Limited (D)	$ 2.5 (E)	$13.5

(A) Combined retrospective premium program under the Price-Anderson liability provisions of the Atomic Energy Act of 1954, as amended. Subject to retrospective assessment with respect to loss from incident at any licensed nuclear reactor in the United States.

(B) Maximum assessment would be $17.0 million in the event of more than one incident in any year.

(C) Limit of liability under the Atomic Energy Act of 1954, as amended, for each nuclear incident.

(D) Utility-owned mutual insurance company of which the Company is a member. Subject to retrospective assessment with respect to loss at any nuclear generating station covered by such insurance.

(E) Maximum weekly indemnity for 52 weeks which commences after the first 26 weeks of an outage. Also provides $1.25 million weekly for an additional 52 weeks.

9. Accounting for Leases

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

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

The Company's financial statements are prepared in accordance with generally accepted accounting principles and are stated on the basis of historical costs, namely, the prices that were in effect when the underlying transactions occurred. The following supplementary financial information, prepared in accordance with Financial Accounting Standards Board Statement No. 33 (FAS 33), is an estimate of the effects on the Company of general inflation (Constant Dollar) and changes in specific prices (Current Cost).

The Company advises readers of the imprecise nature of this data and of the many subjective judgments required in the restatement of selected historical costs to Constant Dollar and Current Cost. This data should not be used to make adjustments to the Company's primary financial statements and the related earnings per average share of Common Stock other *than those adjustments shown in the following supplementary financial data.*

Constant Dollar costs were determined by adjusting historical costs of Utility Plant and certain other items into dollars of the same general purchasing power by using the Consumer Price Index for All Urban Consumers (CPI-U).

Current Cost data purports to show the estimated cost of currently replacing existing Utility Plant and was measured by applying primarily the Handy-Whitman Index of Public Utility Construction Costs to the historical costs of Utility Plant.

Depreciation and Amortization expense, and Amortization of Nuclear Fuel (included in Electric Fuel, Interchanged Power and Gas) were adjusted for Constant Dollar and Current Cost using the rates and methods for computing book depreciation and amortization applied to the appropriate inflation adjusted Utility Plant balances. In accordance with FAS 33, income tax expense was not adjusted.

FAS 33 requires the disclosure of the amount required to reflect Net Utility Plant at its Recoverable Cost if that cost is lower than the inflation adjusted amounts. Also required under Current Cost is the disclosure of the increase in Current Cost of Net Utility Plant held during the year and the related effect of general inflation. The amounts shown in the following table illustrate that during 1982 the increase in general inflation was less than the increase in the Current Cost of Net Utility Plant. In addition, the amounts shown as Adjustments of Net Utility Plant to Recoverable Cost (both Constant Dollar and Current Cost) are adjustments to Historical Cost in average 1982 dollars. Historical Cost is the amount permitted to be recovered under the rate regulatory process for utilities in New Jersey.

During inflationary periods, holders of monetary assets, such as cash and receivables, suffer losses of general purchasing power while holders of monetary liabilities experience gains. In 1982 the Company's monetary liabilities, primarily long-term debt, exceeded its monetary assets resulting in a gain. Since this gain is primarily attributable to long-term debt which has been used to finance Utility Plant, it is netted against the amount by which the increase in general inflation is (higher) lower than the increase in Current Cost of Net Utility Plant after adjustment to recoverable cost in the following table.

Supplementary Financial Data Adjusted for the Effects of Changing Prices for the Year Ended December 31, 1982

(Unaudited)

	Historical Cost (Condensed from the Financial Statements)	Constant Dollar (Average 1982 Dollars)	Current Cost (Average 1982 Dollars)
		(Thousands of Dollars)	
Operating Revenues	$3,873,976	$3,873,976	$3,873,976
Operating Expenses			
Electric Fuel, Interchanged Power and Gas	1,780,861	1,784,238	1,797,299
Other Operation and Maintenance	715,916	715,916	715,916
Depreciation and Amortization	192,860	439,971	489,097
Taxes	729,880	729,880	729,880
Total Operating Expenses	3,419,517	3,670,005	3,732,192
Operating Income	454,459	203,971	141,784
Other (including Interest Expenses)	(111,632)	(111,632)	(111,632)
Income from Continuing Operations (excluding Adjustment of Net Utility Plant to Recoverable Cost)	$ 342,827	$ 92,339*	$ 30,152
Increase in Current Cost of Net Utility Plant held during the year**			$ 612,070
Adjustment of Net Utility Plant to Recoverable Cost		$ 35,342	(150,475)
Effect of the increase in General Inflation			(364,066)
Amount by which increase in general inflation is lower than increase in Current Cost of Net Utility Plant after adjustment to Recoverable Cost			97,529
Gain from decline in purchasing power of Net Monetary Liabilities		103,892	103,892
Net		$ 139,234	$ 201,421

*Including Adjustment of Net Utility Plant to Recoverable Cost, Income from Continuing Operations adjusted for Constant Dollar would have been $127,681,000.

**At December 31, 1982 the Current Cost of Net Utility Plant was $10,136,132,000, while historical (net recoverable) cost was $6,035,066,000.

Supplementary Five-Year Comparison of Selected Financial Data Adjusted for Effects of Changing Prices

(Unaudited)

(000 omitted where applicable and all adjusted figures are in average 1982 dollars)

For the Years Ended December 31.	1982	1981	1980	1979	1978
Operating Revenues					
Historical	$3,873,976	$3,471,652	$2,994,054	$2,416,707	$2,219,785
Adjusted for General Inflation	*$3,873,976*	*$3,684,488*	*$3,507,216*	*$3,213,753*	*$3,284,237*
Income (Loss) from Continuing Operations (excluding Adjustment of Net Utility Plant to Recoverable Cost)					
Historical	$ 342,827	$ 264,137	$ 275,401	$ 233,329	
Adjusted for General Inflation	*$ 92,339*	*$ 46,930*	*$ 115,557*	*$ 103,108*	
Adjusted for Current Cost	*$ 30,152*	*$ (13,402)*	*$ 39,510*	*$ 20,155*	
Income (Loss) from Continuing Operations per Average Common Share (excluding Adjustment of Net Utility Plant to Recoverable Cost)*					
Historical	$ 3.24	$ 2.63	$ 3.13	$ 2.85	
Adjusted for General Inflation	*$ .43*	*$ (.10)*	*$ .84*	*$ .62*	
Adjusted for Current Cost	*$ (.27)*	*$ (.84)*	*$ (.20)*	*$ (.65)*	
Amount by which increase in general inflation is (higher) lower than increase in Current Cost of Net Utility Plant after adjustment to Recoverable Cost	*$ 97,529*	*$ (190,813)*	*$ (396,969)*	*$ (466,956)*	
Gain from decline in purchasing power of Net Monetary Liabilities	*$ 103,892*	*$ 235,151*	*$ 331,151*	*$ 362,346*	
Net Assets at Year End**					
Historical	$3,080,877	$2,832,930	$2,646,928	$2,435,516	
Adjusted for General Inflation and Current Cost	*$3,046,107*	*$2,909,414*	*$2,961,404*	*$3,062,669*	
Cash Dividends Declared per Common Share					
Historical	$ 2.53	$ 2.44	$ 2.29	$ 2.20	$ 2.08
Adjusted for General Inflation	*$ 2.53*	*$ 2.59*	*$ 2.68*	*$ 2.93*	*$ 3.08*
Market Price per Common Share at Year End					
Historical	$23.25	$18.00	$17.00	$19.25	$20.25
*Adjusted for General Inflation****	*$23.25*	*$18.70*	*$19.24*	*$24.48*	*$29.18*
Consumer Price Index (1967 = 100)					
Average	289.1	272.4	246.8	217.4	195.4
Year End	292.4	281.5	258.4	229.9	202.9

*After deducting Cumulative Preferred Stock and $1.40 Dividend Preference Common Stock dividends on a historical basis in 1982 and in Average 1982 Dollars for prior years.
**Equals Common Equity and Preferred Stock without mandatory redemption.
***Year-end 1982 Dollars.

Prices have been increasing over the last five years. The average CPI-U increased from 195.4 in 1978 to 289.1 in 1982, an average annual increase of 10.3%. The increase from 1981 to 1982 was 6.1%, an indication that the rate of inflation in 1982 has slowed.

Revenues for the five-year period increased from $2.220 billion in 1978 to $3.874 billion in 1982, an average annual increase of 14.9%. Restated in average 1982 dollars, revenues for the same period would have increased from $3.284 billion to $3.874 billion, an average annual increase of only 4.2%.

Cash dividends declared per common share went from $2.08 in 1978 to $2.53 in 1982 or an average annual increase of 5.0%. However, such dividends would have decreased at an average annual rate of 4.8% or from $3.08 in 1978 to $2.53 in 1982 when restated in average 1982 dollars.

Market price per common share at year end from 1978 to 1982 had an average annual increase of 3.5% or from $20.25 to $23.25. Restated in year-end 1982 dollars the 1978 market price would have been $29.18 instead of $20.25 resulting in an average annual decrease of 5.5% from 1978 to 1982.

As shown in the tables above, the gain from decline in purchasing power of net monetary liabilities was not enough to offset the significant effect of inflation on capital costs (utility plant), nuclear fuel costs and depreciation.

Lack of adequate recognition of inflation in rate-making in addition to delayed rate relief accelerates attrition, thereby contributing to poorer cash flow. By the time increased costs are included in rates, the related funds have already been expended.

11. Jointly-Owned Facilities

The Company has an ownership interest and is responsible for providing its share of the necessary financing for the following jointly-owned facilities. All amounts reflect the Company's share of each jointly-owned project and the corresponding direct expenses are included in the Statements of Income as an operating expense.

Plant	Ownership Interest	Amount of Utility Plant In Service	Accumulated Provision for Depreciation	Amount of Plant Under Construction
			(Thousands of Dollars)	
Coal Generating				
Conemaugh	22.50%	$ 67,629	$ 17,642	
Keystone	22.84%	55,308	17,835	
Nuclear Generating				
Peach Bottom	42.49%	408,087	111,441	
Salem	42.59%	712,198	97,571	
Hope Creek	95.00%			$1,825,704
Nuclear Training Center	Various	6,747	132	8,130
Pumped Storage Generating				
Yards Creek	50.00%	16,884	3,567	
Transmission Facilities	Various	74,485	7,347	27,476
Merrill Creek Reservoir	13.906%			3,445
Linden Synthetic Natural Gas	90.00%	65,988	34,329	

12. Financial Information by Business Segments

For the Years Ended December 31,	Electric 1982	Electric 1981	Electric 1980	Gas 1982	Gas 1981	Gas 1980	Total 1982	Total 1981	Total 1980
				(Thousands of Dollars)					
Operating Revenues	$2,543,191	$2,322,042	$2,083,900	$1,330,785	$1,149,610	$910,154	$3,873,976	$3,471,652	$2,994,054
Depreciation and Amortization	146,643	134,050	127,655	46,217	44,482	42,332	192,860	178,532	169,987
Operating Income Before Income Taxes	533,855	378,082	407,662	99,108	94,937	101,147	632,963	473,019	508,809
Gross Additions to Utility Plant	735,997	615,976	551,110	77,378	67,873	74,420	813,375	683,849	625,530
December 31,									
Net Utility Plant	$5,369,929	$4,813,875	$4,570,355	$ 665,137	$ 632,218	$606,894	$6,035,066	$5,446,093	$5,177,249
Gas Exploration Subsidiary and LNG Project				287,911	261,000	220,484	287,911	261,000	220,484
Other Corporate Assets	1,148,364	1,168,539	944,195	435,626	401,457	382,932	1,583,990	1,569,996	1,327,127
Total Assets	$6,518,293	$5,982,414	$5,514,550	$1,388,674	$1,294,675	$1,210,310	$7,906,967	$7,277,089	$6,724,860

13. Selected Quarterly Data (Unaudited)

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

Calendar Quarter Ended	March 31, 1982	March 31, 1981	June 30, 1982	June 30, 1981	September 30, 1982	September 30, 1981	December 31, 1982	December 31, 1981
				(Thousands where applicable)				
Operating Revenues	$1,144,277	$982,938	$872,657	$733,255	$872,292	$809,805	$984,750	$945,654
Operating Income	111,347	101,669	100,839	74,183	126,805	94,677	115,468	83,738
Net Income	83,389	77,404	71,530	52,941	98,289	71,665	89,619	62,127
Earnings Available for Common Stock	$ 70,226	$ 65,865	$ 58,386	$ 39,339	$ 84,975	$ 58,447	$ 75,375	$ 48,948
Earnings per Average Share of Common Stock	$.81	$.86	$.67	$.51	$.95	$.69	$.80	$.57
Average Shares of Common Stock Outstanding	86,181	76,680	87,176	77,526	89,626	84,252	93,861	85,261

(000 omitted where applicable)	1982	1981	% Annual Increase — 1982 compared with 1981	1972
Electric				
Revenues from Sales of Electricity (a)				
Residential	$ 791,279	$ 728,642	8.60	12.76
Commercial	981,795	871,377	12.67	15.61
Industrial	716,662	684,976	4.63	14.28
Public Street Lighting	37,809	33,249	13.71	9.14
Total Revenues from Sales to Customers	2,527,545	2,318,244	9.03	14.15
Interdepartmental	1,709	1,612	6.02	10.22
Total Revenues from Sales of Electricity	2,529,254	2,319,856	9.03	14.15
Other Electric Revenues	13,937	2,186	537.56	24.59
Total Operating Revenues	$2,543,191	$2,322,042	9.52	14.19
Sales of Electricity — kilowatthours (a)				
Residential	7,686,548	7,795,988	(1.40)	.38
Commercial	11,114,655	10,940,609	1.59	2.98
Industrial	10,017,613	10,923,042	(8.29)	(1.26)
Public Street Lighting	301,603	275,489	9.48	2.04
Total Sales to Customers	29,120,419	29,935,128	(2.72)	.64
Interdepartmental	25,154	25,567	(1.62)	(.26)
Total Sales of Electricity	29,145,573	29,960,695	(2.72)	.64
Kilowatthours Produced, Purchased and Interchanged — net	31,563,231	32,204,191	(1.99)	.68
Load Factor	51.2%	52.3%		
Capacity Factor	34.7%	33.2%		
Heat Rate — Btu of fuel per net kwh generated	10,677	10,725	(.45)	(.01)
Net Installed Generating Capacity at December 31 — kilowatts	8,995	9,101	(1.16)	1.39
Net Peak Load — kilowatts (60-minute integrated)	7,042	7,034	.11	1.28
Cooling Degree Hours	6,329	8,615	(26.54)	(1.40)
Temperature Humidity Index Hours	12,155	15,494	(21.55)	(1.71)
Average Annual Use per Residential Customer — kwh	5,156	5,261	(2.00)	(.29)
Meters in Service at December 31	1,746	1,739	.40	.53
Gas				
Revenues from Sales of Gas (a)				
Residential	$ 716,308	$ 604,521	18.49	14.56
Commercial	371,027	302,281	22.74	17.99
Industrial	241,437	240,711	.30	19.58
Street Lighting	350	290	20.69	14.80
Total Revenues from Sales to Customers	1,329,122	1,147,803	15.80	16.23
Interdepartmental	1,068	1,075	(.65)	6.82
Total Revenues from Sales of Gas	1,330,190	1,148,878	15.78	16.22
Other Gas Revenues	595	732	(18.72)	15.32
Total Operating Revenues	$1,330,785	$1,149,610	15.76	16.22
Sales of Gas — therms (a)				
Residential	994,647	993,527	.11	(.47)
Commercial	581,739	555,806	4.67	1.83
Industrial	465,835	514,136	(9.39)	(.59)
Street Lighting	331	334	(.90)	(3.00)
Total Sales to Customers	2,042,552	2,063,803	(1.03)	.10
Interdepartmental	2,090	2,430	(13.99)	(7.31)
Total Sales of Gas	2,044,642	2,066,233	(1.04)	.08
Gas Produced and Purchased — therms	2,148,875	2,145,325	.17	.17
Effective Daily Capacity at December 31 — therms	19,139	19,010	.68	1.19
Maximum 24-hour Gas Sendout — therms	16,201	14,812	9.38	2.94
Heating Degree Days (a)	4,820	5,082	(5.16)	(.12)
Average Annual Use per Residential Customer — therms	853	857	(.47)	(.88)
Meters in Service at December 31	1,384	1,378	.44	.34

(a) Starting in 1973, revenues and sales by customer classification include accrued and unbilled dollar amounts and sales volumes from meter reading date to the end of the calendar year. To better reflect temperature effect on these recorded sales, heating degree days are also reported on a calendar-year basis effective with 1973. For 1972, heating degree days remain on a sales-year basis.

1980	1979	1978	1977	1972
$ 684,343	$ 545,049	$ 512,071	$ 492,473	$238,025
765,356	625,596	574,557	531,118	230,176
598,716	484,037	444,595	414,058	188,667
32,693	31,437	29,925	27,622	15,773
2,081,108	1,686,119	1,561,148	1,465,271	672,641
1,720	1,559	1,670	1,916	646
2,082,828	1,687,678	1,562,818	1,467,187	673,287
1,072	2,179	2,016	2,931	1,546
$2,083,900	$1,689,857	$1,564,834	$1,470,118	$674,833
8,129,198	7,777,369	7,760,868	7,769,629	7,399,963
10,726,086	10,336,445	10,152,827	9,747,908	8,289,066
11,049,642	11,185,952	11,134,634	10,627,734	11,375,579
265,126	260,915	260,922	259,277	246,496
30,170,052	29,560,681	29,309,251	28,404,548	27,311,104
27,684	26,629	32,638	38,331	25,807
30,197,736	29,587,310	29,341,889	28,442,879	27,336,911
32,703,504	32,021,737	31,628,876	30,771,719	29,509,136
52.0%	54.3%	54.6%	50.9%	54.2%
35.6%	31.8%	34.4%	32.7%	38.6%
10,713	10,566	10,599	10,677	10,685
9,242	9,023	9,061	9,247	7,836
7,159	6,736	6,615	6,895	6,201
9,869	7,201	7,188	8,269	7,287
16,526	14,545	13,899	14,883	14,450
5,443	5,233	5,378	5,403	5,307
1,732	1,724	1,713	1,704	1,656
$ 515,013	$ 415,157	$ 399,134	$ 344,444	$183,953
228,577	179,970	163,931	137,811	70,953
164,762	129,665	90,240	78,474	40,381
282	274	248	178	88
908,634	725,066	653,553	560,907	295,375
925	790	802	572	552
909,559	725,856	654,355	561,479	295,927
595	994	596	1,198	143
$ 910,154	$ 726,850	$ 654,951	$ 562,677	$296,070
1,023,027	970,462	1,013,043	980,570	1,042,793
506,550	456,902	447,923	432,810	485,358
447,474	410,605	306,672	329,211	494,454
335	350	367	376	449
1,977,386	1,838,319	1,768,005	1,742,967	2,023,054
2,322	2,328	2,490	2,064	4,463
1,979,708	1,840,647	1,770,495	1,745,031	2,027,517
2,077,653	1,931,549	1,852,869	1,811,019	2,112,844
18,439	18,639	18,639	18,933	16,999
14,444	13,349	12,235	14,006	12,125
5,256	4,677	5,317	5,155	4,879
875	833	893	862	932
1,370	1,357	1,350	1,350	1,338

(000 omitted where applicable)	1982		1981	
Condensed Statements of Income (a)	Amount	%	Amount	%
Operating Revenues				
Electric	$2,543,191	66	$2,322,042	67
Gas	1,330,785	34	1,149,610	33
Total Operating Revenues	3,873,976	100	3,471,652	100
Operating Expenses				
Fuel for Electric Generation and Interchanged Power — net	959,382	25	1,059,539	31
Gas Purchased and Materials for Gas Produced	821,479	21	692,319	20
Other Operation Expenses	452,115	12	385,149	11
Maintenance	220,456	6	192,768	6
Depreciation and Amortization	192,860	5	178,532	5
Amortization of Property Losses	43,345	1	15,362	
Taxes Other than Federal Income Taxes	553,241	14	474,979	14
Federal Income Taxes	176,639	4	118,737	3
Total Operating Expenses	3,419,517	88	3,117,385	90
Operating Income				
Electric	383,213	10	288,087	8
Gas	71,246	2	66,180	2
Total Operating Income	454,459	12	354,267	10
Allowance for Funds Used During Construction (Debt and Equity)	91,427	2	95,679	3
Other Income — net	17,578	1	15,780	
Interest Charges	(220,637)	(6)	(201,589)	(6)
Income before Extraordinary Items	342,827	9	264,137	7
Extraordinary Items, net of income tax:				
Unrecoverable costs of Atlantic Project				
Gain on sale of Transport of New Jersey				
Net Extraordinary Items				
Net Income	342,827	9	264,137	7
Preferred and Preference Stock Dividends	53,865	2	51,538	1
Earnings Available for Common Stock	$ 288,962	7	$ 212,599	6
Shares of Common Stock Outstanding				
End of Year	94,845		86,089	
Average for Year	89,233		80,962	
Earnings per average share of Common Stock	$3.24		$2.63	
Dividends Paid per Share	$2.53		$2.44	
Payout Ratio	78%		93%	
Rate of Return on Average Common Equity (c)	12.22%		9.79%	
Ratio of Earnings to Fixed Charges Before Income Taxes (d)	3.32		2.87	
Book Value per Common Share (e)	$25.90		$25.66	
Utility Plant	$8,100,579		$7,320,764	
Accumulated Depreciation and Amortization	$2,065,513		$1,874,671	
Total Assets	$7,906,967		$7,277,089	
Capitalization				
Mortgage Bonds	$2,341,142	41	$2,140,835	40
Debenture Bonds	238,640	4	269,268	5
Other Long-Term Debt			720	
Total Long-Term Debt	2,579,782	45	2,410,823	45
Preferred Stock with Mandatory Redemption	111,250	2	77,913	2
Preferred Stock without Mandatory Redemption	554,994	9	554,994	10
$1.40 Dividend Preference Common Stock and Common Stock	1,610,879	28	1,423,739	27
Premium on Capital Stock	557		557	
Paid-In Capital	26,185	1	26,143	
Retained Earnings	888,262	15	827,497	16
Total Common Equity	2,525,883	44	2,277,936	43
Total Capitalization	$5,771,909	100	$5,321,666	100

(a) See Summary of Significant Accounting Policies, page 25, Notes to Financial Statements, page 34, and Management's Discussion and Analysis of Financial Condition and Results of Operations, page 44.

(b) Excludes the net extraordinary gain of $6,316,000 or $.09 per share.

(c) Balance available for $1.40 Dividend Preference Common Stock and Common Stock divided by the thirteen-month average of Common Equity.

1980 Amount	%	1979 Amount	%	1978 Amount	%	1977 Amount	%	1972 Amount	%
$2,083,900	70	$1,689,857	70	$1,564,834	70	$1,470,118	72	$ 674,833	70
910,154	30	726,850	30	654,951	30	562,677	28	296,070	30
2,994,054	100	2,416,707	100	2,219,785	100	2,032,795	100	970,903	100
866,802	29	620,546	26	541,802	24	538,916	27	203,381	22
513,988	17	384,759	16	327,990	15	257,897	13	117,910	12
322,220	11	287,086	12	267,731	12	250,531	12	168,132	17
169,813	6	149,027	6	127,423	6	124,876	6	80,215	8
169,987	6	162,989	7	158,248	7	147,652	7	91,037	9
11,024		303		1,038		1,185			
431,890	14	364,411	15	328,216	15	293,796	14	132,827	14
131,178	4	123,965	5	146,937	7	120,969	6	(991)	
2,616,902	87	2,093,086	87	1,899,385	86	1,735,822	85	792,511	82
307,372	10	269,443	11	266,513	12	250,385	13	141,181	14
69,780	3	54,178	2	53,887	2	46,588	2	37,211	4
377,152	13	323,621	13	320,400	14	296,973	15	178,392	18
77,552	2	56,593	3	41,305	2	49,540	2	45,011	5
10,259		6,263		4,515		1,447		(5,166)	(1)
(189,562)	(6)	(153,148)	(6)	(137,434)	(6)	(133,718)	(7)	(102,034)	(10)
275,401	9	233,329	10	228,786	10	214,242	10	116,203	12
(13,219)									
19,535									
6,316									
281,717	9	233,329	10	228,786	10	214,242	10	116,203	12
46,341	1	46,799	2	46,799	2	45,065	2	21,117	2
$ 235,376	8	$ 186,530	8	$ 181,987	8	$ 169,177	8	$ 95,086	10
76,615		68,914		64,120		59,806		43,861	
73,069		65,409		61,783		59,243		41,541	
$3.13 (b)		$2.85		$2.95		$2.86		$2.29	
$2.29		$2.20		$2.08		$1.92		$1.70	
73% (b)		77%		71%		67%		74%	
11.63%		10.46%		11.01%		10.95%		9.36%	
3.14		3.36		3.77		3.52		2.08	
$26.38		$26.26		$26.13		$25.57		$23.48	
$6,881,209		$6,325,033		$5,810,329		$5,654,097		$3,999,474	
$1,703,960		$1,589,049		$1,447,039		$1,314,916		$ 831,673	
$6,724,860		$6,088,766		$5,508,164		$5,125,497		$3,402,305	
$2,041,556	41	$1,940,513	41	$1,692,642	39	$1,647,445	40	$1,239,602	39
276,590	5	314,726	7	322,682	7	330,812	8	430,857	14
1,200		1,680		2,160		2,640			
2,319,346	46	2,256,919	48	2,017,484	46	1,980,897	48	1,670,459	53
29,750	1	31,500		35,000	1	35,000	1		
554,994	11	554,994	12	554,994	13	554,994	13	374,994	12
1,252,103	25	1,106,824	23	1,014,184	23	919,752	22	622,878	20
557		557		557		557		539	
26,093	1	26,065	1	26,065	1	26,065		26,065	1
813,181	16	747,076	16	704,909	16	651,885	16	443,443	14
2,091,934	42	1,880,522	40	1,745,715	40	1,598,259	38	1,092,925	35
$4,996,024	100	$4,723,935	100	$4,353,193	100	$4,169,150	100	$3,138,378	100

(d) Net Income plus Income Taxes, Deferred Income Taxes, Investment Tax Credits and Fixed Charges divided by Fixed Charges. Fixed Charges include Interest on Long-Term and Short-Term Debt, Other Interest Expense and, starting in 1980, an interest factor in rentals.

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

On January 7, 1983, the Company filed a petition with the Board of Public Utilities of the State of New Jersey (BPU) designed to increase base rates by $464.5 million on an annual basis. The total is comprised of $397.4 million for electric service and $67.1 million for gas. The request was necessary due to inadequate financial relief in recent rate cases, the need for improved cash flow to complete the construction program, and the decline in electric and gas sales due to the slow economic recovery. As more fully discussed on page 6, the Public Advocate of New Jersey has moved to dismiss the Company's petition. The motion is currently being considered by the BPU.

A more detailed discussion of the Company's operating results, liquidity and capital resources follows.

Earnings and Dividends

Earnings per average share of Common Stock were $3.24 for 1982, an increase of 61¢ or 23% from 1981. Increased revenues, reflecting the February 1982 rate increase, outpaced the rise in operating costs.

Earnings per share were $2.63 for 1981, a decline of 50¢ or 16% from 1980 before giving effect to the net extraordinary gain of 9¢ in 1980. Including the 1980 extraordinary items, earnings were lower by 59¢ per share. Revenues in 1981 did not keep pace with operating costs as a result of continuing inflation, minimal sales growth, and lack of additional rate relief.

Dividends paid to holders of Common Stock have grown over the last three years rising to $2.53 per share in 1982 from $2.44 per share paid in 1981, and $2.29 per share in 1980. Such amounts, compared to earnings before extraordinary items, resulted in payout ratios of 78%, 93%, and 73%, respectively. Total Common Stock dividend payments in 1982 increased 15% over 1981 and 35% over 1980 due to the increase in shares of Common Stock outstanding as well as the higher dividend rate.

Revenues and Sales

Total revenues increased in 1982 due primarily to higher rates and in 1981 to greater recoveries of electric energy and gas fuel costs. Electric energy and gas fuel costs follow amounts recovered through revenues, as permitted by energy cost rate orders, and therefore have no effect on earnings.

Electric revenues increased 9.5% in 1982 and 11.4% in 1981. The components of these changes are highlighted in the table below:

	Increase or (Decrease)	
	1982 vs. 1981	1981 vs. 1980
	(Millions of Dollars)	
Changes in base rates	$291	$ 36
Recoveries of energy costs	(49)	216
Kilowatthour sales	(33)	(15)
Other operating revenues	12	1
	$221	$238

1982 — Electric kilowatthour sales decreased 2.7%. The cooler and less humid weather in 1982 and continued customer conservation were the main reasons for the 1.4% drop in Residential sales. Also, Industrial sales declined 8.3% as a result of the economic recession. These decreases were slightly offset by the 1.6% increase in Commercial sales.

1981 — Electric kilowatthour sales decreased .8% from 1980. Despite an increase in customers, Residential sales decreased 4.1% primarily due to customer conservation and the cooler and less humid weather during the summer. The 1.1% decline in Industrial sales was due to a drop in production levels as a result of the sluggish economy during the year. Commercial sales increased 2.0%, principally due to a slight increase in customers. All classes of sales continued to reflect the overall impact of the economic slump and the effect of continued energy conservation throughout the Company's service area.

Gas revenues rose 15.8% in 1982 and 26.3% in 1981. The principal factors are shown below:

	Increase or (Decrease)	
	1982 vs. 1981	1981 vs. 1980
	(Millions of Dollars)	
Changes in base rates	$ 39	$ 24
Recoveries of gas costs	136	204
Therm sales	6	11
	$181	$239

1982 — Gas therm sales decreased 1.0%. Industrial sales fell 9.4% from 1981 primarily as a result of the continuing economic recession. Commercial sales were up 4.7%, the result of greater customer usage and an increase in customers. Residential sales were held to an increase of .1% principally due to moderate weather conditions experienced late in the year and continued conservation.

1981 — Gas therm sales increased 4.4%. Commercial and Industrial sales increased 9.7% and 14.9%, respectively. These gains came about as the price advantage and availability of gas continued to spur conversions from oil during the year. Over 300 large Commercial and Industrial customers were added. Despite an increase in customers, Residental therm sales decreased 2.9% from 1980 as winter temperatures were less severe and customers continued to conserve.

Substantially all revenues are subject to New Jersey gross receipts taxes and as a result the amount of these taxes varies in direct proportion to revenues. The effective rate is approximately 13%.

Energy Costs

The year 1982 marked the first time in over a decade that the cost of fuel for electric generation decreased. As a result of a full year's generation from Salem 2 and outstanding performances by the two Peach Bottom units, nuclear generation increased by more than a third over the previous year and provided 34% of the Company's total energy requirements compared to 25% in 1981. These factors made it possible to reduce higher priced steam generation from oil and natural gas an average of 22%. Demands for other generation and Pennsylvania-New Jersey-Maryland (PJM) interchanged power pool energy, two of the higher priced sources when compared to nuclear power, were down 55% and 39%, respectively.

Effective June 1982 the electric Levelized Energy Adjustment Clause (LEAC), with the approval of the BPU, was reduced $250 million over the ensuing 13 months. The reduction was made possible by an increase in nuclear generation, a decline in oil prices, purchases of power at lower cost, and completion of the recovery of nearly all electric costs of previous periods. On January 13, 1983, the Company filed a petition with the BPU to lower the LEAC for a second time, by $104 million, for the 17-month period through June 1984, again reflecting projected greater nuclear production and lower fuel costs. The BPU took the request under consideration.

As a member of the PJM and as a party to several agreements which provide for the purchase of available power from neighboring utilities, the Company is able to optimize its mix of internal and external sources using the lowest cost energy available at any given time. Energy costs are adjusted to match amounts permitted to be recovered through revenues and have no effect on earnings.

Total energy costs decreased 9% in 1982, as compared to an increase of 22% in 1981 over 1980, as described below:

	Increase or (Decrease)	
	1982 vs. 1981	1981 vs. 1980
	(Millions of Dollars)	
Change in prices paid for fuel supplies and power purchases	$(122)	$110
Kilowatthour output	(19)	(13)
Adjustment of actual costs to match recoveries through revenues	44	93
Replacement energy costs in 1981 for which recovery was disallowed by BPU	(3)	3
	$(100)	$193

Gas costs are adjusted to match amounts recovered through revenues and do not affect earnings. Costs were 19% higher in 1982 and 35% higher in 1981. Contributing factors are shown below:

	Increase or (Decrease)	
	1982 vs. 1981	1981 vs. 1980
	(Millions of Dollars)	
Higher prices paid for gas supplies	$104	$141
Refunds from pipeline suppliers	4	(17)
Therm sendout	1	18
Adjustment of actual costs to match recoveries through revenues	20	36
	$129	$178

Liquidity and Capital Resources

The Company's liquidity is affected principally by the construction program and, to a lesser degree, by other capital requirements such as maturing debt and sinking fund requirements. The capital resources available to meet these requirements are funds from internal generation and external financing. Internally generated funds depend upon economic conditions and adequate and timely rate relief, while access to the long-term and short-term capital and credit markets is necessary for obtaining funds externally.

Construction Program

The Company maintains a continuous construction program, which includes payments for nuclear fuel and investments in and advances to energy resource subsidiaries. This program is periodically revised as a result of changes in economic conditions, and depends on the ability of the Company to finance construction costs and to obtain timely rate relief. Changes in the Company's plans and forecasts, price changes, cost escalation under construction contracts, and requirements of regulatory authorities may also result in revisions of the construction program.

Construction expenditures of $842 million in 1982 and $717 million in 1981 included allowance for funds used during construction (AFDC) of $91 million and $96 million, respectively. Construction expenditures are estimated at $3.8 billion for the five years ending in 1987 and include AFDC of $736 million.

These estimates are based on certain expected completion dates and anticipated escalation due to inflation of approximately 8.5%. Therefore, construction delays or inordinate inflation levels could cause significant increases in these amounts. The Company expects that with adequate rate relief it will generate internally approximately 50% of its construction expenditure requirements, excluding AFDC. No assurance can be given as to future rate increases. The balance will be provided by permanent financing through the sale of securities and may include term bank loans.

Long-Term Financing

During 1982 the Company raised more than $443 million through the sale of $223.5 million of Mortgage Bonds, $187.1 million of Common Stock and $35.0 million of Preferred Stock. As a result, the Company's interest and dividend requirements have continued to increase.

At December 31, 1982 book value per common share amounted to $25.90 compared to $25.66 at December 31, 1981. The market value of common shares expressed as a percentage of book value was 89.8% and 70.1% at year-end 1982 and 1981, respectively.

In addition to periodic sinking fund redemption requirements, five bond issues aggregating $206 million will mature and will require refinancing by 1987.

Under the terms of the Company's Mortgage and Restated Certificate of Incorporation, at December 31, 1982 the Company could issue an additional $1.1 billion principal amount of Mortgage Bonds at a rate of 12.25% or $800 million of Preferred Stock at a rate of 12.0%. Present plans for 1983 call for the issuance of Mortgage Bonds, Common Stock and Preferred Stock.

In April 1982 the Company renewed a then existing $125 million domestic revolving credit agreement and increased the line of credit to $200 million. The present revolving agreement expires in April 1984, but permits the Company to convert the balance outstanding at the end of the period to term loans due in April 1987. The Company also has the option to extend the agreement on a year to year basis. The Company has not made any borrowings under this agreement.

In 1982, PSE&G Overseas Finance N.V., a wholly-owned Netherlands Antilles subsidiary, was formed. The financial subsidiary will be able to provide the Company with access to long-term capital markets abroad.

Short-Term Financing

For interim financing, the Company is authorized to have a total of $300 million of short-term obligations outstanding at any given time. The availability of short-term financing provides the Company greater flexibility in the issuance of long-term securities. The Company's average daily short-term debt during 1982 was $108 million — $7 million over last year's average. However, at year end the Company had no short-term debt outstanding.

In January 1982, the Company entered into a Letter Agreement establishing a $75 million Two-Year Revolving Credit Facility with a group of international banks, under which the Banks have agreed to make revolving loans for one month, three months or six months at a rate based upon the London Interbank Offered Rate for deposits in United States Dollars. No borrowings have been made under this arrangement.

The Company continues to have to finance larger customer accounts receivable. As of the end of 1982 receivables from customers approximated $361 million (excluding unbilled revenues of $182 million) and were $22 million higher than at the end of 1981. Reflecting the slowdown in the economy, customer payments have slowed as the amounts of bills have increased. Furthermore, net write-off of uncollectible accounts this year was $5.4 million greater than the $27.0 million in 1981. The increases in accounts receivable and uncollectible accounts also reflect a requirement of the BPU prohibiting the termination of electric and gas service in New Jersey during the winter months with respect to certain customers with financial need who are unable to pay utility bills.

Cash Position

The Company's cash position improved greatly during 1982 as a result of the collection of energy costs deferred from prior years, the overrecoveries of 1982 energy costs, rate relief granted in February 1982, and equity and long-term debt financing.

Any improvement resulting from overrecoveries is only temporary because any overrecovery remaining at the end of one levelized period is returned to customers with interest in the subsequent period.

Effects of Inflation

Inflation continues to affect the national economy and the Company but not as severely as in the past few years. The Average Consumer Price Index was 289.1, an increase of 6% over 1981 compared to increases of over 10% for the preceding three years. The Company has experienced record interest charges in recent years and increased dividend requirements at a time when substantial amounts must be raised in the capital markets to finance needed construction. Rising prices also have impacted construction, fuel and labor costs.

For additional information on the effects of changing prices, see Note 10 of Notes to Financial Statements.

Stock Symbol PEG

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

The following table shows the quarterly dividends paid for the periods indicated and the high and low NYSE Composite prices of such stocks:

Common Stock

	1982	1981
Dividend	64¢*	61¢
Price		
First Quarter	20¼–17¾	19¼–17
Second Quarter	21⅞–19⅛	19¾–17
Third Quarter	23¼–19⅛	19¼–16½
Fourth Quarter	23¾–20¾	20⅛–16½

*61¢ First Quarter only.

$1.40 Dividend Preference Common Stock

	1982	1981
Dividend	35¢	35¢
Price		
First Quarter	11 – 9⅜	10⅞–10⅛
Second Quarter	11 – 9½	10⅝–10
Third Quarter	11¾– 9¾	10⅜– 9½
Fourth Quarter	12¾–10⅞	11 – 9½

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

Stockholder Services,
Public Service Electric and Gas Company
80 Park Plaza, P.O. Box 570,
Newark, N.J. 07101

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

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

Additional Reports Available

Form 10-K

Stockholders or other interested persons wishing to obtain a copy of the Company's 1982 Annual Report to the Securities and Exchange Commission, filed on Form 10-K, may obtain one without charge by writing to the Vice President and Treasurer, Public Service Electric and Gas Company, P.O. Box 570, Newark, New Jersey 07101. The copy so provided will be without exhibits. Exhibits may be purchased for a specified fee.

Financial and Statistical Review

A comprehensive statistical supplement to this report, containing financial and operating data for the years 1972-1982 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.

Officers

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

Harold W. Sonn
President and Chief Operating Officer

William E. Scott
Executive Vice President – Finance

Stephen A. Mallard
Senior Vice President – Planning and Research and President of PSE&G Research Corporation

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

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

Robert W. Lockwood
Senior Vice President – Administration

John F. McDonald
Senior Vice President – Governmental Affairs

Everett L. Morris
Senior Vice President – Customer Operations

Frederick W. Schneider
Senior Vice President – Corporate Planning

Donald A. Anderson
Vice President – Computer Systems and Services

Frederick M. Broadfoot
Vice President – Law

Robert M. Crockett
Vice President – Fuel Supply and President of Energy Pipeline Corporation and Energy Terminal Services Corporation

Fredrick R. DeSanti
Vice President – Rates and Load Management

Robert H. Franklin
Vice President – Public Relations

Carroll D. James
Vice President – Administrative Planning

Frank P. Librizzi
Vice President – Production

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

Wallace A. Maginn
Vice President and Treasurer

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

Thomas J. Martin
Vice President – Engineering and Construction

Parker C. Peterman
Vice President and Comptroller

Louis L. Rizzi
Vice President – Customer and Marketing Services

Robert J. Selbach
Vice President – Transmission and Distribution

Rudolph D. Stys
Vice President – System Planning

Richard A. Uderitz
Vice President – Nuclear

Robert S. Smith
Secretary

Changes in Organization

Edward J. Lenihan, Vice President – Public Relations, retired on February 28, 1982, after more than 43 years of service. Robert H. Franklin was elected Vice President – Public Relations by the Board of Directors, effective March 1, 1982.

Edward G. Outlaw, Executive Vice President – Corporate Planning, retired effective August 31, 1982, after more than 43 years of service. The Board of Directors elected Frederick W. Schneider as Senior Vice President – Corporate Planning, and Frank P. Librizzi to succeed Mr. Schneider as Vice President – Production, both effective September 1, 1982.

Frederick M. Broadfoot retired as Vice President – Law on December 31, 1982 after 34 years of service. Effective January 1, 1983, R. Edwin Selover was elected Vice President and General Counsel.

Lawrence R. Codey was elected Vice President and Corporate Rate Counsel, also effective January 1, 1983.

John F. McDonald, Senior Vice President – Governmental Affairs, retired effective December 31, 1982, after more than 34 years of service. William Saller was elected Vice President – Governmental Affairs, effective January 1, 1983.

Directors

James R. Cowan, M.D.
President and Chief Executive Officer, United Hospitals Medical Center, Newark, New Jersey.
Member of Audit Committee.

W. Robert Davis
Former Chairman of the Board and Chief Executive Officer, Bancshares of New Jersey, Moorestown, New Jersey.
Chairman of Audit Committee and Member of Nominating Committee.

T.J. Dermot Dunphy
President, Chief Executive Officer and director, Sealed Air Corporation (manufactures protective packaging systems), Saddle Brook, New Jersey.
Member of Nominating Committee and Organization and Compensation Committee.

Robert R. Ferguson, Jr.
President, Chief Executive Officer and director, First National State Bancorporation, Newark, New Jersey.
Member of Finance Committee.

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

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

Irwin Lerner
President, Chief Executive Officer and director, Hoffmann-La Roche Inc. (manufactures pharmaceuticals and fine chemicals and provides health testing services), Nutley, New Jersey.
Member of Organization and Compensation Committee.

William E. Marfuggi
Chairman of the Board and director, Victory Optical Manufacturing Company (manufactures ophthalmic frames) and Chairman of the Board and director, Plaza Sunglasses, Inc. (manufactures sunglasses), both of Newark, New Jersey.
Member of Finance Committee.

Marilyn M. Pfaltz
Partner of P and R Associates (public relations and publicity specialists), Summit, New Jersey.
Member of Audit Committee.

James C. Pitney
Partner in the law firm of Pitney, Hardin, Kipp & Szuch, Newark and Morristown, New Jersey.
Member of Audit Committee and Executive Committee.

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

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

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

Harold W. Sonn
President and Chief Operating Officer of the Company.
Member of Executive Committee and Finance Committee.

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

PSE&G

Public Service Electric and Gas Company
80 Park Plaza, Newark, New Jersey 07101

Mailing Address:
P.O. Box 570, Newark, New Jersey 07101