

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

(Mark One)

- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED September 30, 2020**
- OR**
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM        TO**

<b>Commission File Number</b>	<b>Name of Registrant, Address, and Telephone Number</b>	<b>State or other jurisdiction of Incorporation or Organization</b>	<b>I.R.S. Employer Identification Number</b>
001-09120	<b>Public Service Enterprise Group Incorporated</b> 80 Park Plaza Newark, New Jersey 07102 973 430-7000	New Jersey	22-2625848
001-00973	<b>Public Service Electric and Gas Company</b> 80 Park Plaza Newark, New Jersey 07102 973 430-7000	New Jersey	22-1212800
001-34232	<b>PSEG Power LLC</b> 80 Park Plaza Newark, New Jersey 07102 973 430-7000	Delaware	22-3663480

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of Each Class</b>	<b>Trading Symbol(s)</b>	<b>Name of Each Exchange On Which Registered</b>
<b>Public Service Enterprise Group Incorporated</b>		
Common Stock without par value	PEG	New York Stock Exchange
<b>Public Service Electric and Gas Company</b>		
9.25% First and Refunding Mortgage Bonds, Series CC, due 2021	PEG21	New York Stock Exchange
8.00% First and Refunding Mortgage Bonds, due 2037	PEG37D	New York Stock Exchange
5.00% First and Refunding Mortgage Bonds, due 2037	PEG37J	New York Stock Exchange
<b>PSEG Power LLC</b>		
8.625% Senior Notes, due 2031	PEG31	New York Stock Exchange

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrants have submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit such files). Yes ☒ No ☐

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(Cover continued from previous page)

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Public Service Enterprise Group Incorporated	Large accelerated filer	<input checked="" type="checkbox"/> Accelerated filer	<input type="checkbox"/> Non-accelerated filer	<input type="checkbox"/> Smaller reporting company	<input type="checkbox"/> Emerging growth company	<input type="checkbox"/>
Public Service Electric and Gas Company	Large accelerated filer	<input type="checkbox"/> Accelerated filer	<input type="checkbox"/> Non-accelerated filer	<input checked="" type="checkbox"/> Smaller reporting company	<input type="checkbox"/> Emerging growth company	<input type="checkbox"/>
PSEG Power LLC	Large accelerated filer	<input type="checkbox"/> Accelerated filer	<input type="checkbox"/> Non-accelerated filer	<input checked="" type="checkbox"/> Smaller reporting company	<input type="checkbox"/> Emerging growth company	<input type="checkbox"/>

If any of the registrants is an emerging growth company, indicate by check mark if such registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether any of the registrants is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 20, 2020, Public Service Enterprise Group Incorporated had outstanding 505,847,992 shares of its sole class of Common Stock, without par value.

As of October 20, 2020, Public Service Electric and Gas Company had issued and outstanding 132,450,344 shares of Common Stock, without nominal or par value, all of which were privately held, beneficially and of record, by Public Service Enterprise Group Incorporated.

Public Service Electric and Gas Company and PSEG Power LLC are wholly owned subsidiaries of Public Service Enterprise Group Incorporated and meet the conditions set forth in General Instruction H(1) of Form 10-Q. Each is filing its Quarterly Report on Form 10-Q with the reduced disclosure format authorized by General Instruction H.

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## FORWARD-LOOKING STATEMENTS

Certain of the matters discussed in this report about our and our subsidiaries' future performance, including, without limitation, future revenues, earnings, strategies, prospects, consequences and all other statements that are not purely historical constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. When used herein, the words "anticipate," "intend," "estimate," "believe," "expect," "plan," "should," "hypothetical," "potential," "forecast," "project," variations of such words and similar expressions are intended to identify forward-looking statements. Factors that may cause actual results to differ are often presented with the forward-looking statements themselves. Other factors that could cause actual results to differ materially from those contemplated in any forward-looking statements made by us herein are discussed in filings we make with the United States Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K and subsequent reports on Form 10-Q and Form 8-K. These factors include, but are not limited to:

- fluctuations in wholesale power and natural gas markets, including the potential impacts on the economic viability of our generation units;
- our ability to obtain adequate fuel supply;
- market risks impacting the operation of our generating stations;
- increases in competition in wholesale energy and capacity markets;
- changes in technology related to energy generation, distribution and consumption and customer usage patterns;
- economic downturns;
- third-party credit risk relating to our sale of generation output and purchase of fuel;
- adverse performance of our nuclear decommissioning and defined benefit plan trust fund investments and changes in funding requirements;
- the impact of changes in state and federal legislation and regulations on our business, including PSE&G's ability to recover costs and earn returns on authorized investments;
- PSE&G's proposed investment programs may not be fully approved by regulators and its capital investment may be lower than planned;
- the impact on our New Jersey nuclear plants if such plants are not awarded Zero Emission Certificates (ZEC) in future periods, there is an adverse change in the amount of future ZEC payments, the ZEC program is overturned or modified through legal proceedings or if adverse changes are made to the capacity market construct;
- adverse changes in energy industry laws, policies and regulations, including market structures and transmission planning;
- the impact of state and federal actions aimed at combating climate change on our natural gas assets;
- risks associated with our ownership and operation of nuclear facilities, including regulatory risks, such as compliance with the Atomic Energy Act and trade control, environmental and other regulations, as well as financial, environmental and health and safety risks;
- changes in federal and state environmental regulations and enforcement;
- delays in receipt of, or an inability to receive, necessary licenses and permits;
- the impact of any future rate proceedings;
- adverse outcomes of any legal, regulatory or other proceeding, settlement, investigation or claim applicable to us and/or the energy industry;
- changes in tax laws and regulations;
- the impact of our holding company structure on our ability to meet our corporate funding needs, service debt and pay dividends;
- lack of growth or slower growth in the number of customers or changes in customer demand;

- any inability of PSEG Power to meet its commitments under forward sale obligations;
- reliance on transmission facilities that we do not own or control and the impact on our ability to maintain adequate transmission capacity;
- any inability to successfully develop, obtain regulatory approval for, or construct generation, transmission and distribution projects;
- any equipment failures, accidents, severe weather events or other incidents, including pandemics such as the ongoing coronavirus pandemic, that may impact our ability to provide safe and reliable service to our customers;
- our inability to exercise control over the operations of generation facilities in which we do not maintain a controlling interest;
- any inability to recover the carrying amount of our long-lived assets and leveraged leases;
- any inability to maintain sufficient liquidity;
- any inability to realize anticipated tax benefits or retain tax credits;
- challenges associated with recruitment and/or retention of key executives and a qualified workforce;
- the impact of our covenants in our debt instruments on our operations;
- the impact of the ongoing coronavirus pandemic;
- the impact of acts of war, terrorism, cybersecurity attacks or intrusions; and
- failure to sell or otherwise dispose of all or a portion of PSEG Power’s non-nuclear generating fleet on terms that are favorable to us, or at all, or any delay of such transaction or transactions due to market conditions, the failure to satisfy conditions to closing or otherwise.

All of the forward-looking statements made in this report are qualified by these cautionary statements and we cannot assure you that the results or developments anticipated by management will be realized or even if realized, will have the expected consequences to, or effects on, us or our business, prospects, financial condition, results of operations or cash flows. Readers are cautioned not to place undue reliance on these forward-looking statements in making any investment decision. Forward-looking statements made in this report apply only as of the date of this report. While we may elect to update forward-looking statements from time to time, we specifically disclaim any obligation to do so, even in light of new information or future events, unless otherwise required by applicable securities laws.

The forward-looking statements contained in this report are intended to qualify for the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

## **FILING FORMAT**

This combined Quarterly Report on Form 10-Q is separately filed by Public Service Enterprise Group Incorporated (PSEG), Public Service Electric and Gas Company (PSE&G) and PSEG Power LLC (PSEG Power). Information relating to any individual company is filed by such company on its own behalf. PSE&G and PSEG Power are each only responsible for information about itself and its subsidiaries.

Discussions throughout the document refer to PSEG and its direct operating subsidiaries, PSE&G and PSEG Power. Depending on the context of each section, references to “we,” “us,” and “our” relate to PSEG or to the specific company or companies being discussed.

**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
Millions, except per share data  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
OPERATING REVENUES	\$ 2,370	\$ 2,302	\$ 7,201	\$ 7,598
OPERATING EXPENSES				
Energy Costs	775	753	2,276	2,581
Operation and Maintenance	767	745	2,254	2,251
Depreciation and Amortization	317	307	956	928
(Gain) Loss on Asset Dispositions	(122)	7	(122)	402
Total Operating Expenses	1,737	1,812	5,364	6,162
OPERATING INCOME	633	490	1,837	1,436
Income from Equity Method Investments	4	3	10	10
Net Gains (Losses) on Trust Investments	107	(3)	87	164
Other Income (Deductions)	39	35	81	101
Net Non-Operating Pension and Other Postretirement Benefit (OPEB) Credits (Costs)	62	55	186	121
Interest Expense	(149)	(147)	(453)	(417)
INCOME BEFORE INCOME TAXES	696	433	1,748	1,415
Income Tax Benefit (Expense)	(121)	(30)	(274)	(159)
NET INCOME	\$ 575	\$ 403	\$ 1,474	\$ 1,256
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
BASIC	504	504	504	504
DILUTED	507	507	507	507
NET INCOME PER SHARE:				
BASIC	\$ 1.15	\$ 0.80	\$ 2.93	\$ 2.49
DILUTED	\$ 1.14	\$ 0.79	\$ 2.91	\$ 2.47

See Notes to Condensed Consolidated Financial Statements.

**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**Millions**  
**(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
NET INCOME	\$ 575	\$ 403	\$ 1,474	\$ 1,256
Other Comprehensive Income (Loss), net of tax				
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of \$3, \$(5), \$(15) and \$(30) for the three and nine months ended 2020 and 2019, respectively	(4)	10	24	49
Unrealized Gains (Losses) on Cash Flow Hedges, net of tax (expense) benefit of \$(1), \$0, \$(1) and \$6 for the three and nine months ended 2020 and 2019, respectively	4	1	4	(16)
Pension/OPEB adjustment, net of tax (expense) benefit of \$(1), \$7, \$(3) and \$1 for the three and nine months ended 2020 and 2019, respectively	3	(17)	9	(13)
Other Comprehensive Income (Loss), net of tax	3	(6)	37	20
COMPREHENSIVE INCOME	\$ 578	\$ 397	\$ 1,511	\$ 1,276

See Notes to Condensed Consolidated Financial Statements.

**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
Millions  
(Unaudited)

	September 30, 2020	December 31, 2019
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 966	\$ 147
Accounts Receivable, net of allowance of \$154 in 2020 and \$60 in 2019	1,299	1,313
Tax Receivable	102	21
Unbilled Revenues, net of allowance of \$4 in 2020	175	239
Fuel	309	310
Materials and Supplies, net	608	587
Prepayments	128	79
Derivative Contracts	46	113
Regulatory Assets	342	351
Assets Held for Sale	—	30
Other	48	41
Total Current Assets	4,023	3,231
<b>PROPERTY, PLANT AND EQUIPMENT</b>	47,949	45,944
Less: Accumulated Depreciation and Amortization	(10,900)	(10,100)
Net Property, Plant and Equipment	37,049	35,844
<b>NONCURRENT ASSETS</b>		
Regulatory Assets	3,669	3,677
Operating Lease Right-of-Use Assets	270	282
Long-Term Investments	608	812
Nuclear Decommissioning Trust (NDT) Fund	2,359	2,216
Long-Term Tax Receivable	—	150
Long-Term Receivable of Variable Interest Entity (VIE)	830	813
Rabbi Trust Fund	261	246
Other Intangibles	228	149
Derivative Contracts	17	24
Other	262	286
Total Noncurrent Assets	8,504	8,655
<b>TOTAL ASSETS</b>	<b>\$ 49,576</b>	<b>\$ 47,730</b>

See Notes to Condensed Consolidated Financial Statements.



**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
Millions  
(Unaudited)

	September 30, 2020	December 31, 2019
<b>LIABILITIES AND CAPITALIZATION</b>		
<b>CURRENT LIABILITIES</b>		
Long-Term Debt Due Within One Year	\$ 2,093	\$ 1,365
Commercial Paper and Loans	300	1,115
Accounts Payable	1,332	1,358
Derivative Contracts	8	36
Accrued Interest	171	116
Accrued Taxes	238	41
Clean Energy Program	187	143
Obligation to Return Cash Collateral	103	119
Regulatory Liabilities	306	234
Other	522	520
Total Current Liabilities	5,260	5,047
<b>NONCURRENT LIABILITIES</b>		
Deferred Income Taxes and Investment Tax Credits (ITC)	6,334	6,256
Regulatory Liabilities	2,773	3,002
Operating Leases	260	273
Asset Retirement Obligations	1,198	1,087
OPEB Costs	737	734
OPEB Costs of Servco	649	626
Accrued Pension Costs	862	952
Accrued Pension Costs of Servco	159	171
Environmental Costs	316	349
Derivative Contracts	1	1
Long-Term Accrued Taxes	110	182
Other	289	218
Total Noncurrent Liabilities	13,688	13,851
<b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 11)</b>		
<b>CAPITALIZATION</b>		
LONG-TERM DEBT	14,792	13,743
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock, no par, authorized 1,000 shares; issued, 2020 and 2019—534 shares	5,016	5,003
Treasury Stock, at cost, 2020 and 2019—30 shares	(863)	(831)
Retained Earnings	12,135	11,406
Accumulated Other Comprehensive Loss	(452)	(489)
Total Stockholders' Equity	15,836	15,089
Total Capitalization	30,628	28,832
<b>TOTAL LIABILITIES AND CAPITALIZATION</b>	<b>\$ 49,576</b>	<b>\$ 47,730</b>

See Notes to Condensed Consolidated Financial Statements.

**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Millions  
(Unaudited)

	Nine Months Ended September 30,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 1,474	\$ 1,256
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	956	928
Amortization of Nuclear Fuel	144	137
(Gain) Loss on Asset Dispositions	(122)	402
Emission Allowances and Renewable Energy Credit (REC) Compliance Accrual	115	80
Provision for Deferred Income Taxes (Other than Leases) and ITC	40	139
Non-Cash Employee Benefit Plan (Credits) Costs	(79)	(26)
Leveraged Lease (Income), (Gains) and Losses, Adjusted for Rents Received and Deferred Taxes	(155)	24
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	81	(201)
Cost of Removal	(77)	(87)
Net Change in Regulatory Assets and Liabilities	4	54
Net (Gains) Losses and (Income) Expense from NDT Fund	(107)	(195)
Net Change in Certain Current Assets and Liabilities:		
Tax Receivable	68	77
Accrued Taxes	228	(11)
Cash Collateral	(12)	301
Other Current Assets and Liabilities	19	(155)
Employee Benefit Plan Funding and Related Payments	(12)	(33)
Other	(48)	19
Net Cash Provided By (Used In) Operating Activities	2,517	2,709
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Property, Plant and Equipment	(2,092)	(2,383)
Purchase of Emission Allowances and RECs	(94)	(73)
Proceeds from Sales of Trust Investments	1,796	1,374
Purchases of Trust Investments	(1,817)	(1,402)
Proceeds from Sales of Long-Lived Assets and Lease Investments	300	70
Other	52	55
Net Cash Provided By (Used In) Investing Activities	(1,855)	(2,359)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Change in Commercial Paper	(1,115)	(670)
Proceeds from Short-Term Loans	800	—
Payment of Short-Term Loans	(500)	—
Issuance of Long-Term Debt	2,450	1,900
Redemption of Long-Term Debt	(656)	(850)
Cash Dividends Paid on Common Stock	(743)	(713)
Other	(75)	(60)
Net Cash Provided By (Used In) Financing Activities	161	(393)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	823	(43)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	176	199
Cash, Cash Equivalents and Restricted Cash at End of Period	\$ 999	\$ 156
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	\$ 176	\$ 31
Interest Paid, Net of Amounts Capitalized	\$ 384	\$ 345
Accrued Property, Plant and Equipment Expenditures	\$ 449	\$ 514

See Notes to Condensed Consolidated Financial Statements.

**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
Millions  
(Unaudited)

	Common Stock		Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shs.	Amount	Shs.	Amount			
<b>Balance as of June 30, 2020</b>	534	\$ 5,003	(30)	\$ (865)	\$ 11,808	\$ (455)	\$ 15,491
Net Income	—	—	—	—	575	—	575
Other Comprehensive Income (Loss), net of tax (expense) benefit of \$1	—	—	—	—	—	3	3
Comprehensive Income							578
Cash Dividends at \$0.49 per share on Common Stock	—	—	—	—	(248)	—	(248)
Other	—	13	—	2	—	—	15
<b>Balance as of September 30, 2020</b>	<u>534</u>	<u>\$ 5,016</u>	<u>(30)</u>	<u>\$ (863)</u>	<u>\$ 12,135</u>	<u>\$ (452)</u>	<u>\$ 15,836</u>
<b>Balance as of June 30, 2019</b>	534	\$ 4,980	(30)	\$ (835)	\$ 11,041	\$ (432)	\$ 14,754
Net Income	—	—	—	—	403	—	403
Other Comprehensive Income (Loss), net of tax (expense) benefit of \$2	—	—	—	—	—	(6)	(6)
Comprehensive Income							397
Cash Dividends at \$0.47 per share on Common Stock	—	—	—	—	(238)	—	(238)
Other	—	9	—	3	—	—	12
<b>Balance as of September 30, 2019</b>	<u>534</u>	<u>\$ 4,989</u>	<u>(30)</u>	<u>\$ (832)</u>	<u>\$ 11,206</u>	<u>\$ (438)</u>	<u>\$ 14,925</u>

	Common Stock		Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shs.	Amount	Shs.	Amount			
<b>Balance as of December 31, 2019</b>	534	\$ 5,003	(30)	\$ (831)	\$ 11,406	\$ (489)	\$ 15,089
Net Income	—	—	—	—	1,474	—	1,474
Other Comprehensive Income (Loss), net of tax (expense) benefit of \$(19)	—	—	—	—	—	37	37
Comprehensive Income							1,511
Cumulative Effect Adjustment for Current Expected Credit Losses (CECL)	—	—	—	—	(2)	—	(2)
Cash Dividends at \$1.47 per share on Common Stock	—	—	—	—	(743)	—	(743)
Other	—	13	—	(32)	—	—	(19)
<b>Balance as of September 30, 2020</b>	<u>534</u>	<u>\$ 5,016</u>	<u>(30)</u>	<u>\$ (863)</u>	<u>\$ 12,135</u>	<u>\$ (452)</u>	<u>\$ 15,836</u>
<b>Balance as of December 31, 2018</b>	534	\$ 4,980	(30)	\$ (808)	\$ 10,582	\$ (377)	\$ 14,377
Net Income	—	—	—	—	1,256	—	1,256
Cumulative Effect Adjustment to Reclassify Stranded Tax Effects Resulting from the Change in the Federal Corporate Income Tax Rate	—	—	—	—	81	(81)	—
Other Comprehensive Income (Loss), net of tax (expense) benefit of \$(23)	—	—	—	—	—	20	20
Comprehensive Income							1,276
Cash Dividends at \$1.41 per share on Common Stock	—	—	—	—	(713)	—	(713)
Other	—	9	—	(24)	—	—	(15)
<b>Balance as of September 30, 2019</b>	<u>534</u>	<u>\$ 4,989</u>	<u>(30)</u>	<u>\$ (832)</u>	<u>\$ 11,206</u>	<u>\$ (438)</u>	<u>\$ 14,925</u>

See Notes to Condensed Consolidated Financial Statements.

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Millions**  
**(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
OPERATING REVENUES	\$ 1,660	\$ 1,604	\$ 4,999	\$ 5,018
OPERATING EXPENSES				
Energy Costs	663	618	1,881	2,094
Operation and Maintenance	409	388	1,175	1,165
Depreciation and Amortization	218	206	657	620
Total Operating Expenses	1,290	1,212	3,713	3,879
OPERATING INCOME	370	392	1,286	1,139
Net Gains (Losses) on Trust Investments	1	—	2	1
Other Income (Deductions)	28	22	81	60
Net Non-Operating Pension and OPEB Credits (Costs)	51	46	154	105
Interest Expense	(97)	(92)	(291)	(268)
INCOME BEFORE INCOME TAXES	353	368	1,232	1,037
Income Tax Benefit (Expense)	(40)	(24)	(196)	(63)
NET INCOME	\$ 313	\$ 344	\$ 1,036	\$ 974

See disclosures regarding Public Service Electric and Gas Company included in the Notes to Condensed Consolidated Financial Statements.

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**Millions**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
NET INCOME	\$ 313	\$ 344	\$ 1,036	\$ 974
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of \$0, \$0, \$(1) and \$(1) for the three and nine months ended 2020 and 2019, respectively	—	1	1	3
COMPREHENSIVE INCOME	<u>\$ 313</u>	<u>\$ 345</u>	<u>\$ 1,037</u>	<u>\$ 977</u>

See disclosures regarding Public Service Electric and Gas Company included in the Notes to Condensed Consolidated Financial Statements.

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**Millions**  
**(Unaudited)**

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 224	\$ 21
Accounts Receivable, net of allowance of \$154 in 2020 and \$60 in 2019	948	901
Accounts Receivable—Affiliated Companies	—	1
Unbilled Revenues, net of allowance of \$4 in 2020	175	239
Materials and Supplies, net	213	213
Prepayments	92	35
Regulatory Assets	342	351
Other	33	28
Total Current Assets	2,027	1,789
<b>PROPERTY, PLANT AND EQUIPMENT</b>	35,658	33,900
Less: Accumulated Depreciation and Amortization	(7,030)	(6,623)
Net Property, Plant and Equipment	28,628	27,277
<b>NONCURRENT ASSETS</b>		
Regulatory Assets	3,669	3,677
Operating Lease Right-of-Use Assets	102	98
Long-Term Investments	225	248
Rabbi Trust Fund	51	48
Other	131	129
Total Noncurrent Assets	4,178	4,200
<b>TOTAL ASSETS</b>	<b>\$ 34,833</b>	<b>\$ 33,266</b>

See disclosures regarding Public Service Electric and Gas Company included in the Notes to Condensed Consolidated Financial Statements.

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
Millions  
(Unaudited)

	September 30, 2020	December 31, 2019
<b>LIABILITIES AND CAPITALIZATION</b>		
<b>CURRENT LIABILITIES</b>		
Long-Term Debt Due Within One Year	\$ 443	\$ 259
Commercial Paper and Loans	—	362
Accounts Payable	713	639
Accounts Payable—Affiliated Companies	272	390
Accrued Interest	115	91
Clean Energy Program	187	143
Obligation to Return Cash Collateral	103	119
Regulatory Liabilities	306	234
Other	432	436
Total Current Liabilities	2,571	2,673
<b>NONCURRENT LIABILITIES</b>		
Deferred Income Taxes and ITC	4,463	4,189
Regulatory Liabilities	2,773	3,002
Operating Leases	90	87
Asset Retirement Obligations	311	303
OPEB Costs	495	495
Accrued Pension Costs	441	501
Environmental Costs	266	294
Long-Term Accrued Taxes	20	115
Other	168	136
Total Noncurrent Liabilities	9,027	9,122
<b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 11)</b>		
<b>CAPITALIZATION</b>		
<b>LONG-TERM DEBT</b>	10,472	9,568
<b>STOCKHOLDER'S EQUITY</b>		
Common Stock; 150 shares authorized; issued and outstanding, 2020 and 2019—132 shares	892	892
Contributed Capital	1,095	1,095
Basis Adjustment	986	986
Retained Earnings	9,787	8,928
Accumulated Other Comprehensive Income	3	2
Total Stockholder's Equity	12,763	11,903
Total Capitalization	23,235	21,471
<b>TOTAL LIABILITIES AND CAPITALIZATION</b>	<b>\$ 34,833</b>	<b>\$ 33,266</b>

See disclosures regarding Public Service Electric and Gas Company included in the Notes to Condensed Consolidated Financial Statements.

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Millions  
(Unaudited)

	Nine Months Ended September 30,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 1,036	\$ 974
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	657	620
Provision for Deferred Income Taxes and ITC	58	10
Non-Cash Employee Benefit Plan (Credits) Costs	(77)	(39)
Cost of Removal	(77)	(87)
Net Change in Regulatory Assets and Liabilities	4	54
Net Change in Certain Current Assets and Liabilities:		
Accounts Receivable and Unbilled Revenues	8	105
Materials and Supplies	—	(16)
Prepayments	(57)	(97)
Accounts Payable	46	(77)
Accounts Receivable/Payable—Affiliated Companies, net	(88)	8
Other Current Assets and Liabilities	(9)	66
Employee Benefit Plan Funding and Related Payments	(1)	(19)
Other	(76)	(21)
Net Cash Provided By (Used In) Operating Activities	1,424	1,481
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Property, Plant and Equipment	(1,777)	(1,866)
Proceeds from Sales of Trust Investments	32	27
Purchases of Trust Investments	(32)	(25)
Solar Loan Investments	5	2
Other	9	7
Net Cash Provided By (Used In) Investing Activities	(1,763)	(1,855)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Change in Commercial Paper and Loans	(362)	(262)
Issuance of Long-Term Debt	1,350	1,150
Redemption of Long-Term Debt	(250)	(500)
Cash Dividend Paid	(175)	—
Other	(17)	(14)
Net Cash Provided By (Used In) Financing Activities	546	374
Net Increase (Decrease) In Cash, Cash Equivalents and Restricted Cash	207	—
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	50	61
Cash, Cash Equivalents and Restricted Cash at End of Period	\$ 257	\$ 61
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid (Received)	\$ 143	\$ (82)
Interest Paid, Net of Amounts Capitalized	\$ 261	\$ 240
Accrued Property, Plant and Equipment Expenditures	\$ 366	\$ 348

See disclosures regarding Public Service Electric and Gas Company included in the Notes to Condensed Consolidated Financial Statements.



**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY**  
Millions  
(Unaudited)

	Common Stock	Contributed Capital	Basis Adjustment	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance as of June 30, 2020</b>	\$ 892	\$ 1,095	\$ 986	\$ 9,474	\$ 3	\$ 12,450
Net Income	—	—	—	313	—	313
Other Comprehensive Income (Loss), net of tax (expense) benefit of \$0	—	—	—	—	—	—
Comprehensive Income						313
<b>Balance as of September 30, 2020</b>	<u>\$ 892</u>	<u>\$ 1,095</u>	<u>\$ 986</u>	<u>\$ 9,787</u>	<u>\$ 3</u>	<u>\$ 12,763</u>
<b>Balance as of June 30, 2019</b>	\$ 892	\$ 1,095	\$ 986	\$ 8,558	\$ 1	\$ 11,532
Net Income	—	—	—	344	—	344
Other Comprehensive Income (Loss), net of tax (expense) benefit of \$0	—	—	—	—	1	1
Comprehensive Income						345
<b>Balance as of September 30, 2019</b>	<u>\$ 892</u>	<u>\$ 1,095</u>	<u>\$ 986</u>	<u>\$ 8,902</u>	<u>\$ 2</u>	<u>\$ 11,877</u>

	Common Stock	Contributed Capital	Basis Adjustment	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance as of December 31, 2019</b>	\$ 892	\$ 1,095	\$ 986	\$ 8,928	\$ 2	\$ 11,903
Net Income	—	—	—	1,036	—	1,036
Other Comprehensive Income (Loss), net of tax (expense) benefit of \$(1)	—	—	—	—	1	1
Comprehensive Income						1,037
Cumulative Effect Adjustment for CECL	—	—	—	(2)	—	(2)
Cash Dividend Paid	—	—	—	(175)	—	(175)
<b>Balance as of September 30, 2020</b>	<u>\$ 892</u>	<u>\$ 1,095</u>	<u>\$ 986</u>	<u>\$ 9,787</u>	<u>\$ 3</u>	<u>\$ 12,763</u>
<b>Balance as of December 31, 2018</b>	\$ 892	\$ 1,095	\$ 986	\$ 7,928	\$ (1)	\$ 10,900
Net Income	—	—	—	974	—	974
Other Comprehensive Income (Loss), net of tax (expense) benefit of \$(1)	—	—	—	—	3	3
Comprehensive Income						977
<b>Balance as of September 30, 2019</b>	<u>\$ 892</u>	<u>\$ 1,095</u>	<u>\$ 986</u>	<u>\$ 8,902</u>	<u>\$ 2</u>	<u>\$ 11,877</u>

See disclosures regarding Public Service Electric and Gas Company included in the Notes to Condensed Consolidated Financial Statements.

**PSEG POWER LLC**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Millions**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
OPERATING REVENUES	\$ 746	\$ 771	\$ 2,649	\$ 3,270
OPERATING EXPENSES				
Energy Costs	290	359	1,289	1,556
Operation and Maintenance	213	233	679	736
Depreciation and Amortization	91	93	276	282
(Gain) Loss on Asset Dispositions	(122)	7	(122)	402
Total Operating Expenses	472	692	2,122	2,976
OPERATING INCOME	274	79	527	294
Income from Equity Method Investments	4	3	10	10
Net Gains (Losses) on Trust Investments	103	(4)	79	160
Other Income (Deductions)	11	15	—	43
Net Non-Operating Pension and OPEB Credits (Costs)	8	8	25	14
Interest Expense	(28)	(34)	(92)	(85)
INCOME BEFORE INCOME TAXES	372	67	549	436
Income Tax Benefit (Expense)	(118)	(14)	(112)	(127)
NET INCOME	\$ 254	\$ 53	\$ 437	\$ 309

See disclosures regarding PSEG Power LLC included in the Notes to Condensed Consolidated Financial Statements.

**PSEG POWER LLC**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**Millions**  
**(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
NET INCOME	\$ 254	\$ 53	\$ 437	\$ 309
Other Comprehensive Income (Loss), net of tax				
Unrealized Gains (Losses) on Available-for-Sale Securities, net of tax (expense) benefit of \$2, \$(4), \$(14) and \$(26) for the three and nine months ended 2020 and 2019, respectively	(2)	7	20	38
Pension/OPEB adjustment, net of tax (expense) benefit of \$(1), \$5, \$(2) and \$0 for the three and nine months ended 2020 and 2019, respectively	2	(12)	7	(9)
Other Comprehensive Income (Loss), net of tax	—	(5)	27	29
COMPREHENSIVE INCOME	<u>\$ 254</u>	<u>\$ 48</u>	<u>\$ 464</u>	<u>\$ 338</u>

See disclosures regarding PSEG Power LLC included in the Notes to Condensed Consolidated Financial Statements.

**PSEG POWER LLC**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
Millions  
(Unaudited)

	September 30, 2020	December 31, 2019
ASSETS		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 15	\$ 21
Accounts Receivable	304	309
Accounts Receivable—Affiliated Companies	154	408
Short-Term Loan to Affiliate	333	149
Fuel	309	310
Materials and Supplies, net	392	372
Prepayments	22	11
Derivative Contracts	46	113
Assets Held for Sale	—	28
Other	2	5
Total Current Assets	1,577	1,726
<b>PROPERTY, PLANT AND EQUIPMENT</b>	11,949	11,699
Less: Accumulated Depreciation and Amortization	(3,644)	(3,273)
Net Property, Plant and Equipment	8,305	8,426
<b>NONCURRENT ASSETS</b>		
Operating Lease Right-of-Use Assets	64	71
Long-Term Investments	66	66
NDT Fund	2,359	2,216
Rabbi Trust Fund	65	62
Other Intangibles	228	149
Derivative Contracts	17	24
Other	38	65
Total Noncurrent Assets	2,837	2,653
<b>TOTAL ASSETS</b>	<b>\$ 12,719</b>	<b>\$ 12,805</b>

See disclosures regarding PSEG Power LLC included in the Notes to Condensed Consolidated Financial Statements.

**PSEG POWER LLC**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
Millions  
(Unaudited)

	September 30, 2020	December 31, 2019
<b>LIABILITIES AND MEMBER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Long-Term Debt Due Within One Year	\$ 950	\$ 406
Accounts Payable	458	505
Accounts Payable—Affiliated Companies	22	5
Derivative Contracts	6	31
Accrued Interest	39	21
Other	96	91
Total Current Liabilities	1,571	1,059
<b>NONCURRENT LIABILITIES</b>		
Deferred Income Taxes and ITC	1,891	1,876
Operating Leases	54	62
Asset Retirement Obligations	885	781
OPEB Costs	194	192
Accrued Pension Costs	263	284
Derivative Contracts	1	1
Long-Term Accrued Taxes	58	115
Other	136	111
Total Noncurrent Liabilities	3,482	3,422
<b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 11)</b>		
LONG-TERM DEBT	1,487	2,434
<b>MEMBER'S EQUITY</b>		
Contributed Capital	2,214	2,214
Basis Adjustment	(986)	(986)
Retained Earnings	5,325	5,063
Accumulated Other Comprehensive Loss	(374)	(401)
Total Member's Equity	6,179	5,890
<b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b>	<b>\$ 12,719</b>	<b>\$ 12,805</b>

See disclosures regarding PSEG Power LLC included in the Notes to Condensed Consolidated Financial Statements.

**PSEG POWER LLC**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Millions  
(Unaudited)

	Nine Months Ended September 30,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 437	\$ 309
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	276	282
Amortization of Nuclear Fuel	144	137
(Gain) Loss on Asset Dispositions	(122)	402
Emission Allowances and REC Compliance Accrual	115	80
Provision for Deferred Income Taxes and ITC	(1)	157
Non-Cash Employee Benefit Plan (Credits) Costs	(4)	7
Interest Accretion on Asset Retirement Obligation	31	30
Net Realized and Unrealized (Gains) Losses on Energy Contracts and Other Derivatives	81	(201)
Net (Gains) Losses and (Income) Expense from NDT Fund	(107)	(195)
Net Change in Certain Current Assets and Liabilities:		
Fuel, Materials and Supplies	(30)	(29)
Cash Collateral	(12)	301
Accounts Receivable	43	48
Accounts Payable	(51)	(62)
Accounts Receivable/Payable—Affiliated Companies, net	242	80
Other Current Assets and Liabilities	9	20
Employee Benefit Plan Funding and Related Payments	(6)	(9)
Other	(45)	5
Net Cash Provided By (Used In) Operating Activities	1,000	1,362
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Property, Plant and Equipment	(307)	(507)
Purchase of Emission Allowances and RECs	(94)	(73)
Proceeds from Sales of Trust Investments	1,673	1,277
Purchases of Trust Investments	(1,695)	(1,306)
Proceeds from Sales of Long-Lived Assets	151	70
Short-Term Loan to Affiliate	(184)	(86)
Other	32	40
Net Cash Provided By (Used In) Investing Activities	(424)	(585)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash Dividend Paid	(175)	(525)
Redemption of Long-Term Debt	(406)	—
Short-Term Loan from Affiliate	—	(193)
Other	(1)	(1)
Net Cash Provided By (Used In) Financing Activities	(582)	(719)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	(6)	58
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	21	22
Cash, Cash Equivalents and Restricted Cash at End of Period	\$ 15	\$ 80
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Income Taxes Paid (Received)	\$ 83	\$ (37)
Interest Paid, Net of Amounts Capitalized	\$ 71	\$ 60
Accrued Property, Plant and Equipment Expenditures	\$ 83	\$ 166

See disclosures regarding PSEG Power LLC included in the Notes to Condensed Consolidated Financial Statements.

**PSEG POWER LLC**  
**CONDENSED CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY**  
**Millions**  
**(Unaudited)**

	Contributed Capital	Basis Adjustment	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance as of June 30, 2020</b>	\$ 2,214	\$ (986)	\$ 5,246	\$ (374)	\$ 6,100
Net Income	—	—	254	—	254
Other Comprehensive Income (Loss), net of tax (expense) benefit of \$1	—	—	—	—	—
Comprehensive Income					254
Cash Dividends Paid	—	—	(175)	—	(175)
<b>Balance as of September 30, 2020</b>	<u>\$ 2,214</u>	<u>\$ (986)</u>	<u>\$ 5,325</u>	<u>\$ (374)</u>	<u>\$ 6,179</u>
<b>Balance as of June 30, 2019</b>	\$ 2,214	\$ (986)	\$ 5,126	\$ (354)	\$ 6,000
Net Income	—	—	53	—	53
Other Comprehensive Income (Loss), net of tax (expense) benefit of \$1	—	—	—	(5)	(5)
Comprehensive Income					48
Cash Dividends Paid	—	—	(275)	—	(275)
<b>Balance as of September 30, 2019</b>	<u>\$ 2,214</u>	<u>\$ (986)</u>	<u>\$ 4,904</u>	<u>\$ (359)</u>	<u>\$ 5,773</u>

	Contributed Capital	Basis Adjustment	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance as of December 31, 2019</b>	\$ 2,214	\$ (986)	\$ 5,063	\$ (401)	\$ 5,890
Net Income	—	—	437	—	437
Other Comprehensive Income (Loss), net of tax (expense) benefit of \$(16)	—	—	—	27	27
Comprehensive Income					464
Cash Dividends Paid	—	—	(175)	—	(175)
<b>Balance as of September 30, 2020</b>	<u>\$ 2,214</u>	<u>\$ (986)</u>	<u>\$ 5,325</u>	<u>\$ (374)</u>	<u>\$ 6,179</u>
<b>Balance as of December 31, 2018</b>	\$ 2,214	\$ (986)	\$ 5,051	\$ (319)	\$ 5,960
Net Income	—	—	309	—	309
Cumulative Effect Adjustment to Reclassify Stranded Tax Effects Resulting from the Change in the Federal Corporate Income Tax Rate	—	—	69	(69)	—
Other Comprehensive Income (Loss), net of tax (expense) benefit of \$(26)	—	—	—	29	29
Comprehensive Income					338
Cash Dividends Paid	—	—	(525)	—	(525)
<b>Balance as of September 30, 2019</b>	<u>\$ 2,214</u>	<u>\$ (986)</u>	<u>\$ 4,904</u>	<u>\$ (359)</u>	<u>\$ 5,773</u>

See disclosures regarding PSEG Power LLC included in the Notes to Condensed Consolidated Financial Statements.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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### Note 1. Organization, Basis of Presentation and Significant Accounting Policies

#### Organization

Public Service Enterprise Group Incorporated (PSEG) is a holding company with a diversified business mix within the energy industry. Its operations are primarily in the Northeastern and Mid-Atlantic United States and in other select markets. PSEG's principal direct wholly owned subsidiaries are:

- **Public Service Electric and Gas Company (PSE&G)**—which is a public utility engaged principally in the transmission of electricity and distribution of electricity and natural gas in certain areas of New Jersey. PSE&G is subject to regulation by the New Jersey Board of Public Utilities (BPU) and the Federal Energy Regulatory Commission (FERC). PSE&G also invests in regulated solar generation projects and energy efficiency and related programs in New Jersey, which are regulated by the BPU.
- **PSEG Power LLC (PSEG Power)**—which is a multi-regional energy supply company that integrates the operations of its merchant nuclear and fossil generating assets with its power marketing businesses and fuel supply functions through competitive energy sales in well-developed energy markets primarily in the Northeast and Mid-Atlantic United States through its principal direct wholly owned subsidiaries. In addition, PSEG Power owns and operates solar generation in various states. PSEG Power's subsidiaries are subject to regulation by FERC, the Nuclear Regulatory Commission (NRC), the Environmental Protection Agency (EPA) and the states in which they operate.

PSEG's other direct wholly owned subsidiaries are: PSEG Long Island LLC (PSEG LI), which operates the Long Island Power Authority's (LIPA) electric transmission and distribution (T&D) system under an Operations Services Agreement (OSA); PSEG Energy Holdings L.L.C. (Energy Holdings), which primarily has investments in leveraged leases; and PSEG Services Corporation (Services), which provides certain management, administrative and general services to PSEG and its subsidiaries at cost.

#### Basis of Presentation

The respective financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) applicable to Quarterly Reports on Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting guidance generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements (Notes) should be read in conjunction with, and update and supplement matters discussed in, the Annual Report on Form 10-K for the year ended December 31, 2019.

The unaudited condensed consolidated financial information furnished herein reflects all adjustments which are, in the opinion of management, necessary to fairly state the results for the interim periods presented. All such adjustments are of a normal recurring nature. All significant intercompany accounts and transactions are eliminated in consolidation. The year-end Condensed Consolidated Balance Sheets were derived from the audited Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2019.

#### Significant Accounting Policies

##### Cash, Cash Equivalents and Restricted Cash

The following provides a reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets that sum to the total of the same such amounts for the beginning (December 31, 2019) and ending periods shown in the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2020. Restricted cash consists primarily of deposits received related to various construction projects at PSE&G.



**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(UNAUDITED)

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	PSE&G	PSEG Power	Other (A)	Consolidated
	Millions			
<b>As of December 31, 2019</b>				
Cash and Cash Equivalents	\$ 21	\$ 21	\$ 105	\$ 147
Restricted Cash in Other Current Assets	11	—	—	11
Restricted Cash in Other Noncurrent Assets	18	—	—	18
<b>Cash, Cash Equivalents and Restricted Cash</b>	<b>\$ 50</b>	<b>\$ 21</b>	<b>\$ 105</b>	<b>\$ 176</b>
<b>As of September 30, 2020</b>				
Cash and Cash Equivalents	\$ 224	\$ 15	\$ 727	\$ 966
Restricted Cash in Other Current Assets	11	—	—	11
Restricted Cash in Other Noncurrent Assets	22	—	—	22
<b>Cash, Cash Equivalents and Restricted Cash</b>	<b>\$ 257</b>	<b>\$ 15</b>	<b>\$ 727</b>	<b>\$ 999</b>

(A) Includes amounts applicable to PSEG (parent company), Energy Holdings and Services.

**Fuel Inventory**

Fuel inventory at PSEG Power is valued at the lower of average cost or market and includes stored natural gas, coal, fuel oil and propane used to generate power and to satisfy obligations under PSEG Power's gas supply contracts with PSE&G. The costs of fuel, including initial transportation costs, are included in inventory when purchased and charged to Energy Costs when used or sold.

In the first quarter of 2020, PSEG Power recorded a \$20 million lower of cost or market (LOCOM) adjustment to its fuel oil inventory due to the significant decline in market pricing. In the second quarter of 2020, PSEG Power reversed \$9 million of the LOCOM adjustment recorded in the first quarter of 2020 due to recovery in the market price of oil. No adjustment was recorded in the third quarter of 2020. PSEG Power may continue to reverse the LOCOM adjustment in the fourth quarter of 2020, limited to the adjustment recorded in the three months ended March 31, 2020, if oil market pricing has additional recovery within the 2020 calendar year. However, downward adjustments in future quarters may be required if the market price of oil declines.

**Property, Plant and Equipment**

PSEG Power capitalizes costs, including those related to its jointly-owned facilities that increase the capacity, improve or extend the life of an existing asset; represent a newly acquired or constructed asset; or represent the replacement of a retired asset. The cost of maintenance, repair and replacement of minor items of property is charged to appropriate expense accounts as incurred. Environmental costs are capitalized if the costs mitigate or prevent future environmental contamination or if the costs improve existing assets' environmental safety or efficiency. All other environmental expenditures are expensed as incurred. PSEG Power also capitalizes spare parts that meet specific criteria. Capitalized spares are depreciated over the remaining lives of their associated assets.

In March 2020, the NRC approved Peach Bottom's second license extension for both units. Concurrent with the license extensions, PSEG Power has extended the useful life of the asset to match the 80-year life expectation and reassessed the related Asset Retirement Cost (ARC) and Asset Retirement Obligation (ARO) assumptions. This resulted in an increase to the ARC asset and ARO liability of \$74 million, primarily due to lower discount rates offset by a longer discounting period as a result of the Peach Bottom units' longer expected useful life.

## Note 2. Recent Accounting Standards

**New Standards Issued and Adopted**

**Measurement of Credit Losses on Financial Instruments—Accounting Standards Update (ASU) 2016-13, updated by ASU 2018-19, 2019-04, 2019-05, 2019-11 and 2020-02**

This accounting standard provides a new model for recognizing credit losses on financial assets. The new model requires entities to use an estimate of expected credit losses that will be recognized as an impairment allowance rather than a direct write-down of the amortized cost basis. The estimate of expected credit losses is based on past events, current conditions and supportable forecasts over a reasonable period. For purchased financial assets with credit deterioration, a similar model is used; however, the initial allowance is added to the purchase price rather than reported as an allowance. Credit losses on available-

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for-sale debt securities are measured in a manner similar to current GAAP; however, this standard requires those credit losses be presented as an allowance, rather than a write-down. This new standard also requires additional disclosures of the allowance for credit losses by financial asset type, including disclosures of credit quality indicators for each class of financial asset disaggregated by year of origination.

The standard is effective for annual and interim periods beginning after December 15, 2019. PSEG adopted this standard on January 1, 2020 on a modified retrospective basis. Upon adoption, PSE&G recorded an increase of \$8 million to its allowance for credit losses, offset by a \$6 million increase to Regulatory and Other Assets, and a \$2 million cumulative effect charge to Retained Earnings. See Note 3. Revenues. There was no impact from adoption of this standard on the financial statements of PSEG Power.

#### **Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement—ASU 2018-13**

This accounting standard modifies the disclosure requirements for fair value measurements. Certain current disclosure requirements relating to Level 3 fair value measurements, and transfers between Level 1 and Level 2 fair value measurements have been eliminated. The standard also adds certain other disclosure requirements for Level 3 fair value measurements.

The standard is effective for annual and interim periods beginning after December 15, 2019. PSEG adopted this standard on January 1, 2020. Certain amendments in the standard have been applied prospectively in 2020. All other amendments of the standard were applied retrospectively to all periods presented.

#### **Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract—ASU 2018-15**

This accounting standard aligns the capitalization requirements for implementation costs incurred in a hosting arrangement that is a service contract with capitalization requirements for implementation costs incurred to develop or obtain internal-use software, including hosting arrangements that include an internal-use software license. The standard follows the guidance in Accounting Standard Codification 350—Intangibles—Goodwill and Other to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The standard requires the amortization of capitalized costs to be presented in Operation and Maintenance (O&M) Expense. In addition, the standard also adds presentation requirements for these costs in the statements of cash flows and financial position.

The standard is effective for annual and interim periods beginning after December 15, 2019. PSEG adopted this standard prospectively on January 1, 2020. PSEG, PSE&G and PSEG Power do not expect a material impact on their respective financial statements.

#### **Targeted Improvements to Related Party Guidance for Variable Interest Entities (VIE)—ASU 2018-17**

This accounting standard improves the VIE guidance in the area of decision-making fees. Consistent with how indirect interests held through related parties under common control are considered for determining whether a reporting entity must consolidate a VIE, indirect interests held through related parties in common control arrangements are considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests.

This standard is effective for annual and interim periods beginning after December 15, 2019. The standard is required to be applied retrospectively with a cumulative effect adjustment to Retained Earnings at the beginning of the earliest period presented. PSEG adopted this standard on January 1, 2020. Adoption of this standard did not have an impact on the financial statements of PSEG, PSE&G and PSEG Power.

#### **Simplifying the Test for Goodwill Impairment—ASU 2017-04**

This accounting standard requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable.

This standard requires application on a prospective basis and disclosure of the nature of and reason for the change in accounting principle upon transition. The new standard is effective for impairment tests for periods beginning January 1, 2020. PSEG early adopted this standard in the fourth quarter of 2019, and recorded an impairment loss of \$16 million in O&M Expense.

#### **Codification Improvements to Financial Instruments—ASU 2020-03**

This accounting standard provides clarification of guidance for financial instruments and makes narrow scope amendments related to various issues. PSEG adopted this standard effective upon issuance. Adoption of this standard did not have an impact on the financial statements of PSEG, PSE&G and PSEG Power.

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#### **Facilitation of the Effects of Reference Rate Reform on Financial Reporting—ASU 2020-04**

This accounting standard provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The standard is effective from its issuance date, March 12, 2020, through December 31, 2022. PSEG adopted this standard effective upon issuance. Adoption of this standard did not have an impact on the financial statements of PSEG, PSE&G and PSEG Power.

#### **New Standards Issued But Not Yet Adopted as of September 30, 2020**

##### **Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans—ASU 2018-14**

This accounting standard modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans, including the elimination of certain current disclosure requirements. Certain other disclosure requirements related to interest crediting rates have been added and certain clarifications were made to other disclosure requirements.

The standard is effective for fiscal years ending after December 15, 2020 and early adoption is permitted. Amendments in this standard will be applied on a retrospective basis to all periods presented. PSEG is currently analyzing the impact of this standard on its disclosures.

##### **Simplifying the Accounting for Income Taxes—ASU 2019-12**

This accounting standard simplifies the accounting for income taxes, including the elimination of certain exceptions to current requirements. Certain other requirements related to franchise taxes that are partially based on income, step-up of tax basis of goodwill and allocation of consolidated taxes to legal entities have been added and certain clarifications were made to other requirements.

The standard is effective for fiscal years beginning after December 15, 2020 and early adoption is permitted. Certain amendments in this standard will be applied on a retrospective basis to all periods presented. Certain other amendments will be applied on either a retrospective basis for all periods presented or a modified retrospective basis through a cumulative effect adjustment to Retained Earnings as of the beginning of the fiscal year of adoption. All other amendments will be applied on a prospective basis. PSEG is currently analyzing the impact of this standard on its financial statements.

##### **Clarifying the Interactions between Investments-Equity Securities, Investments-Equity Method and Joint Ventures, and Derivatives and Hedging—ASU 2020-01**

This accounting standard clarifies that an entity should consider transaction prices for purposes of measuring the fair value of certain equity securities immediately before applying or upon discontinuing the equity method. This accounting standard also clarifies that when accounting for contracts entered into to purchase equity securities, an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, the underlying securities would be accounted for under the equity method or the fair value option.

The standard is effective for fiscal years beginning after December 15, 2020. Amendments in this standard will be applied prospectively. PSEG is currently analyzing the impact of this standard on its financial statements.

##### **Accounting for Convertible Instruments and Contracts in an Entity's Own Equity—ASU 2020-06**

This accounting standard simplifies the accounting for convertible debt and convertible preferred stock by removing the requirements to separately present certain conversion features in equity. In addition, the ASU eliminates certain criteria that must be satisfied in order to classify a contract as equity, which is expected to decrease the number of freestanding instruments and embedded derivatives accounted for as assets or liabilities. The ASU also revises the guidance on calculating earnings per share, requiring use of the if-converted method for all convertible instruments and rescinding the ability to rebut the presumption of share settlement for instruments that may be settled in cash or other assets.

The standard is effective for fiscal years beginning after December 15, 2020. Amendments in this standard will be applied on either a retrospective basis for all periods presented or a modified retrospective basis through a cumulative effect adjustment to Retained Earnings as of the beginning of the fiscal year of adoption. Early adoption is permitted. PSEG does not currently have any convertible debt or convertible preferred stock outstanding.

##### **Codification Improvements to Callable Debt Securities—ASU 2020-08**

This accounting standard clarifies that an entity should reevaluate for each reporting period whether a purchased callable debt security that has multiple call dates is within the scope of certain guidance on nonrefundable fees and other costs related to receivables.

The standard is effective for fiscal years beginning after December 15, 2020 and early adoption is not permitted. Amendments

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in this standard will be applied prospectively. PSEG is currently analyzing the impact of this standard on its financial statements.

## Note 3. Revenues

### Nature of Goods and Services

The following is a description of principal activities by reportable segment from which PSEG, PSE&G and PSEG Power generate their revenues.

#### PSE&G

##### Revenues from Contracts with Customers

**Electric and Gas Distribution and Transmission Revenues**—PSE&G sells gas and electricity to customers under default commodity supply tariffs. PSE&G's regulated electric and gas default commodity supply and distribution services are separate tariffs which are satisfied as the product(s) and/or service(s) are delivered to the customer. The electric and gas commodity and delivery tariffs are recurring contracts in effect until modified through the regulatory approval process as appropriate. Revenue is recognized over time as the service is rendered to the customer. Included in PSE&G's regulated revenues are unbilled electric and gas revenues which represent the estimated amount customers will be billed for services rendered from the most recent meter reading to the end of the respective accounting period.

PSE&G's transmission revenues are earned under a separate tariff using a FERC-approved annual formula rate mechanism. The performance obligation of transmission service is satisfied and revenue is recognized as it is provided to the customer. The formula rate mechanism provides for an annual filing of an estimated revenue requirement with rates effective January 1 of each year and a true-up to that estimate based on actual revenue requirements. The true-up mechanism is an alternative revenue which is outside the scope of revenue from contracts with customers.

##### Other Revenues from Contracts with Customers

Other revenues from contracts with customers, which are not a material source of PSE&G revenues, are generated primarily from appliance repair services and solar generation projects. The performance obligations under these contracts are satisfied and revenue is recognized as control of products is delivered or services are rendered.

Payment for services rendered and products transferred are typically due on average within 30 days of delivery.

##### Revenues Unrelated to Contracts with Customers

Other PSE&G revenues unrelated to contracts with customers are derived from alternative revenue mechanisms recorded pursuant to regulatory accounting guidance. These revenues, which include weather normalization, green energy program true-ups and transmission formula rate true-ups, are not a material source of PSE&G revenues.

#### PSEG Power

##### Revenues from Contracts with Customers

**Electricity and Related Products**—Wholesale and retail load contracts are executed in the different Independent System Operator (ISO) regions for the bundled supply of energy, capacity, renewable energy credits (RECs) and ancillary services representing PSEG Power's performance obligations. Revenue for these contracts is recognized over time as the bundled service is provided to the customer. Transaction terms generally run from several months to three years. PSEG Power also sells to the ISOs energy and ancillary services which are separately transacted in the day-ahead or real-time energy markets. The energy and ancillary services performance obligations are typically satisfied over time as delivered and revenue is recognized accordingly. PSEG Power generally reports electricity sales and purchases conducted with those individual ISOs net on an hourly basis in either Operating Revenues or Energy Costs in its Condensed Consolidated Statements of Operations. The classification depends on the net hourly activity.

PSEG Power enters into capacity sales and capacity purchases through the ISOs. The transactions are reported on a net basis dependent on PSEG Power's monthly net sale or purchase position through the individual ISOs. The performance obligations with the ISOs are satisfied over time upon delivery of the capacity and revenue is recognized accordingly. In addition to capacity sold through the ISOs, PSEG Power sells capacity through bilateral contracts and the related revenue is reported on a gross basis and recognized over time upon delivery of the capacity.

In April 2019, PSEG Power's Salem 1, Salem 2 and Hope Creek nuclear plants were awarded Zero Emission Certificates (ZECs) by the BPU. These nuclear plants are expected to receive ZEC revenue for approximately three years, through May

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2022, from the electric distribution companies (EDCs) in New Jersey. PSEG Power recognizes revenue when the units generate electricity, which is when the performance obligation is satisfied. These revenues are included in PJM Interconnection, L.L.C. (PJM) Sales in the following tables. See Note 4. Early Plant Retirements/Asset Dispositions for additional information.

**Gas Contracts**—PSEG Power sells wholesale natural gas, primarily through an index based full-requirements Basic Gas Supply Service (BGSS) contract with PSE&G to meet the gas supply requirements of PSE&G's customers. The BGSS contract remains in effect unless terminated by either party with a two-year notice. The performance obligation is primarily delivery of gas which is satisfied over time. Revenue is recognized as gas is delivered. Based upon the availability of natural gas, storage and pipeline capacity beyond PSE&G's daily needs, PSEG Power also sells gas and pipeline capacity to other counterparties under bilateral contracts. The performance obligation under these contracts is satisfied over time upon delivery of the gas or capacity, and revenue is recognized accordingly.

### **Other Revenues from Contracts with Customers**

PSEG Power enters into bilateral contracts to sell solar power and solar RECs from its solar facilities. Contract terms range from 15 to 30 years. The performance obligations are generally solar power and RECs which are transferred to customers upon generation. Revenue is recognized upon generation of the solar power.

PSEG Power has entered into long-term contracts with LIPA for energy management and fuel procurement services. Revenue is recognized over time as services are rendered.

### **Revenues Unrelated to Contracts with Customers**

PSEG Power's revenues unrelated to contracts with customers include electric, gas and certain energy-related transactions accounted for in accordance with Derivatives and Hedging accounting guidance. See Note 13. Financial Risk Management Activities for further discussion. PSEG Power is also a party to solar contracts that qualify as leases and are accounted for in accordance with lease accounting guidance.

### **Other**

### **Revenues from Contracts with Customers**

PSEG LI has a contract with LIPA which generates revenues. PSEG LI's subsidiary, Long Island Electric Utility Servco, LLC (Servco) records costs which are recovered from LIPA and records the recovery of those costs as revenues when Servco is a principal in the transaction.

### **Revenues Unrelated to Contracts with Customers**

Energy Holdings generates lease revenues which are recorded pursuant to lease accounting guidance.

### **Disaggregation of Revenues**

	PSE&G	PSEG Power	Other	Eliminations	Consolidated
	Millions				
Three Months Ended September 30, 2020					
Revenues from Contracts with Customers					
Electric Distribution	\$ 1,157	\$ —	\$ —	\$ —	\$ 1,157
Gas Distribution	116	—	—	(4)	112
Transmission	370	—	—	—	370
Electricity and Related Product Sales					
PJM					
Third-Party Sales	—	464	—	—	464
Sales to Affiliates	—	123	—	(123)	—
New York ISO	—	36	—	—	36
ISO New England	—	13	—	—	13
Gas Sales					
Third-Party Sales	—	14	—	—	14
Sales to Affiliates	—	50	—	(50)	—
Other Revenues from Contracts with Customers (A)	76	13	162	(2)	249
Total Revenues from Contracts with Customers	1,719	713	162	(179)	2,415
Revenues Unrelated to Contracts with Customers (B)	(59)	33	(19)	—	(45)
Total Operating Revenues	\$ 1,660	\$ 746	\$ 143	\$ (179)	\$ 2,370

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	PSE&G	PSEG Power	Other	Eliminations	Consolidated
Millions					
<b>Nine Months Ended September 30, 2020</b>					
<b>Revenues from Contracts with Customers</b>					
Electric Distribution	\$ 2,529	\$ —	\$ —	\$ —	\$ 2,529
Gas Distribution	1,125	—	—	(8)	1,117
Transmission	1,114	—	—	—	1,114
Electricity and Related Product Sales					
PJM					
Third-Party Sales	—	1,178	—	—	1,178
Sales to Affiliates	—	355	—	(355)	—
New York ISO	—	85	—	—	85
ISO New England	—	86	—	—	86
Gas Sales					
Third-Party Sales	—	58	—	—	58
Sales to Affiliates	—	528	—	(528)	—
<b>Other Revenues from Contracts with Customers (A)</b>	<b>241</b>	<b>37</b>	<b>447</b>	<b>(3)</b>	<b>722</b>
<b>Total Revenues from Contracts with Customers</b>	<b>5,009</b>	<b>2,327</b>	<b>447</b>	<b>(894)</b>	<b>6,889</b>
<b>Revenues Unrelated to Contracts with Customers (B)</b>	<b>(10)</b>	<b>322</b>	<b>—</b>	<b>—</b>	<b>312</b>
<b>Total Operating Revenues</b>	<b>\$ 4,999</b>	<b>\$ 2,649</b>	<b>\$ 447</b>	<b>\$ (894)</b>	<b>\$ 7,201</b>

	PSE&G	PSEG Power	Other	Eliminations	Consolidated
Millions					
<b>Three Months Ended September 30, 2019</b>					
<b>Revenues from Contracts with Customers</b>					
Electric Distribution	\$ 1,096	\$ —	\$ —	\$ —	\$ 1,096
Gas Distribution	130	—	—	(5)	125
Transmission	295	—	—	—	295
Electricity and Related Product Sales					
PJM					
Third-Party Sales	—	488	—	—	488
Sales to Affiliates	—	160	—	(160)	—
New York ISO	—	38	—	—	38
ISO New England	—	37	—	—	37
Gas Sales					
Third-Party Sales	—	12	—	—	12
Sales to Affiliates	—	58	—	(58)	—
<b>Other Revenues from Contracts with Customers (A)</b>	<b>64</b>	<b>13</b>	<b>141</b>	<b>(1)</b>	<b>217</b>
<b>Total Revenues from Contracts with Customers</b>	<b>1,585</b>	<b>806</b>	<b>141</b>	<b>(224)</b>	<b>2,308</b>
<b>Revenues Unrelated to Contracts with Customers (B)</b>	<b>19</b>	<b>(35)</b>	<b>10</b>	<b>—</b>	<b>(6)</b>
<b>Total Operating Revenues</b>	<b>\$ 1,604</b>	<b>\$ 771</b>	<b>\$ 151</b>	<b>\$ (224)</b>	<b>\$ 2,302</b>

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	PSE&G	PSEG Power	Other	Eliminations	Consolidated
	Millions				
Nine Months Ended September 30, 2019					
Revenues from Contracts with Customers					
Electric Distribution	\$ 2,613	\$ —	\$ —	\$ —	\$ 2,613
Gas Distribution	1,272	—	—	(11)	1,261
Transmission	887	—	—	—	887
Electricity and Related Product Sales					
PJM					
Third-Party Sales	—	1,426	—	—	1,426
Sales to Affiliates	—	416	—	(416)	—
New York ISO	—	108	—	—	108
ISO New England	—	85	—	—	85
Gas Sales					
Third-Party Sales	—	70	—	—	70
Sales to Affiliates	—	639	—	(639)	—
Other Revenues from Contracts with Customers (A)	196	37	406	(3)	636
Total Revenues from Contracts with Customers	4,968	2,781	406	(1,069)	7,086
Revenues Unrelated to Contracts with Customers (B)	50	489	(27)	—	512
Total Operating Revenues	\$ 5,018	\$ 3,270	\$ 379	\$ (1,069)	\$ 7,598

(A) Includes primarily revenues from appliance repair services at PSE&G, solar power projects and energy management and fuel service contracts with LIPA at PSEG Power, and PSEG LI's OSA with LIPA in Other.

(B) Includes primarily alternative revenues at PSE&G, derivative contracts and lease contracts at PSEG Power, and lease contracts in Other.

**Contract Balances**

**PSE&G**

PSE&G did not have any material contract balances (rights to consideration for services already provided or obligations to provide services in the future for consideration already received) as of September 30, 2020 and December 31, 2019. Substantially all of PSE&G's accounts receivable and unbilled revenues result from contracts with customers that are priced at tariff rates. Allowances represented approximately 12% and 6% of accounts receivable (including unbilled revenues in 2020) as of September 30, 2020 and December 31, 2019, respectively. As of December 31, 2019, there was no allowance for unbilled revenues. Effective January 1, 2020, PSE&G adopted ASU 2016-13 and recorded an allowance for unbilled revenues. See Note 2. Recent Accounting Standards.

**Accounts Receivable—Allowance for Credit Losses**

PSE&G's accounts receivable, including unbilled revenues, is primarily comprised of utility customer receivables for the provision of electric and gas service and appliance services, and are reported in the balance sheet as gross outstanding amounts adjusted for an allowance for credit losses. The allowance for credit losses reflects PSE&G's best estimate of losses on the account balances. The allowance is based on PSE&G's projection of accounts receivable aging, historical experience, economic factors and other currently available evidence, including the estimated impact of the ongoing coronavirus pandemic on the outstanding balances as of September 30, 2020. PSE&G's electric bad debt expense is recoverable through its Societal Benefits Clause mechanism. As of September 30, 2020, PSE&G deferred approximately \$19 million of incremental gas bad debt expense for future regulatory recovery due to the impact of the ongoing pandemic. See Note 6. Rate Filings for additional information.



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The following provides a reconciliation of PSE&G's allowance for credit losses for the three months and nine months ended September 30, 2020:

	<b>Three Months Ended September 30, 2020</b>
	Millions
<b>Balance as of June 30, 2020</b>	<b>\$ 121</b>
Utility Customer and Other Accounts	
Provision	43
Write-offs, net of Recoveries of \$1 million	(6)
<b>Balance as of September 30, 2020</b>	<b>\$ 158</b>
	<b>Nine Months Ended September 30, 2020</b>
	Millions
<b>Balance as of January 1, 2020 (A)</b>	<b>\$ 68</b>
Utility Customer and Other Accounts	
Provision	120
Write-offs, net of Recoveries of \$4 million	(30)
<b>Balance as of September 30, 2020</b>	<b>\$ 158</b>

(A) Includes an \$8 million pre-tax increase upon adoption of ASU 2016-13. See Note 2. Recent Accounting Standards.

### **PSEG Power**

PSEG Power generally collects consideration upon satisfaction of performance obligations, and therefore, PSEG Power had no material contract balances as of September 30, 2020 and December 31, 2019.

PSEG Power's accounts receivable include amounts resulting from contracts with customers and other contracts which are out of scope of accounting guidance for revenues from contracts with customers. The majority of these accounts receivable are subject to master netting agreements. As a result, accounts receivable resulting from contracts with customers and receivables unrelated to contracts with customers are netted within Accounts Receivable and Accounts Payable on the Condensed Consolidated Balance Sheets.

PSEG Power's accounts receivable consist mainly of revenues from wholesale load contracts and capacity sales which are executed in the different ISO regions. PSEG Power also sells energy and ancillary services directly to ISOs and other counterparties. In the wholesale energy markets in which PSEG Power operates, payment for services rendered and products transferred are typically due within 30 days of delivery. As such, there is little credit risk associated with these receivables. PSEG Power did not record an allowance for credit losses for these receivables as of September 30, 2020. PSEG Power monitors the status of its counterparties on an ongoing basis to assess whether there are any anticipated credit losses.

### **Other**

PSEG LI did not have any material contract balances as of September 30, 2020 and December 31, 2019.

### **Remaining Performance Obligations under Fixed Consideration Contracts**

PSEG Power and PSE&G primarily record revenues as allowed by the guidance, which states that if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date, the entity may recognize revenue in the amount to which the entity has a right to invoice. PSEG has future performance obligations under contracts with fixed consideration as follows:

### **PSEG Power**

As previously stated, capacity transactions with ISOs are reported on a net basis dependent on PSEG Power's monthly net sale or purchase position through the individual ISOs.

**Capacity Revenues from the PJM Annual Base Residual and Incremental Auctions**—The Base Residual Auction is generally conducted annually three years in advance of the operating period. The 2022/2023 auction has yet to be held and is not expected until mid-2021. PSEG Power expects to realize the following average capacity prices resulting from the base and incremental



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auctions, including unit specific bilateral contracts for previously cleared capacity obligations.

Delivery Year	\$ per MW-Day	MW Cleared
June 2020 to May 2021	\$167	7,600
June 2021 to May 2022	\$180	7,000

**Capacity Payments from the ISO New England Forward Capacity Market (FCM)**—The FCM Auction is conducted annually three years in advance of the operating period. The table below includes PSEG Power’s cleared capacity in the FCM Auction for the Bridgeport Harbor Station 5 (BH5), which cleared the 2019/2020 auction at \$231/MW-day for seven years, and the planned retirement of Bridgeport Harbor Station 3 (BH3) in May 2021. PSEG Power expects to realize the following average capacity prices for capacity obligations to be satisfied resulting from the FCM Auctions which have been completed through May 2024 and the seven-year rate lock for BH5 through May 2026:

Delivery Year	\$ per MW-Day (A)	MW Cleared
June 2020 to May 2021	\$195	1,330
June 2021 to May 2022	\$192	950
June 2022 to May 2023	\$179	950
June 2023 to May 2024	\$152	930
June 2024 to May 2025	\$231	480
June 2025 to May 2026	\$231	480

- (A) Capacity cleared prices for BH5 through 2026 will be escalated based upon the Handy-Whitman Index. These adjustments are not included above.

**Bilateral capacity contracts**—Capacity obligations pursuant to contract terms through 2029 are anticipated to result in revenues totaling \$146 million.

### **Other**

The LIPA OSA is a 12-year services contract ending in 2025 with annual fixed and incentive components. The fixed fee for the provision of services thereunder in 2020 is \$67 million and is updated each year based on the change in the Consumer Price Index.

## **Note 4. Early Plant Retirements/Asset Dispositions**

### **Nuclear**

In April 2019, PSEG Power’s Salem 1, Salem 2 and Hope Creek nuclear plants were awarded ZECs by the BPU. Pursuant to a process established by the BPU, ZECs are purchased from selected nuclear plants and recovered through a non-bypassable distribution charge in the amount of \$0.004 per kilowatt-hour (KWh) used (which is equivalent to approximately \$10 per megawatt hour (MWh) generated in payments to selected nuclear plants (ZEC payment)). These nuclear plants are expected to receive ZEC revenue for approximately three years, through May 2022, and will be obligated to maintain operations during that period, subject to exceptions specified in the ZEC legislation. PSEG Power has and will continue to recognize revenue monthly as the nuclear plants generate electricity and satisfy their performance obligations. The ZEC payment may be adjusted by the BPU (a) at any time to offset environmental or fuel diversity payments that a selected nuclear plant may receive from another source or (b) at certain times specified in the ZEC legislation if the BPU determines that the purposes of the ZEC legislation can be achieved through a reduced charge that will nonetheless be sufficient to achieve the state’s air quality and other environmental objectives by preventing the retirement of nuclear plants. For instance, the New Jersey Rate Counsel, in written comments filed with the BPU, has advocated for the BPU to offset market benefits resulting from New Jersey’s rejoining the Regional Greenhouse Gas Initiative from the ZEC payment. PSEG intends to vigorously defend against these arguments. Due to its preliminary nature, PSEG cannot predict the outcome of this matter.

The BPU’s decision awarding ZECs has been appealed by the New Jersey Rate Counsel. PSEG cannot predict the outcome of this matter.

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In October 2020, PSEG Power filed with the BPU its ZEC applications for Salem 1, Salem 2 and Hope Creek for the three-year eligibility period starting in June 2022. No other plants applied for ZECs for this eligibility period. The BPU's schedule to consider these applications includes the BPU Staff issuing their preliminary findings regarding ZEC eligibility and the value of ZEC payments for this period in December 2020, followed by public and evidentiary hearings and a final BPU decision by April 2021. PSEG Power is not aware of any changes from its ZEC application for the first eligibility period that would materially affect its ability to establish eligibility to be awarded ZECs during the second eligibility period. PSEG cannot predict the outcome of either the BPU Staff's preliminary findings or the BPU's final determination.

In the event that (i) the ZEC program is overturned or is otherwise materially adversely modified through legal process; (ii) the amount of ZEC payments that may be awarded or other terms and conditions of the second ZEC eligibility period proposed by the BPU Staff in the December 2020 preliminary findings or by the BPU in its final decision differ from those of the current ZEC period; or (iii) any of the Salem 1, Salem 2 and Hope Creek plants is not awarded ZEC payments by the BPU and does not otherwise experience a material financial change, PSEG Power will take all necessary steps to cease to operate all of these plants. Alternatively, if all of the Salem 1, Salem 2 and Hope Creek plants are selected to continue to receive ZEC payments but the financial condition of the plants is materially adversely impacted by changes in commodity prices, FERC's changes to the capacity market construct (absent sufficient capacity revenues provided under a program approved by the BPU in accordance with a FERC-authorized capacity mechanism), or, in the case of the Salem nuclear plants, decisions by the EPA and state environmental regulators regarding the implementation of Section 316(b) of the Clean Water Act and related state regulations, or other factors, PSEG Power will take all necessary steps to cease to operate all of these plants and will incur associated costs and accounting charges. These may include, among other things, one-time impairment charges or accelerated Depreciation and Amortization Expense on the remaining carrying value of the plants, potential penalties associated with the early termination of capacity obligations and fuel contracts, accelerated asset retirement costs, severance costs, environmental remediation costs and, in certain circumstances potential additional funding of the Nuclear Decommissioning Trust Fund, which would be material to both PSEG and PSEG Power.

### **Non-Nuclear**

In July 2020, PSEG announced that it is exploring strategic alternatives for PSEG Power's non-nuclear generating fleet, which includes more than 6,750 MW of fossil generation located in New Jersey, Connecticut, New York and Maryland as well as the 467 MW Solar Source portfolio located in various states. PSEG intends to retain ownership of PSEG Power's existing nuclear fleet. While PSEG is in the preliminary stage of this evaluation, the marketing of a potential transaction in one or a series of steps is anticipated to launch in the fourth quarter of this year, and any potential transaction is expected to be completed sometime in 2021. As a result, PSEG Power performed a recoverability test for impairment of its portfolio of generating assets in the PJM, NYISO and NEPOOL regions using a weighted probability cash flow analysis that considers the likelihood of a potential sale or disposition or continuing to operate the assets through their remaining estimated useful lives. As of September 30, 2020, the estimated undiscounted future cash flows of each of the asset groups exceeded the carrying amount and no impairment was identified. However, certain assumptions are subject to change as the potential sales and marketing process progresses.

There is no assurance that the strategic review will result in a sale or other disposition of all or any portion of these assets on terms that are favorable to us, or at all. Any transaction would be subject to market conditions and customary closing conditions, including the receipt of all required regulatory approvals. A change in the held-for-use classification of the remaining fossil and solar units may have a material adverse impact on PSEG's and PSEG Power's future financial results.

In September 2020, PSEG Power completed the sale of its ownership interest in the Yards Creek generation facility. PSEG Power recorded a pre-tax gain on disposition of approximately \$122 million in the third quarter of 2020 as the sale price was greater than book value.

In September 2019, PSEG Power completed the sale of its ownership interests in the Keystone and Conemaugh generation plants and related assets and liabilities. PSEG Power recorded a pre-tax loss on disposition of approximately \$400 million in the second quarter of 2019 as the sale price was less than book value.

## **Note 5. Variable Interest Entity (VIE)**

### **VIE for which PSEG LI is the Primary Beneficiary**

PSEG LI consolidates Servco, a marginally capitalized VIE, which was created for the purpose of operating LIPA's T&D system in Long Island, New York as well as providing administrative support functions to LIPA. PSEG LI is the primary beneficiary of Servco because it directs the operations of Servco, the activity that most significantly impacts Servco's economic

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performance and it has the obligation to absorb losses of Servco that could potentially be significant to Servco. Such losses would be immaterial to PSEG.

Pursuant to the OSA, Servco's operating costs are paid entirely by LIPA, and therefore, PSEG LI's risk is limited related to the activities of Servco. PSEG LI has no current obligation to provide direct financial support to Servco. In addition to payment of Servco's operating costs as provided for in the OSA, PSEG LI receives an annual contract management fee. PSEG LI's annual contractual management fee, in certain situations, could be partially offset by Servco's annual storm costs not approved by the Federal Emergency Management Agency, limited contingent liabilities and penalties for failing to meet certain performance metrics.

For transactions in which Servco acts as principal and controls the services provided to LIPA, such as transactions with its employees for labor and labor-related activities, including pension and OPEB-related transactions, Servco records revenues and the related pass-through expenditures separately in Operating Revenues and O&M Expense, respectively. Servco recorded \$145 million and \$124 million for the three months and \$397 million and \$357 million for the nine months ended September 30, 2020 and 2019, respectively, of O&M costs, the full reimbursement of which was reflected in Operating Revenues. For transactions in which Servco acts as an agent for LIPA, it records revenues and the related expenses on a net basis, resulting in no impact on PSEG's Condensed Consolidated Statement of Operations.

### Note 6. Rate Filings

This Note should be read in conjunction with Note 7. Regulatory Assets and Liabilities to the Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2019.

In addition to items previously reported in the Annual Report on Form 10-K, significant regulatory orders received and currently pending rate filings with FERC and the BPU are as follows:

**COVID-19 Deferral**—In July 2020, the BPU authorized regulated utilities in the State of New Jersey to create a COVID-19-related Regulatory Asset by deferring on their books and records the prudently incurred incremental costs related to COVID-19 beginning on March 9, 2020 through September 30, 2021, or 60 days after the New Jersey governor determines that the Public Health Emergency is no longer in effect, or in the absence of such a determination, 60 days from the time the Public Health Emergency automatically terminates by law, whichever is later. Deferred costs should be offset by any federal or state assistance that the utility may receive as a direct result of the COVID-19 pandemic. Utilities must file quarterly reports of the costs incurred and offsets. In October 2020, the BPU broadened the scope of the docket to include all pandemic issues in a generic proceeding that will include submission of public comments and consideration of, among other things, the timing and scope of current and planned clean energy programs, other utility filings and mechanisms; utility financial strength; customer concerns; regulatory compliance and priorities; and ensuring the continued provision of safe and adequate service at just and reasonable rates, while recognizing the ramifications from the COVID-19 pandemic.

Each New Jersey utility regulated by the BPU must file a petition documenting its prudently incurred incremental COVID-19 costs by December 31, 2021, or within 60 days of the close of the Regulatory Asset period as described above, whichever is later. Any potential rate recovery, including any prudence determinations and the appropriate period of recovery, will be addressed through that filing, or in the alternative, the utility may request that the BPU defer consideration of rate recovery for a future base rate case.

PSE&G has made two quarterly filings as required by the BPU and recorded a Regulatory Asset of approximately \$35 million in the third quarter of 2020 for net incremental costs which PSE&G believes are recoverable under the BPU order.

**Clean Energy Future-Energy Efficiency (CEF-EE), a New Component of the Green Program Recovery Charge (GPRC)**—In September 2020, the BPU approved PSE&G's CEF-EE filing which provides for energy efficient investments of \$1 billion over a three-year period. Costs will be recovered through the GPRC, with returns aligned with PSE&G's most recent base rate case and a ten-year amortization period.

The approval also included a Conservation Incentive Program (CIP), a mechanism that will provide for recovery of lost electric and gas variable margin revenues. The CIP is effective in June 2021 for electric and October 2021 for gas. PSE&G will suspend its gas Weather Normalization Charge (WNC) when the gas CIP deferral period begins.

**Transition Incentive Program, a New Component of the GPRC**—In 2019, the BPU approved an order establishing a Transition Incentive Program to serve as a bridge between the existing Solar Renewable Energy Certificate (SREC) program and a to-be-established successor program and created a new incentive mechanism known as the Transition Renewable Energy Certificate (TREC) Program. TRECs will be awarded to qualifying solar projects under the new program. In the TREC Order, the BPU directed the New Jersey EDCs to engage a TREC Administrator to acquire, on behalf of the EDCs, TRECs produced

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by eligible solar projects, which will be funded through a TREC charge to electric customers collected by the EDCs. The order allows the EDCs to recover their costs associated with the TREC program in an annual filing, subject to approval by the BPU.

In August 2020, the BPU approved PSE&G's request for increased rates of approximately \$23 million annually for recovery of its expected share of TREC costs. These costs will be recovered as a new component of PSE&G's existing electric GPRC, which is updated on an annual basis.

**GPRC**—In June 2020, PSE&G filed its 2020 GPRC cost recovery petition requesting recovery of approximately \$67 million and \$20 million in electric and gas revenues, respectively, on an annual basis. This matter is pending.

**Transmission Formula Rates**—In October 2020, PSE&G filed its 2020 Annual Transmission Formula Rate Update with FERC which will result in \$119 million in increased annual transmission revenue effective January 1, 2021, subject to true-up.

In June 2020, PSE&G filed its 2019 true-up adjustment pertaining to its transmission formula rates in effect for 2019. This filing resulted in an additional annual revenue requirement of \$24 million more than the 2019 originally filed revenue.

In April 2020, the Internal Revenue Service (IRS) issued a Private Letter Ruling (PLR) to PSE&G concluding that certain excess deferred taxes previously classified as protected should be classified as unprotected. Unprotected excess deferred income taxes are not subject to the normalization rules allowing them to be refunded to customers sooner as agreed to with FERC and the BPU. In July 2020, FERC approved PSE&G's request to allow the entire amount of these unprotected excess deferred income taxes be returned to customers in the 2019 true-up filing. As a result of the FERC approval, PSE&G recorded a revenue reduction of approximately \$38 million in the third quarter of 2020, fully offset by a reduction in Income Tax Expense. The refund will be provided to transmission ratepayers as a reduction to the 2021 transmission rates.

**Basic Gas Supply Service (BGSS)**—In September 2020, the BPU provisionally approved PSE&G's request to maintain the current BGSS rate of 32 cents. This rate is subject to final approval.

**Gas System Modernization Program II (GSMP II)**—In July 2020, the BPU approved PSE&G's GSMP II cost recovery petition requesting approximately \$18 million in gas revenues on an annual basis, which included GSMP II investments in service as of February 29, 2020. The increase was effective July 16, 2020.

In September 2020, PSE&G updated its GSMP II cost recovery petition seeking BPU approval to recover in gas base rates an estimated annual revenue increase of approximately \$20 million effective December 1, 2020. This increase represents the return on and of GSMP II investments placed in service through August 31, 2020. This matter is pending.

**Tax Adjustment Credit (TAC)**—In October 2020, PSE&G made its annual 2020 TAC filing. The TAC allows for the flowback to customers of excess accumulated deferred income taxes resulting from the reduction of the federal income tax rates provided in the Tax Cuts and Jobs Act of 2017 (Tax Act) as well as the accumulated deferred income taxes from previously realized tax repair deductions and tax benefits from future tax repair deductions as realized. The 2020 TAC filing requests BPU approval to reduce electric revenues by approximately \$23 million and increase gas revenues by \$49 million on an annual basis starting January 1, 2021. This matter is pending.

In July 2020, the BPU gave final approval to PSE&G's 2019 TAC filing that had been approved on a provisional basis in January 2020, with additional credits included in the final ruling. The final approval resulted in a reduction to electric and gas revenues of \$25 million and \$29 million, respectively, on an annual basis, effective July 16, 2020.

As discussed above, PSE&G received a PLR from the IRS in April 2020 that concluded that certain excess deferred taxes previously classified as protected should be classified as unprotected. Unprotected excess deferred income taxes are not subject to the tax normalization rules allowing them to be refunded to customers sooner as agreed to with the BPU. As part of a procedural discovery to obtain the BPU's final approval, PSE&G proposed that it change its current provisional TAC rates to increase the credit and start flowing back these unprotected amounts starting in July 2020 through December 31, 2024, which the BPU approved. This resulted in a total additional credit to electric and gas customers of \$50 million and \$46 million, respectively, of which \$10 million and \$19 million will be flowed back in 2020 for electric and gas, respectively.

**WNC**—In September 2020, the BPU approved a provisional rate effective October 1, 2020 for the collection of \$10 million from customers over the 2020-2021 Winter Period for the estimated undercollection resulting from the warmer-than-normal 2019-2020 Winter Period.

**Remediation Adjustment Charge (RAC)**—In September 2020, the BPU approved PSE&G's RAC 27 filing requesting recovery of approximately \$53 million in net manufactured gas plant remediation expenditures from August 1, 2018 through July 31, 2019.

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## Note 7. Leases

PSEG and its subsidiaries are both a lessor and a lessee in operating leases. As of September 30, 2020, PSEG and its subsidiaries were lessors for leases classified as operating leases or leveraged leases. See Note 8. Financing Receivables. There was no significant change in amounts reported in Note 8. Leases in the Annual Report on Form 10-K for the year ended December 31, 2019 for operating leases in which PSEG and its subsidiaries are lessees.

PSEG and its subsidiaries, as lessors, have lease agreements with lease and non-lease components, which are primarily related to generating facilities. Rental income from these leases is included in Operating Revenues.

### PSEG Power

Certain of PSEG Power's sales agreements related to its solar generating plants qualify as operating leases with remaining terms through 2043 with no extension terms. Lease income is based on solar energy generation; therefore, all rental income is variable under these leases.

### Other

Energy Holdings is the lessor in leveraged leases. Leveraged lease accounting guidance is grandfathered for existing leveraged leases. If modified after January 1, 2019, such leveraged leases will be accounted for as operating, direct financing, or sales-type leases.

Energy Holdings is the lessor in an operating lease for a domestic energy generation facility with a remaining term through 2036. Energy Holdings was previously the lessor in operating leases for real estate assets which were sold in March 2020.

The following is the operating lease income for PSEG Power and Energy Holdings for the three and nine months ended September 30, 2020 and 2019:

	PSEG Power	Energy Holdings	Total
	Millions		
<b>Operating Lease Income</b>			
<b>Three Months Ended September 30, 2020</b>			
Fixed Lease Income	\$ —	\$ 4	\$ 4
Variable Lease Income	8	—	8
<b>Total Operating Lease Income</b>	<b>\$ 8</b>	<b>\$ 4</b>	<b>\$ 12</b>
<b>Nine Months Ended September 30, 2020</b>			
Fixed Lease Income	\$ —	\$ 12	\$ 12
Variable Lease Income	21	—	21
<b>Total Operating Lease Income</b>	<b>\$ 21</b>	<b>\$ 12</b>	<b>\$ 33</b>
<b>Three Months Ended September 30, 2019</b>			
Fixed Lease Income	\$ —	\$ 6	\$ 6
Variable Lease Income	7	—	7
<b>Total Operating Lease Income</b>	<b>\$ 7</b>	<b>\$ 6</b>	<b>\$ 13</b>
<b>Nine Months Ended September 30, 2019</b>			
Fixed Lease Income	\$ —	\$ 17	\$ 17
Variable Lease Income	19	—	19
<b>Total Operating Lease Income</b>	<b>\$ 19</b>	<b>\$ 17</b>	<b>\$ 36</b>

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## Note 8. Financing Receivables

### PSE&G

PSE&G's Solar Loan Programs are designed to help finance the installation of solar power systems throughout its electric service area. Interest income on the loans is recorded on an accrual basis. The loans are paid back with SRECs generated from the related installed solar electric system. PSE&G uses collection experience as a credit quality indicator for its Solar Loan Programs and conducts a comprehensive credit review for all prospective borrowers. As of September 30, 2020, none of the solar loans were impaired; however, in the event of a loan default or if a loan becomes impaired, the basis of the solar loan would be recovered through a regulatory recovery mechanism. As of September 30, 2020, none of the solar loans were delinquent and no loans are currently expected to become delinquent in light of the payment mechanism. Therefore, no current credit losses have been recorded for Solar Loan Programs I, II and III. A substantial portion of these amounts are noncurrent and reported in Long-Term Investments on PSEG's and PSE&G's Condensed Consolidated Balance Sheets. The following table reflects the outstanding loans by class of customer, none of which would be considered "non-performing."

Outstanding Loans by Class of Customers	As of September 30, 2020	As of December 31, 2019
	Millions	
Commercial/Industrial	\$ 144	\$ 156
Residential	7	8
Total	151	164
Current Portion (included in Accounts Receivable)	(28)	(28)
<b>Noncurrent Portion (included in Long-Term Investments)</b>	<b>\$ 123</b>	<b>\$ 136</b>

The solar loans originated under three Solar Loan Programs are comprised as follows:

Programs	Balance as of September 30, 2020	Funding Provided	Residential Loan Term	Non-Residential Loan Term
	Millions			
Solar Loan I	\$ 22	prior to 2013	10 years	15 years
Solar Loan II	72	prior to 2015	10 years	15 years
Solar Loan III	57	largely funded as of December 31, 2019	10 years	10 years
Total	\$ 151			

The average life of loans paid in full is eight years, which is lower than the loan terms of 10 to 15 years due to the generation of SRECs being greater than expected and/or cash payments made to the loan. Payments on all outstanding loans were current as of September 30, 2020 and have an average remaining life of approximately four years.

### Energy Holdings

Energy Holdings, through several of its indirect subsidiaries, has investments in domestic energy and real estate assets subject primarily to leveraged lease accounting. A leveraged lease is typically comprised of an investment by an equity investor and debt provided by a third-party debt investor. The debt is recourse only to the assets subject to lease and is not included on PSEG's Condensed Consolidated Balance Sheets. As an equity investor, Energy Holdings' equity investments in the leases are comprised of the total expected lease receivables over the lease terms plus the estimated residual values at the end of the lease terms, reduced for any income not yet earned on the leases. This amount is included in Long-Term Investments on PSEG's Condensed Consolidated Balance Sheets. The more rapid depreciation of the leased property for tax purposes creates tax cash flow that will be repaid to the taxing authority in later periods. As such, the liability for such taxes due is recorded in Deferred Income Taxes on PSEG's Condensed Consolidated Balance Sheets.

In the second quarter of 2020, Energy Holdings completed its annual review of estimated residual values embedded in domestic energy leveraged leases and determined no impairments were necessary. During the second quarter of 2019, the outcome of Energy Holdings' annual review indicated that the updated residual value estimate of the coal-fired Powerton lease was lower than the recorded residual value and the decline was deemed to be other than temporary as a result of expected future adverse

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market conditions. As a result, a pre-tax write-down of \$58 million was reflected in Operating Revenues in the quarter ended June 30, 2019, calculated by comparing the gross investment in the leases before and after the revised residual estimates.

In September 2020, wholly owned subsidiaries of PSEG Energy Holdings L.L.C. (the Sellers) completed the sale to Midwest Generation, LLC (the Buyer) of the Sellers' ownership interests in the Powerton and Joliet generation facilities and related assets, including the assumption by the Buyer of related liabilities. The loss, net of taxes, resulting from the transaction was immaterial.

Leveraged leases outstanding as of September 30, 2020 commenced in or prior to 2000. The following table shows Energy Holdings' gross and net lease investment as of September 30, 2020 and December 31, 2019.

	As of September 30, 2020	As of December 31, 2019
	Millions	
Lease Receivables (net of Non-Recourse Debt)	\$ 334	\$ 498
Estimated Residual Value of Leased Assets	124	202
Total Investment in Rental Receivables	458	700
Unearned and Deferred Income	(141)	(203)
Gross Investments in Leases	317	497
Deferred Tax Liabilities	(131)	(328)
<b>Net Investments in Leases</b>	<b>\$ 186</b>	<b>\$ 169</b>

The corresponding receivables associated with the lease portfolio are reflected as follows, net of non-recourse debt. The ratings in the table represent the ratings of the entities providing payment assurance to Energy Holdings.

Counterparties' Standard & Poor's (S&P) Credit Rating as of September 30, 2020	Lease Receivables, Net of Non-Recourse Debt
	As of September 30, 2020
	Millions
AA	\$ 9
A-	54
BBB+ to BBB	236
NR	35
<b>Total</b>	<b>\$ 334</b>

The "NR" rating in the preceding table represent lease receivables related to Shawville Units 1, 2, 3 and 4. The Shawville Units, wholly owned by PSEG, are 596 MW gas-fired assets located in Pennsylvania and Shawville Power, LLC is the lease counterparty. As of September 30, 2020, the gross investment in the lease of Shawville assets, net of non-recourse debt, was \$72 million (\$4 million, net of deferred taxes). The credit exposure for that lease is partially mitigated through a letter of credit supporting the lease payments that are required within the lease structure.

PSEG believes no credit losses are necessary for the leveraged leases existing on September 30, 2020. Upon the occurrence of certain defaults, indirect subsidiaries of Energy Holdings would exercise their rights and seek recovery of their investment, potentially including stepping into the lease directly to protect their investments. While these actions could ultimately protect or mitigate the loss of value, they could require the use of significant capital and trigger certain material tax obligations which could, for certain leases, wholly or partially be mitigated by tax indemnification claims against the counterparty. A bankruptcy of a lessee would likely delay and potentially limit any efforts on the part of the lessors to assert their rights upon default and could delay the monetization of claims.

Additional factors that may impact future lease cash flows include, but are not limited to, new environmental legislation and regulation regarding air quality, water and other discharges in the process of generating electricity, market prices for fuel, electricity and capacity, overall financial condition of lease counterparties and their affiliates and the quality and condition of assets under lease.



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## Note 9. Trust Investments

### Nuclear Decommissioning Trust (NDT) Fund

PSEG Power maintains an external master NDT to fund its share of decommissioning costs for its five nuclear facilities upon their respective termination of operation. The trust contains two separate funds: a qualified fund and a non-qualified fund. Section 468A of the Internal Revenue Code limits the amount of money that can be contributed into a qualified fund. The funds are managed by third-party investment managers who operate under investment guidelines developed by PSEG Power.

The following tables show the fair values and gross unrealized gains and losses for the securities held in the NDT Fund.

	As of September 30, 2020			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities				
Domestic	\$ 517	\$ 257	\$ (13)	\$ 761
International	381	101	(24)	458
Total Equity Securities	898	358	(37)	1,219
Available-for-Sale Debt Securities				
Government	527	30	—	557
Corporate	550	35	(3)	582
Total Available-for-Sale Debt Securities	1,077	65	(3)	1,139
<b>Total NDT Fund Investments (A)</b>	<b>\$ 1,975</b>	<b>\$ 423</b>	<b>\$ (40)</b>	<b>\$ 2,358</b>

(A) The NDT Fund Investments table excludes foreign currency of \$1 million as of September 30, 2020, which is part of the NDT Fund.

	As of December 31, 2019			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Equity Securities				
Domestic	\$ 425	\$ 238	\$ (4)	\$ 659
International	400	103	(11)	492
Total Equity Securities	825	341	(15)	1,151
Available-for-Sale Debt Securities				
Government	563	16	(2)	577
Corporate	470	17	(1)	486
Total Available-for-Sale Debt Securities	1,033	33	(3)	1,063
<b>Total NDT Fund Investments (A)</b>	<b>\$ 1,858</b>	<b>\$ 374</b>	<b>\$ (18)</b>	<b>\$ 2,214</b>

(A) The NDT Fund Investments table excludes foreign currency of \$2 million as of December 31, 2019, which is part of the NDT Fund.

Net unrealized gains (losses) on debt securities of \$36 million (after-tax) were included in Accumulated Other Comprehensive Loss on PSEG's and PSEG Power's Condensed Consolidated Balance Sheets as of September 30, 2020. An impairment of debt securities of \$(3) million was included in Net Gains (Losses) on Trust Investments on PSEG Power's Condensed Consolidated Statement of Operations for the nine months ended September 30, 2020. The portion of net unrealized gains related to equity securities still held as of September 30, 2020 recognized during the third quarter and first nine months of 2020 was \$48 million.

The amounts in the preceding tables do not include receivables and payables for NDT Fund transactions which have not settled at the end of each period. Such amounts are included in Accounts Receivable and Accounts Payable on the Condensed Consolidated Balance Sheets as shown in the following table.



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	As of September 30, 2020	As of December 31, 2019
	Millions	
Accounts Receivable	\$ 13	\$ 11
Accounts Payable	\$ 26	\$ 11

The following table shows the value of securities in the NDT Fund that have been in an unrealized loss position for less than and greater than 12 months.

	As of September 30, 2020				As of December 31, 2019			
	Less Than 12 Months		Greater Than 12 Months		Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	Millions							
Equity Securities (A)								
Domestic	\$ 142	\$ (10)	\$ 4	\$ (3)	\$ 21	\$ (1)	\$ 6	\$ (3)
International	68	(13)	26	(11)	28	(2)	34	(9)
Total Equity Securities	210	(23)	30	(14)	49	(3)	40	(12)
Available-for-Sale Debt Securities								
Government (B)	63	—	—	—	99	(2)	30	—
Corporate (C)	54	(2)	9	(1)	49	—	12	(1)
Total Available-for-Sale Debt Securities	117	(2)	9	(1)	148	(2)	42	(1)
<b>NDT Trust Investments</b>	<b>\$ 327</b>	<b>\$ (25)</b>	<b>\$ 39</b>	<b>\$ (15)</b>	<b>\$ 197</b>	<b>\$ (5)</b>	<b>\$ 82</b>	<b>\$ (13)</b>

- (A) Equity Securities—Investments in marketable equity securities within the NDT Fund are primarily in common stocks within a broad range of industries and sectors. Unrealized gains and losses on these securities are recorded in Net Income.
- (B) Debt Securities (Government)—Unrealized gains and losses on these securities are recorded in Accumulated Other Comprehensive Income (Loss). The unrealized losses on PSEG Power’s NDT investments in U.S. Treasury obligations and Federal Agency mortgage-backed securities were caused by interest rate changes. PSEG Power also has investments in municipal bonds. It is not expected that these securities will settle for less than their amortized cost. PSEG Power does not intend to sell these securities nor will it be more-likely-than-not required to sell before recovery of their amortized cost. PSEG Power did not recognize credit losses for U.S. Treasury obligations and Federal Agency mortgage-backed securities because these investments are guaranteed by the U.S. government or an agency of the U.S. government. PSEG Power did not recognize credit losses for municipal bonds because they are primarily investment grade securities.
- (C) Debt Securities (Corporate)—Unrealized gains and losses on these securities are recorded in Accumulated Other Comprehensive Income (Loss). Unrealized losses were due to market declines. It is not expected that these securities would settle for less than their amortized cost. PSEG Power does not intend to sell these securities nor will it be more-likely-than-not required to sell before recovery of their amortized cost. PSEG Power did not recognize credit losses for these corporate bonds because they are primarily investment grade securities.

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The proceeds from the sales of and the net gains (losses) on securities in the NDT Fund were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	Millions			
<b>Proceeds from NDT Fund Sales (A)</b>	<b>\$ 583</b>	<b>\$ 365</b>	<b>\$ 1,631</b>	<b>\$ 1,245</b>
Net Realized Gains (Losses) on NDT Fund				
Gross Realized Gains	\$ 91	\$ 27	\$ 161	\$ 90
Gross Realized Losses	(23)	(11)	(77)	(43)
<b>Net Realized Gains (Losses) on NDT Fund (B)</b>	<b>68</b>	<b>16</b>	<b>84</b>	<b>47</b>
Unrealized Gains (Losses) on Equity Securities	34	(21)	(5)	111
Impairment of Available-for-Sale Debt Securities (C)	—	—	(3)	—
<b>Net Gains (Losses) on NDT Fund Investments</b>	<b>\$ 102</b>	<b>\$ (5)</b>	<b>\$ 76</b>	<b>\$ 158</b>

(A) Includes activity in accounts related to the liquidation of funds being transitioned to new managers.

(B) The cost of these securities was determined on the basis of specific identification.

(C) PSEG Power recognized an impairment of available-for-sale debt securities that it intends to sell. PSEG Power's policy is to sell all such securities that are rated below investment grade.

The NDT Fund debt securities held as of September 30, 2020 had the following maturities:

Time Frame	Fair Value
	Millions
Less than one year	\$ 25
1 - 5 years	276
6 - 10 years	205
11 - 15 years	79
16 - 20 years	76
Over 20 years	478
<b>Total NDT Available-for-Sale Debt Securities</b>	<b>\$ 1,139</b>

PSEG Power periodically assesses individual debt securities whose fair value is less than amortized cost to determine whether the investments are impaired. For these securities, management considers its intent to sell or requirement to sell a security prior to expected recovery. In those cases where a sale is expected, any impairment would be recorded through earnings. For fixed income securities where there is no intent to sell or likely requirement to sell, management evaluates whether credit loss is a component of the impairment. If so, that portion is recorded through earnings while the noncredit loss component is recorded through Accumulated Other Comprehensive Income (Loss). Any subsequent recoveries of the noncredit loss component of the impairment would be recorded through Accumulated Other Comprehensive Income (Loss). Any subsequent recoveries of the credit loss component would be recognized through earnings. The assessment of fair market value compared to cost is applied on a weighted average basis taking into account various purchase dates and initial cost of the securities.

**Rabbi Trust**

PSEG maintains certain unfunded nonqualified benefit plans to provide supplemental retirement and deferred compensation benefits to certain key employees. Certain assets related to these plans have been set aside in a grantor trust commonly known as a "Rabbi Trust."

The following tables show the fair values, gross unrealized gains and losses and amortized cost basis for the securities held in the Rabbi Trust.

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	As of September 30, 2020			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Domestic Equity Securities	\$ 20	\$ 7	\$ —	\$ 27
Available-for-Sale Debt Securities				
Government	91	9	—	100
Corporate	124	10	—	134
Total Available-for-Sale Debt Securities	215	19	—	234
<b>Total Rabbi Trust Investments</b>	<b>\$ 235</b>	<b>\$ 26</b>	<b>\$ —</b>	<b>\$ 261</b>

	As of December 31, 2019			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	Millions			
Domestic Equity Securities	\$ 21	\$ 7	\$ —	\$ 28
Available-for-Sale Debt Securities				
Government	100	4	—	104
Corporate	107	7	—	114
Total Available-for-Sale Debt Securities	207	11	—	218
<b>Total Rabbi Trust Investments</b>	<b>\$ 228</b>	<b>\$ 18</b>	<b>\$ —</b>	<b>\$ 246</b>

Net unrealized gains (losses) on debt securities of \$13 million (after-tax) were included in Accumulated Other Comprehensive Loss on PSEG's Condensed Consolidated Balance Sheet as of September 30, 2020. The portion of net unrealized gains recognized during the third quarter and first nine months of 2020 related to equity securities still held as of September 30, 2020 was \$2 million and less than \$1 million, respectively.

The amounts in the preceding tables do not include receivables and payables for Rabbi Trust Fund transactions which have not settled at the end of each period. Such amounts are included in Accounts Receivable and Accounts Payable on the Condensed Consolidated Balance Sheets as shown in the following table.

	As of September 30, 2020	As of December 31, 2019
	Millions	
Accounts Receivable	\$ 3	\$ 2
Accounts Payable	\$ 3	\$ —

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The following table shows the value of securities in the Rabbi Trust Fund that have been in an unrealized loss position for less than 12 months and greater than 12 months.

	As of September 30, 2020				As of December 31, 2019			
	Less Than 12 Months		Greater Than 12 Months		Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Millions								
Available-for-Sale Debt Securities								
Government (A)	\$ 21	\$ —	\$ 1	\$ —	\$ 26	\$ —	\$ 3	\$ —
Corporate (B)	18	—	1	—	11	—	2	—
Total Available-for-Sale Debt Securities	39	—	2	—	37	—	5	—
<b>Rabbi Trust Investments</b>	<b>\$ 39</b>	<b>\$ —</b>	<b>\$ 2</b>	<b>\$ —</b>	<b>\$ 37</b>	<b>\$ —</b>	<b>\$ 5</b>	<b>\$ —</b>

- (A) Debt Securities (Government)—Unrealized gains and losses on these securities are recorded in Accumulated Other Comprehensive Income (Loss). The unrealized losses on PSEG's Rabbi Trust investments in U.S. Treasury obligations and Federal Agency mortgage-backed securities were caused by interest rate changes. PSEG also has investments in municipal bonds. It is not expected that these securities will settle for less than their amortized cost. PSEG does not intend to sell these securities nor will it be more-likely-than-not required to sell before recovery of their amortized cost. PSEG did not recognize credit losses for U.S. Treasury obligations and Federal Agency mortgage-backed securities because these investments are guaranteed by the U.S. government or an agency of the U.S. government. PSEG did not recognize credit losses for municipal bonds because they are primarily investment grade securities.
- (B) Debt Securities (Corporate)—Unrealized gains and losses on these securities are recorded in Accumulated Other Comprehensive Income (Loss). Unrealized losses were due to market declines. It is not expected that these securities would settle for less than their amortized cost. PSEG does not intend to sell these securities nor will it be more-likely-than-not required to sell before recovery of their amortized cost. PSEG did not recognize credit losses for these corporate bonds because they are primarily investment grade.

The proceeds from the sales of and the net gains on securities in the Rabbi Trust Fund were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Millions				
<b>Proceeds from Rabbi Trust Sales (A)</b>	<b>\$ 50</b>	<b>\$ 43</b>	<b>\$ 165</b>	<b>\$ 129</b>
Net Realized Gains (Losses) on Rabbi Trust:				
Gross Realized Gains	\$ 4	\$ 3	\$ 14	\$ 5
Gross Realized Losses	(1)	(2)	(4)	(3)
<b>Net Realized Gains (Losses) on Rabbi Trust (B)</b>	<b>3</b>	<b>1</b>	<b>10</b>	<b>2</b>
Unrealized Gains (Losses) on Equity Securities	2	1	1	4
<b>Net Gains (Losses) on Rabbi Trust Investments</b>	<b>\$ 5</b>	<b>\$ 2</b>	<b>\$ 11</b>	<b>\$ 6</b>

(A) Includes activity in accounts related to the liquidation of funds being transitioned to new managers.

(B) The cost of these securities was determined on the basis of specific identification.

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The Rabbi Trust debt securities held as of September 30, 2020 had the following maturities:

Time Frame	Fair Value
	Millions
Less than one year	\$ —
1 - 5 years	35
6 - 10 years	35
11 - 15 years	14
16 - 20 years	32
Over 20 years	118
<b>Total Rabbi Trust Available-for-Sale Debt Securities</b>	<b>\$ 234</b>

PSEG periodically assesses individual debt securities whose fair value is less than amortized cost to determine whether the investments are considered to be impaired. For these securities, management considers its intent to sell or requirement to sell a security prior to expected recovery. In those cases where a sale is expected, any impairment would be recorded through earnings. For fixed income securities where there is no intent to sell or likely requirement to sell, management evaluates whether credit loss is a component of the impairment. If so, that portion is recorded through earnings while the noncredit loss component is recorded through Accumulated Other Comprehensive Income (Loss). Any subsequent recoveries of the noncredit loss component of the impairment would be recorded through Accumulated Other Comprehensive Income (Loss). Any subsequent recoveries of the credit loss component would be recognized through earnings. The assessment of fair market value compared to cost is applied on a weighted average basis taking into account various purchase dates and initial cost of the securities.

The fair value of the Rabbi Trust related to PSEG, PSE&G and PSEG Power is detailed as follows:

	As of September 30, 2020	As of December 31, 2019
	Millions	
PSE&G	\$ 51	\$ 48
PSEG Power	65	62
Other	145	136
<b>Total Rabbi Trust Investments</b>	<b>\$ 261</b>	<b>\$ 246</b>

### Note 10. Pension and Other Postretirement Benefits (OPEB)

PSEG sponsors qualified and nonqualified pension plans and OPEB plans covering PSEG's and its participating affiliates' current and former employees who meet certain eligibility criteria.

PSEG, PSE&G and PSEG Power are required to record the under or over funded positions of their defined benefit pension and OPEB plans on their respective balance sheets. Such funding positions of each PSEG company are required to be measured as of the date of their respective year-end Consolidated Balance Sheets.

The following table provides the components of net periodic benefit costs relating to all qualified and nonqualified pension and OPEB plans on an aggregate basis for PSEG, excluding Servco. Amounts shown do not reflect the impacts of capitalization and co-owner allocations. Only the service cost component is eligible for capitalization, when applicable.

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	<b>Pension Benefits</b>		<b>OPEB</b>		<b>Pension Benefits</b>		<b>OPEB</b>	
	<b>Three Months Ended</b>		<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>		<b>September 30,</b>		<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Millions								
<b>Components of Net Periodic Benefit (Credits) Costs</b>								
Service Cost (included in O&M Expense)	\$ 36	\$ 33	\$ 2	\$ 2	\$ 106	\$ 90	\$ 7	\$ 7
<b>Non-Service Components of Pension and OPEB (Credits) Costs</b>								
Interest Cost	48	51	8	12	144	167	25	34
Expected Return on Plan Assets	(111)	(108)	(10)	(9)	(332)	(301)	(29)	(27)
Amortization of Net								
Prior Service Credit	(3)	(4)	(32)	(32)	(8)	(13)	(96)	(96)
Actuarial Loss	23	21	12	13	69	75	35	38
<b>Non-Service Components of Pension and OPEB (Credits) Costs</b>	<b>(43)</b>	<b>(40)</b>	<b>(22)</b>	<b>(16)</b>	<b>(127)</b>	<b>(72)</b>	<b>(65)</b>	<b>(51)</b>
<b>Total Benefit (Credits) Costs</b>	<b>\$ (7)</b>	<b>\$ (7)</b>	<b>\$ (20)</b>	<b>\$ (14)</b>	<b>\$ (21)</b>	<b>\$ 18</b>	<b>\$ (58)</b>	<b>\$ (44)</b>

Pension and OPEB (credits) costs for PSE&G, PSEG Power and PSEG's other subsidiaries, excluding Servco, are detailed as follows:

	<b>Pension Benefits</b>		<b>OPEB</b>		<b>Pension Benefits</b>		<b>OPEB</b>	
	<b>Three Months Ended</b>		<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>		<b>September 30,</b>		<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Millions								
PSE&G	\$ (7)	\$ (6)	\$ (19)	\$ (14)	\$ (20)	\$ 7	\$ (57)	\$ (46)
PSEG Power	(1)	(2)	—	—	(4)	5	—	2
Other	1	1	(1)	—	3	6	(1)	—
<b>Total Benefit (Credits) Costs</b>	<b>\$ (7)</b>	<b>\$ (7)</b>	<b>\$ (20)</b>	<b>\$ (14)</b>	<b>\$ (21)</b>	<b>\$ 18</b>	<b>\$ (58)</b>	<b>\$ (44)</b>

PSEG does not plan to contribute to its pension and OPEB plans in 2020. IRS minimum funding requirements for pension plans are determined based on the fund's assets and liabilities at the end of a calendar year for the subsequent calendar year. As a result, the market downturn associated with the ongoing coronavirus pandemic is not expected to impact PSEG's pension contributions in 2020.

**Servco Pension and OPEB**

At the direction of LIPA, Servco sponsors benefit plans that cover its current and former employees who meet certain eligibility criteria. Under the OSA, all of these and any future employee benefit costs are to be funded by LIPA. See Note 5. Variable Interest Entity. These obligations, as well as the offsetting long-term receivable, are separately presented on the Condensed Consolidated Balance Sheet of PSEG.

Servco amounts are not included in any of the preceding pension and OPEB cost disclosures. Pension and OPEB costs of Servco are accounted for according to the OSA. Servco recognizes expenses for contributions to its pension plan trusts and for OPEB payments made to retirees. Operating Revenues are recognized for the reimbursement of these costs. As of September 30, 2020, Servco completed its entire 2020 annual planned contribution into its pension plan. IRS minimum funding requirements for pension plans are determined based on the fund's assets and liabilities at the end of a calendar year for the subsequent calendar year. As a result, the market downturn associated with the ongoing coronavirus pandemic did not impact

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Servco's pension contributions in 2020. Servco's pension-related revenues and costs were \$15 million and \$14 million for the three months ended September 30, 2020 and 2019, respectively, and \$30 million and \$28 million for the nine months ended September 30, 2020 and 2019, respectively. The OPEB-related revenues earned and costs incurred were \$3 million and \$1 million for the three months ended September 30, 2020 and 2019, and \$7 million and \$4 million for the nine months ended September 30, 2020 and 2019, respectively.

## **Note 11. Commitments and Contingent Liabilities**

### **Guaranteed Obligations**

PSEG Power's activities primarily involve the purchase and sale of energy and related products under transportation, physical, financial and forward contracts at fixed and variable prices. These transactions are with numerous counterparties and brokers that may require cash, cash-related instruments or guarantees as a form of collateral.

PSEG Power has unconditionally guaranteed payments to counterparties on behalf of its subsidiaries in commodity-related transactions in order to

- support current exposure, interest and other costs on sums due and payable in the ordinary course of business, and
- obtain credit.

PSEG Power is subject to

- counterparty collateral calls related to commodity contracts of its subsidiaries, and
- certain creditworthiness standards as guarantor under performance guarantees of its subsidiaries.

Under these agreements, guarantees cover lines of credit between entities and are often reciprocal in nature. The exposure between counterparties can move in either direction.

In order for PSEG Power to incur a liability for the face value of the outstanding guarantees,

- its subsidiaries would have to fully utilize the credit granted to them by every counterparty to whom PSEG Power has provided a guarantee, and
- the net position of the related contracts would have to be "out-of-the-money" (if the contracts are terminated, PSEG Power would owe money to the counterparties).

PSEG Power believes the probability of this result is unlikely. For this reason, PSEG Power believes that the current exposure at any point in time is a more meaningful representation of the potential liability under these guarantees. Current exposure consists of the net of accounts receivable and accounts payable and the forward value on open positions, less any collateral posted.

Changes in commodity prices can have a material impact on collateral requirements under such contracts, which are posted and received primarily in the form of cash and letters of credit. PSEG Power also routinely enters into futures and options transactions for electricity and natural gas as part of its operations. These futures contracts usually require a cash margin deposit with brokers, which can change based on market movement and in accordance with exchange rules.

In addition to the guarantees discussed above, PSEG Power has also provided payment guarantees to third parties and regulatory authorities on behalf of its affiliated companies. These guarantees support various other non-commodity related obligations.

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The following table shows the face value of PSEG Power's outstanding guarantees, current exposure and margin positions as of September 30, 2020 and December 31, 2019.

	As of September 30, 2020	As of December 31, 2019
	Millions	
Face Value of Outstanding Guarantees	\$ 1,828	\$ 1,854
Exposure under Current Guarantees	\$ 86	\$ 171
Letters of Credit Margin Posted	\$ 135	\$ 121
Letters of Credit Margin Received	\$ 42	\$ 29
Cash Deposited and Received:		
Counterparty Cash Collateral Deposited	\$ —	\$ —
Counterparty Cash Collateral Received	\$ (1)	\$ (4)
Net Broker Balance Deposited (Received)	\$ 57	\$ 48
Additional Amounts Posted:		
Other Letters of Credit	\$ 52	\$ 82

As part of determining credit exposure, PSEG Power nets receivables and payables with the corresponding net fair values of energy contracts. See Note 13. Financial Risk Management Activities for further discussion. In accordance with PSEG's accounting policy, where it is applicable, cash (received)/deposited is allocated against derivative asset and liability positions with the same counterparty on the face of the Condensed Consolidated Balance Sheet. The remaining balances of net cash (received)/deposited after allocation are generally included in Accounts Payable and Receivable, respectively.

In addition to amounts for outstanding guarantees, current exposure and margin positions, PSEG and PSEG Power have posted letters of credit to support PSEG Power's various other non-energy contractual and environmental obligations. See the preceding table.

### Environmental Matters

#### Passaic River

##### *Lower Passaic River Study Area*

The U.S. Environmental Protection Agency (EPA) has determined that a 17-mile stretch of the Passaic River (Lower Passaic River Study Area (LPRSA)) in New Jersey is a "Superfund" site under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA). PSE&G and certain of its predecessors conducted operations at properties in this area, including at one site that was transferred to PSEG Power.

Certain Potentially Responsible Parties (PRPs), including PSE&G and PSEG Power, formed a Cooperating Parties Group (CPG) and agreed to conduct a Remedial Investigation and Feasibility Study of the LPRSA. The CPG allocated, on an interim basis, the associated costs among its members. The interim allocation is subject to change. In June 2019, the EPA conditionally approved the CPG's Remedial Investigation. In May 2020, the CPG submitted a revised draft Feasibility Study (FS) to the EPA which evaluated various adaptive management scenarios for the remediation of only the upper 9 miles of the LPRSA and incorporated the EPA's comments on an earlier FS draft. The EPA's selection of its preferred adaptive management scenario will be subject to public review and comment prior to the EPA's announcement of a final selection, which is expected in 2021.

Separately, the EPA has released a Record of Decision (ROD) for the LPRSA's lower 8.3 miles that requires the removal of sediments at an estimated cost of \$2.3 billion (ROD Remedy). An EPA-commenced process to allocate the associated costs is underway and PSEG cannot predict the outcome. The allocation does not address certain costs incurred by the EPA for which they may be entitled to reimbursement and which may be material. Occidental Chemical Corporation (OCC), one of the PRPs, has commenced the design of the ROD Remedy, but declined to participate in the allocation process. Instead, it filed suit against PSE&G and others seeking cost recovery and contribution under CERCLA but has not quantified alleged damages. The litigation is ongoing and PSEG cannot predict the outcome.

Two PRPs, Tierra Solutions, Inc. (Tierra) and Maxus Energy Corporation (Maxus), have filed for Chapter 11 bankruptcy. The trust representing the creditors in this proceeding has filed a complaint asserting claims against Tierra's and Maxus' current and former parent entities, among others. Any damages awarded may be used to fund the remediation of the LPRSA.



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As of September 30, 2020, PSEG has approximately \$65 million accrued for this matter. Of this amount, PSE&G has an Environmental Costs Liability of \$52 million and a corresponding Regulatory Asset based on its continued ability to recover such costs in its rates. PSEG Power has an Other Noncurrent Liability of \$13 million.

The outcome of this matter is uncertain, and until (i) a final remedy for the entire LPRSA is selected and an agreement is reached by the PRPs to fund it, (ii) PSE&G's and PSEG Power's respective shares of the costs are determined, and (iii) PSE&G's ability to recover the costs in its rates is determined, it is not possible to predict this matter's ultimate impact on PSEG's financial statements. It is possible that PSE&G and PSEG Power will record additional costs beyond what they have accrued, and that such costs could be material, but PSEG cannot at the current time estimate the amount or range of any additional costs.

#### ***Natural Resource Damage Claims***

New Jersey and certain federal regulators have alleged that PSE&G, PSEG Power and 56 other PRPs may be liable for natural resource damages within the LPRSA. In particular, PSE&G, PSEG Power and other PRPs received notice from federal regulators of the regulators' intent to move forward with a series of studies assessing potential damages to natural resources at the Diamond Alkali Superfund Site, which includes the LPRSA and the Newark Bay Study Area. PSE&G and PSEG Power are unable to estimate their respective portions of any possible loss or range of loss related to this matter.

#### ***Newark Bay Study Area***

The EPA has established the Newark Bay Study Area, which is an extension of the LPRSA and includes Newark Bay and portions of surrounding waterways. The EPA has notified PSEG and 11 other PRPs of their potential liability. PSE&G and PSEG Power are unable to estimate their respective portions of any loss or possible range of loss related to this matter. In December 2018, PSEG Power completed the sale of the site of the Hudson electric generating station. PSEG Power contractually transferred all land rights and structures on the Hudson site to a third-party purchaser, along with the assumption of the environmental liabilities for the site.

#### **Manufactured Gas Plant (MGP) Remediation Program**

PSE&G is working with the New Jersey Department of Environmental Protection (NJDEP) to assess, investigate and remediate environmental conditions at its former MGP sites. To date, 38 sites requiring some level of remedial action have been identified. Based on its current studies, PSE&G has determined that the estimated cost to remediate all MGP sites to completion could range between \$339 million and \$377 million on an undiscounted basis through 2023, including its \$52 million share for the Passaic River as discussed above. Since no amount within the range is considered to be most likely, PSE&G has recorded a liability of \$339 million as of September 30, 2020. Of this amount, \$78 million was recorded in Other Current Liabilities and \$261 million was reflected as Environmental Costs in Noncurrent Liabilities. PSE&G has recorded a \$339 million Regulatory Asset with respect to these costs. PSE&G periodically updates its studies taking into account any new regulations or new information which could impact future remediation costs and adjusts its recorded liability accordingly. PSE&G is conducting sampling in the Passaic River to delineate coal tar from certain MGP sites that abut the Passaic River Superfund site. PSEG cannot determine at this time whether this will have an impact on the Passaic River Superfund remedy.

#### **Clean Water Act (CWA) Section 316(b) Rule**

The EPA's CWA Section 316(b) rule establishes requirements for the regulation of cooling water intakes at existing power plants and industrial facilities with a design flow of more than two million gallons of water per day. The EPA requires that National Pollutant Discharge Elimination System permits be renewed every five years and that each state Permitting Director manage renewal permits for its respective power generation facilities on a case by case basis. The NJDEP manages the permits under the New Jersey Pollutant Discharge Elimination System (NJPDES) program. Connecticut and New York also have permits to manage their respective pollutant discharge elimination system programs.

In June 2016, the NJDEP issued a final NJPDES permit for Salem. In July 2016, the Delaware Riverkeeper Network (Riverkeeper) filed an administrative hearing request challenging certain conditions of the permit, including the NJDEP's application of the 316(b) rule. If the Riverkeeper's challenge is successful, PSEG Power may be required to incur additional costs to comply with the CWA. Potential cooling water and/or service water system modification costs could be material and could adversely impact the economic competitiveness of this facility. The NJDEP had granted the hearing request but no hearing date has been established.

#### **Jersey City, New Jersey Subsurface Feeder Cable Matter**

In October 2016, a discharge of dielectric fluid from subsurface feeder cables located in the Hudson River near Jersey City, New Jersey, was identified and reported to the NJDEP. The feeder cables are located within a subsurface easement granted to PSE&G by the property owners, Newport Associates Development Company (NADC) and Newport Associates Phase I

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Developer Limited Partnership. The feeder cables are subject to agreements between PSE&G and Consolidated Edison Company of New York, Inc. (Con Edison) and are jointly owned by PSE&G and Con Edison. The impacted cable was repaired in September 2017. A federal response was initially led by the U.S. Coast Guard. The U.S. Coast Guard transitioned control of the federal response to the EPA, and the EPA ended the federal response to the matter in 2018. The investigation of small amounts of residual dielectric fluid believed to be contained with the marina sediment is ongoing as part of the NJDEP site remediation program. In August 2020, PSE&G finalized a settlement with the federal government regarding the reimbursement of costs associated with the federal response to this matter and payment of civil penalties of an immaterial amount.

A lawsuit in federal court is pending to determine ultimate responsibility for the costs to address the leak among PSE&G, Con Edison and NADC. In addition, Con Edison filed counter claims against PSE&G and NADC, including seeking injunctive relief and damages. Based on the information currently available and depending on the outcome of the federal court action, PSE&G's portion of the costs to address the leak may be material; however, PSE&G anticipates that it will recover its costs, other than civil penalties, through regulatory proceedings.

### **Basic Generation Service (BGS), BGSS and ZECs**

PSE&G obtains its electric supply requirements through the annual New Jersey BGS auctions for two categories of customers who choose not to purchase electric supply from third-party suppliers. The first category, which represents about 80% of PSE&G's load requirement, is residential and smaller commercial and industrial customers (BGS-Residential Small Commercial Pricing (RSCP)). The second category is larger customers that exceed a BPU-established load (kW) threshold (BGS-Commercial and Industrial Energy Pricing (CIEP)). Pursuant to applicable BPU rules, PSE&G enters into the Supplier Master Agreement with the winners of these BGS auctions following the BPU's approval of the auction results. PSE&G has entered into contracts with winning BGS suppliers, including PSEG Power, to purchase BGS for PSE&G's load requirements. The winners of the auction (including PSEG Power) are responsible for fulfilling all the requirements of a PJM Load-Serving Entity including the provision of capacity, energy, ancillary services, transmission and any other services required by PJM. BGS suppliers assume all volume risk and customer migration risk and must satisfy New Jersey's renewable portfolio standards.

The BGS-CIEP auction is for a one-year supply period from June 1 to May 31 with the BGS-CIEP auction price measured in dollars per MW-day for capacity. The final price for the BGS-CIEP auction year commencing June 1, 2020 is \$359.98 per MW-day, replacing the BGS-CIEP auction year price ending May 31, 2020 of \$281.78 per MW-day. Energy for BGS-CIEP is priced at hourly PJM locational marginal prices for the contract period.

PSE&G contracts for its anticipated BGS-RSCP load on a three-year rolling basis, whereby each year one-third of the load is procured for a three-year period. The contract prices in dollars per MWh for the BGS-RSCP supply, as well as the approximate load, are as follows:

	Auction Year				
	2017	2018	2019	2020	
36-Month Terms Ending	May 2020	May 2021	May 2022	May 2023	(A)
Load (MW)	2,800	2,900	2,800	2,800	
\$ per MWh	\$90.78	\$91.77	\$98.04	\$102.16	

(A) Prices set in the 2020 BGS auction became effective on June 1, 2020 when the 2017 BGS auction agreements expired.

PSEG Power seeks to mitigate volatility in its results by contracting in advance for the sale of most of its anticipated electric output as well as its anticipated fuel needs. As part of its objective, PSEG Power has entered into contracts to directly supply PSE&G and other New Jersey EDCs with a portion of their respective BGS requirements through the New Jersey BGS auction process, described above.

PSE&G has a full-requirements contract with PSEG Power to meet the gas supply requirements of PSE&G's gas customers. PSEG Power has entered into hedges for a portion of these anticipated BGSS obligations, as permitted by the BPU. The BPU permits PSE&G to recover the cost of gas hedging up to 115 billion cubic feet or 80% of its residential gas supply annual requirements through the BGSS tariff. Current plans call for PSEG Power to hedge on behalf of PSE&G approximately 70 billion cubic feet or 50% of its residential gas supply annual requirements. For additional information, see Note 20. Related-Party Transactions.

Pursuant to a process established by the BPU, New Jersey EDCs, including PSE&G, are required to purchase ZECs from eligible nuclear plants selected by the BPU. In April 2019, PSEG Power's Salem 1, Salem 2 and Hope Creek nuclear plants

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were selected to receive ZEC revenue for approximately three years, through May 2022. PSE&G has implemented a tariff to collect a non-bypassable distribution charge in the amount of \$0.004 per KWh from its retail distribution customers to be used to purchase the ZECs from these plants. PSE&G will purchase the ZECs on a monthly basis with payment to be made annually following completion of each energy year. The legislation also requires nuclear plants to reapply for any subsequent three-year periods and allows the BPU to adjust prospective ZEC payments.

#### **Minimum Fuel Purchase Requirements**

PSEG Power's nuclear fuel strategy is to maintain certain levels of uranium and to make periodic purchases to support such levels. As such, the commitments referred to in the following table may include estimated quantities to be purchased that deviate from contractual nominal quantities. PSEG Power's nuclear fuel commitments cover approximately 100% of its estimated uranium, enrichment and fabrication requirements through 2021 and a significant portion through 2022 at Salem, Hope Creek and Peach Bottom.

PSEG Power has various multi-year contracts for natural gas and firm transportation and storage capacity for natural gas that are primarily used to meet its obligations to PSE&G. When there is excess delivery capacity available beyond the needs of PSE&G's customers, PSEG Power can use the gas to supply its fossil generating stations in New Jersey.

As of September 30, 2020, the total minimum purchase requirements included in these commitments were as follows:

<u>Fuel Type</u>	<b>PSEG Power's Share of Commitments through 2024</b>
	Millions
Nuclear Fuel	
Uranium	\$ 180
Enrichment	\$ 279
Fabrication	\$ 152
Natural Gas	\$ 1,164

#### **Pending FERC Matter**

PSE&G has received requests for information and a Notice of Investigation from FERC's Office of Enforcement concerning a transmission project. PSE&G retained outside counsel to assist with an internal investigation. PSE&G is fully cooperating with FERC's requests for information and the investigation. It is not possible at this time to predict the outcome of this matter.

#### **Pending Tropical Storm Matter**

Following the effects of Tropical Storm Isaias, the New York Attorney General initiated an inquiry into PSEG LI's preparation and response to the storm. In addition, the Department of Public Service within the New York State Public Service Commission launched an investigation of state electric service providers, including PSEG LI, and other state telephone, cable and internet providers into their preparation and restoration efforts following Tropical Storm Isaias. LIPA also initiated its own review of PSEG LI's performance. PSEG LI agreed with LIPA that it would fund claims by customers for food and medication spoilage costs incurred as a result of being without electric service during the storm up to the amount of incentive compensation earned by PSEG LI in 2020. PSEG LI does not expect the claims to be material. PSEG LI is fully cooperating in each of these inquiries, which remain ongoing. PSEG LI cannot predict their outcome.

#### **Pending BPU Audit of PSE&G**

In September 2020, the BPU ordered the commencement of a comprehensive affiliate and management audit of PSE&G. Phase 1 of the planned audit will review affiliate relations and cost allocation between PSE&G and its affiliates, including an analysis of the relationship between PSE&G and PSEG Energy Resources & Trade, LLC, a wholly owned subsidiary of PSEG Power over the past ten years, and between PSE&G and PSEG LI. Phase 2 will be a comprehensive management audit, which will address, among other things, executive management, corporate governance, system operations, human resources, cyber security, compliance with customer protection requirements and customer safety. It is not possible at this time to predict the outcome of this matter.

#### **Litigation**

##### **Sewaren 7 Construction**

In June 2018, a complaint was filed in federal court in Newark, New Jersey against PSEG Fossil LLC, a wholly owned

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subsidiary of PSEG Power, regarding an ongoing dispute with Durr Mechanical Construction, Inc. (Durr), a contractor on the Sewaren 7 project. Among other things, Durr seeks damages of \$93 million and alleges that PSEG Power withheld money owed to Durr and that PSEG Power's intentional conduct led to the inability of Durr to obtain prospective contracts. PSEG Power intends to vigorously defend against these allegations. In December 2018, Durr filed for Chapter 11 bankruptcy in the federal court in the Southern District of New York (SDNY). The SDNY bankruptcy court has allowed the New Jersey litigation to proceed. PSEG Power has accrued an amount related to outstanding invoices which does not reflect an assessment of claims and potential counterclaims in this matter. Due to its preliminary nature, PSEG Power cannot predict the outcome of this matter.

#### **Other Litigation and Legal Proceedings**

PSEG and its subsidiaries are party to various lawsuits in the ordinary course of business. In view of the inherent difficulty in predicting the outcome of such matters, PSEG, PSE&G and PSEG Power generally cannot predict the eventual outcome of the pending matters, the timing of the ultimate resolution of these matters, or the eventual loss, fines or penalties related to each pending matter.

In accordance with applicable accounting guidance, a liability is accrued when those matters present loss contingencies that are both probable and reasonably estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. PSEG will continue to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established.

Based on current knowledge, management does not believe that loss contingencies arising from pending matters, other than the matters described herein, could have a material adverse effect on PSEG's, PSE&G's or PSEG Power's consolidated financial position or liquidity. However, in light of the inherent uncertainties involved in these matters, some of which are beyond PSEG's control, and the large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to PSEG's, PSE&G's or PSEG Power's results of operations or liquidity for any particular reporting period.

#### **Ongoing Coronavirus Pandemic**

PSEG, PSEG Power and PSEG LI are providing essential services during this national emergency related to the ongoing coronavirus (COVID-19) pandemic. The ongoing coronavirus pandemic has not had a material impact on our results of operations, financial condition or cash flows for the nine months ended September 30, 2020. However, the potential future impact of the pandemic and the associated economic impacts, which could extend beyond the duration of the pandemic, could have risks that drive certain accounting considerations. The ultimate impact of the ongoing coronavirus pandemic is highly uncertain and cannot be predicted at this time.

## **Note 12. Debt and Credit Facilities**

#### **Long-Term Debt Financing Transactions**

The following long-term debt transactions occurred in the nine months ended September 30, 2020:

##### **PSEG**

- issued \$550 million of 0.80% Senior Notes due August 2025, and
- issued \$550 million of 1.60% Senior Notes due August 2030.

##### **PSE&G**

- issued \$300 million of 2.45% Secured Medium-Term Notes, Series N, due January 2030,
- issued \$300 million of 3.15% Secured Medium-Term Notes, Series N, due January 2050,
- issued \$375 million of 2.70% Secured Medium-Term Notes, Series N, due May 2050,
- issued \$375 million of 2.05% Secured Medium-Term Notes, Series N, due August 2050, and
- retired \$250 million of 3.50% Medium-Term Notes, Series G, at maturity.

##### **PSEG Power**

- retired \$406 million of 5.13% Senior Notes at maturity.

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### Short-Term Liquidity

PSEG meets its short-term liquidity requirements, as well as those of PSEG Power, primarily through the issuance of commercial paper and, from time to time, short-term loans. PSE&G maintains its own separate commercial paper program to meet its short-term liquidity requirements. Each commercial paper program is fully back-stopped by its own separate credit facilities.

The commitments under the \$4.2 billion credit facilities are provided by a diverse bank group. As of September 30, 2020, the total available credit capacity was \$4.0 billion.

As of September 30, 2020, no single institution represented more than 9% of the total commitments in the credit facilities.

As of September 30, 2020, total credit capacity was in excess of the total anticipated maximum liquidity requirements over PSEG's 12-month planning horizon.

Each of the credit facilities is restricted as to availability and use to the specific companies as listed in the following table; however, if necessary, the PSEG facilities can also be used to support its subsidiaries' liquidity needs.

The total credit facilities and available liquidity as of September 30, 2020 were as follows:

Company/Facility	As of September 30, 2020			Expiration Date	Primary Purpose
	Total Facility	Usage (D)	Available Liquidity		
	Millions				
PSEG					
5-year Credit Facilities (A)	\$ 1,500	\$ 13	\$ 1,487	Mar 2024	Commercial Paper Support/Funding/Letters of Credit
Total PSEG	\$ 1,500	\$ 13	\$ 1,487		
PSE&G					
5-year Credit Facility (B)	\$ 600	\$ 17	\$ 583	Mar 2024	Commercial Paper Support/Funding/Letters of Credit
Total PSE&G	\$ 600	\$ 17	\$ 583		
PSEG Power					
3-year Letter of Credit Facilities	\$ 200	\$ 136	\$ 64	Sept 2021	Letters of Credit
5-year Credit Facilities (C)	1,900	39	1,861	Mar 2024	Funding/Letters of Credit
Total PSEG Power	\$ 2,100	\$ 175	\$ 1,925		
Total	\$ 4,200	\$ 205	\$ 3,995		

(A) PSEG facilities will be reduced by \$9 million in March 2022.

(B) PSE&G facility will be reduced by \$4 million in March 2022.

(C) PSEG Power facilities will be reduced by \$12 million in March 2022.

(D) The primary use of PSEG's and PSE&G's credit facilities is to support their respective Commercial Paper Programs, under which as of September 30, 2020, PSEG and PSE&G had no commercial paper outstanding.

Except as otherwise noted in the table above, in March 2020, PSEG, PSE&G and PSEG Power and their respective lenders agreed to extend the expiration dates on their credit agreements from March 2023 to March 2024.

### Short-Term Loans

#### PSEG

In March 2020, PSEG entered into a \$300 million, 364-day variable rate term loan agreement. In April 2020, PSEG entered into two 364-day variable rate term loan agreements for \$200 million and \$300 million which were prepaid in August 2020.

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## Note 13. Financial Risk Management Activities

Derivative accounting guidance requires that a derivative instrument be recognized as either an asset or a liability at fair value, with changes in fair value of the derivative recognized in earnings each period. Other accounting treatments are available through special election and designation provided that the derivative instrument meets specific, restrictive criteria, both at the time of designation and on an ongoing basis. These alternative permissible treatments include normal purchases and normal sales (NPNS), cash flow hedge and fair value hedge accounting. PSEG, PSEG Power and PSE&G have applied the NPNS scope exception to certain derivative contracts for the forward sale of generation, power procurement agreements and fuel agreements. PSEG uses interest rate swaps and other derivatives, which are designated and qualifying as cash flow or fair value hedges. PSEG Power enters into additional contracts that are derivatives, but are not designated as either cash flow hedges or fair value hedges. These transactions are economic hedges and are recorded at fair market value with changes recognized in earnings.

### Commodity Prices

Within PSEG and its affiliate companies, PSEG Power has the most exposure to commodity price risk. PSEG Power is exposed to commodity price risk primarily relating to changes in the market price of electricity, fossil fuels and other commodities. Fluctuations in market prices result from changes in supply and demand, fuel costs, market conditions, weather, state and federal regulatory policies, environmental policies, transmission availability and other factors. PSEG Power uses a variety of derivative and non-derivative instruments, such as financial options, futures, swaps, fuel purchases and forward purchases and sales of electricity, to manage the exposure to fluctuations in commodity prices and optimize the value of PSEG Power's expected generation. PSEG Power also uses derivatives to hedge a portion of its anticipated BGSS obligations with PSE&G. For additional information see Note 11. Commitments and Contingent Liabilities. Changes in the fair market value of these derivative contracts are recorded in earnings.

### Interest Rates

PSEG, PSEG Power and PSE&G are subject to the risk of fluctuating interest rates in the normal course of business. Exposure to this risk is managed by targeting a balanced debt maturity profile which limits refinancing in any given period or interest rate environment. In addition, they have used a mix of fixed and floating rate debt and interest rate swaps.

#### Fair Value Hedges

PSEG enters into fair value hedges to convert fixed-rate debt into variable-rate debt. The changes in fair value of the interest rate swaps are fully offset by changes in the fair value of the underlying forecasted interest payments of the debt. There were no outstanding fair value interest rate swaps as of September 30, 2020 and December 31, 2019.

#### Cash Flow Hedges

PSEG uses interest rate swaps and other derivatives, which are designated and effective as cash flow hedges, to manage its exposure to the variability of cash flows, primarily related to variable-rate debt instruments. As of September 30, 2020, PSEG had interest rate hedges outstanding totaling \$700 million. These hedges convert PSEG's \$700 million variable-rate term loan due November 2020 into a fixed-rate loan.

The fair value of these hedges was \$(2) million and \$(5) million as of September 30, 2020 and December 31, 2019, respectively. The Accumulated Other Comprehensive Income (Loss) (after tax) related to outstanding and terminated interest rate derivatives designated as cash flow hedges was \$(11) million and \$(15) million as of September 30, 2020 and December 31, 2019, respectively. The after-tax unrealized losses on these hedges expected to be reclassified to earnings during the next 12 months are \$(4) million.

### Fair Values of Derivative Instruments

The following are the fair values of derivative instruments on the Condensed Consolidated Balance Sheets. The following tables also include disclosures for offsetting derivative assets and liabilities which are subject to a master netting or similar agreement. In general, the terms of the agreements provide that in the event of an early termination the counterparties have the right to offset amounts owed or owing under that and any other agreement with the same counterparty. Accordingly, and in accordance with PSEG's accounting policy, these positions are offset on the Condensed Consolidated Balance Sheets of PSEG Power and PSEG. For additional information see Note 14. Fair Value Measurements. The following tabular disclosure does not include the offsetting of trade receivables and payables.

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Balance Sheet Location	As of September 30, 2020				
	PSEG Power (A)			PSEG (A)	Consolidated
	Not Designated		Total PSEG Power	Cash Flow Hedges	Total Derivatives
	Energy- Related Contracts	Netting (B)		Interest Rate Swaps	
	Millions				
Derivative Contracts					
Current Assets	\$ 383	\$ (337)	\$ 46	\$ —	\$ 46
Noncurrent Assets	133	(116)	17	—	17
Total Mark-to-Market Derivative Assets	\$ 516	\$ (453)	\$ 63	\$ —	\$ 63
Derivative Contracts					
Current Liabilities	\$ (333)	\$ 327	\$ (6)	\$ (2)	\$ (8)
Noncurrent Liabilities	(126)	125	(1)	—	(1)
Total Mark-to-Market Derivative (Liabilities)	\$ (459)	\$ 452	\$ (7)	\$ (2)	\$ (9)
Total Net Mark-to-Market Derivative Assets (Liabilities)	\$ 57	\$ (1)	\$ 56	\$ (2)	\$ 54

Balance Sheet Location	As of December 31, 2019				
	PSEG Power (A)			PSEG (A)	Consolidated
	Not Designated		Total PSEG Power	Cash Flow Hedges	Total Derivatives
	Energy- Related Contracts	Netting (B)		Interest Rate Swaps	
	Millions				
Derivative Contracts					
Current Assets	\$ 636	\$ (523)	\$ 113	\$ —	\$ 113
Noncurrent Assets	163	(139)	24	—	24
Total Mark-to-Market Derivative Assets	\$ 799	\$ (662)	\$ 137	\$ —	\$ 137
Derivative Contracts					
Current Liabilities	\$ (553)	\$ 522	\$ (31)	\$ (5)	\$ (36)
Noncurrent Liabilities	(139)	138	(1)	—	(1)
Total Mark-to-Market Derivative (Liabilities)	\$ (692)	\$ 660	\$ (32)	\$ (5)	\$ (37)
Total Net Mark-to-Market Derivative Assets (Liabilities)	\$ 107	\$ (2)	\$ 105	\$ (5)	\$ 100

- (A) Substantially all of PSEG Power's and PSEG's derivative instruments are contracts subject to master netting agreements. Contracts not subject to master netting or similar agreements are immaterial and did not have any collateral posted or received as of September 30, 2020 and December 31, 2019.
- (B) Represents the netting of fair value balances with the same counterparty (where the right of offset exists) and the application of collateral. All cash collateral (received) posted that has been allocated to derivative positions, where the right of offset exists, has been offset on the Condensed Consolidated Balance Sheets. As of September 30, 2020 and December 31, 2019, PSEG Power had net cash collateral (receipts) payments to counterparties of \$56 million and \$44 million, respectively. Of these net cash collateral (receipts) payments, \$(1) million and \$(2) million as of September 30, 2020 and December 31, 2019, respectively, were netted against the corresponding net derivative contract positions. Of the \$(1) million as of September 30, 2020, \$(11) million was netted against current assets, \$(1) million was netted against noncurrent assets, and \$11 million was netted against noncurrent liabilities. Of the \$(2) million as of December 31, 2019, \$(1) million was netted against current assets and \$(1) million was netted against noncurrent assets.



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Certain of PSEG Power's derivative instruments contain provisions that require PSEG Power to post collateral. This collateral may be posted in the form of cash or credit support with thresholds contingent upon PSEG Power's credit rating from each of the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. These credit risk-related contingent features stipulate that if PSEG Power were to be downgraded to a below investment grade rating by S&P or Moody's, it would be required to provide additional collateral. A below investment grade credit rating for PSEG Power would represent a three level downgrade from its current S&P or Moody's ratings. This incremental collateral requirement can offset collateral requirements related to other derivative instruments that are assets with the same counterparty, where the contractual right of offset exists under applicable master agreements. PSEG Power also enters into commodity transactions on the New York Mercantile Exchange (NYMEX) and Intercontinental Exchange (ICE). The NYMEX and ICE clearing houses act as counterparties to each trade. Transactions on the NYMEX and ICE must adhere to comprehensive collateral and margin requirements.

The aggregate fair value of all derivative instruments with credit risk-related contingent features in a liability position that are not fully collateralized (excluding transactions on the NYMEX and ICE that are fully collateralized) was \$16 million and \$35 million as of September 30, 2020 and December 31, 2019, respectively. As of September 30, 2020 and December 31, 2019, PSEG Power had the contractual right of offset of \$11 million and \$2 million, respectively, related to derivative instruments that are assets with the same counterparty under master agreements and net of margin posted. If PSEG Power had been downgraded to a below investment grade rating, it would have had additional collateral obligations of \$5 million and \$33 million as of September 30, 2020 and December 31, 2019, respectively, related to its derivatives, net of the contractual right of offset under master agreements and the application of collateral.

The following shows the effect on the Condensed Consolidated Statements of Operations and on Accumulated Other Comprehensive Income (AOCI) of derivative instruments designated as cash flow hedges for the three months and nine months ended September 30, 2020 and 2019:

Derivatives in Cash Flow Hedging Relationships	Amount of Pre-Tax Gain (Loss) Recognized in AOCI on Derivatives		Location of Pre-Tax Gain (Loss) Reclassified from AOCI into Income	Amount of Pre-Tax Gain (Loss) Reclassified from AOCI into Income						
	Three Months Ended			Three Months Ended						
	September 30,			September 30,						
	2020	2019		2020	2019					
	Millions			Millions						
PSEG										
Interest Rate Swaps	\$	—	\$	—		Interest Expense	\$	(5)	\$	(1)
Total PSEG	\$	—	\$	—			\$	(5)	\$	(1)

Derivatives in Cash Flow Hedging Relationships	Amount of Pre-Tax Gain (Loss) Recognized in AOCI on Derivatives		Location of Pre-Tax Gain (Loss) Reclassified from AOCI into Income	Amount of Pre-Tax Gain (Loss) Reclassified from AOCI into Income	
	Nine Months Ended			Nine Months Ended	
	September 30,			September 30,	
	2020	2019		2020	2019
	Millions			Millions	
PSEG					
Interest Rate Swaps	\$ (6)	\$ (24)	Interest Expense	\$ (11)	\$ (2)
Total PSEG	<u>\$ (6)</u>	<u>\$ (24)</u>		<u>\$ (11)</u>	<u>\$ (2)</u>

The effect of interest rate cash flow hedges is recorded in Interest Expense in PSEG's Condensed Consolidated Statement of Operations. For the three months and nine months ended September 30, 2020, the amount of gain or loss on interest rate hedges reclassified from Accumulated Other Comprehensive Income (Loss) into income was \$(4) million and \$(8) million after-tax, respectively. The amount of gain or loss on interest rate hedges reclassified from Accumulated Other Comprehensive Income (Loss) into income for the three months and nine months ended September 30, 2019 was \$(1) million.

The following reconciles the Accumulated Other Comprehensive Income (Loss) for derivative activity included in the Accumulated Other Comprehensive Loss of PSEG on a pre-tax and after-tax basis.



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Accumulated Other Comprehensive Income (Loss)	Pre-Tax	After-Tax
	Millions	
<b>Balance as of December 31, 2018</b>	<b>\$ (2)</b>	<b>\$ (1)</b>
Loss Recognized in AOCI	(23)	(17)
Less: Loss Reclassified into Income	4	3
<b>Balance as of December 31, 2019</b>	<b>\$ (21)</b>	<b>\$ (15)</b>
Loss Recognized in AOCI	(6)	(4)
Less: Loss Reclassified into Income	11	8
<b>Balance as of September 30, 2020</b>	<b>\$ (16)</b>	<b>\$ (11)</b>

The following shows the effect on the Condensed Consolidated Statements of Operations of derivative instruments not designated as hedging instruments or as NPNS for the three months and nine months ended September 30, 2020 and 2019, respectively. PSEG Power's derivative contracts reflected in this table include contracts to hedge the purchase and sale of electricity and natural gas, and the purchase of fuel. The table does not include contracts that PSEG Power has designated as NPNS, such as its BGS contracts and certain other energy supply contracts that it has with other utilities and companies with retail load.

Derivatives Not Designated as Hedges	Location of Pre-Tax Gain (Loss) Recognized in Income on Derivatives	Pre-Tax Gain (Loss) Recognized in Income on Derivatives			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2020	2019	2020	2019
		Millions			
<b>PSEG and PSEG Power</b>					
Energy-Related Contracts	Operating Revenues	\$ (49)	\$ (76)	\$ 155	\$ 385
Energy-Related Contracts	Energy Costs	15	(3)	(51)	(77)
<b>Total PSEG and PSEG Power</b>		<b>\$ (34)</b>	<b>\$ (79)</b>	<b>\$ 104</b>	<b>\$ 308</b>

The following table summarizes the net notional volume purchases/(sales) of open derivative transactions by commodity as of September 30, 2020 and December 31, 2019.

Type	Notional	Total	PSEG	PSEG Power	PSE&G
			Millions		
<b>As of September 30, 2020</b>					
Natural Gas	Dekatherm (Dth)	266	—	266	—
Electricity	MWh	(58)	—	(58)	—
Financial Transmission Rights (FTRs)	MWh	26	—	26	—
Interest Rate Swaps	U.S. Dollars	700	700	—	—
<b>As of December 31, 2019</b>					
Natural Gas	Dth	341	—	341	—
Electricity	MWh	(62)	—	(62)	—
FTRs	MWh	13	—	13	—
Interest Rate Swaps	U.S. Dollars	700	700	—	—

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### Credit Risk

Credit risk relates to the risk of loss that PSEG Power would incur as a result of non-performance by counterparties pursuant to the terms of their contractual obligations. PSEG has established credit policies that it believes significantly minimize credit risk. These policies include an evaluation of potential counterparties' financial condition (including credit rating), collateral requirements under certain circumstances and the use of standardized agreements, which allow for the netting of positive and negative exposures associated with a single counterparty. In the event of non-performance or non-payment by a major counterparty, there may be a material adverse impact on PSEG Power's and PSEG's financial condition, results of operations or net cash flows.

The following table provides information on PSEG Power's credit risk from wholesale counterparties, net of collateral, as of September 30, 2020. It further delineates that exposure by the credit rating of the counterparties, which is determined by the lowest rating from S&P, Moody's or an internal scoring model. In addition, it provides guidance on the concentration of credit risk to individual counterparties and an indication of the quality of PSEG Power's credit risk by credit rating of the counterparties.

As of September 30, 2020, 99% of the net credit exposure for PSEG Power's wholesale operations was with investment grade counterparties. Credit exposure is defined as any positive results of netting accounts receivable/accounts payable and the forward value of open positions (which includes all financial instruments including derivatives, NPNS and non-derivatives).

Rating	Current Exposure	Securities Held as Collateral	Net Exposure	Number of Counterparties >10%	Net Exposure of Counterparties >10%
	Millions				Millions
Investment Grade	\$ 244	\$ 34	\$ 210	3	\$ 120 (A)
Non-Investment Grade	2	—	2	—	—
<b>Total</b>	<b>\$ 246</b>	<b>\$ 34</b>	<b>\$ 212</b>	<b>3</b>	<b>\$ 120</b>

(A) Represents net exposure of \$50 million with PSE&G and \$70 million with two non-affiliated counterparties.

As of September 30, 2020, collateral held from counterparties where PSEG Power had credit exposure included \$1 million in cash collateral and \$33 million in letters of credit.

As of September 30, 2020, PSEG Power had 128 active counterparties.

PSE&G's supplier master agreements are approved by the BPU and govern the terms of its electric supply procurement contracts. These agreements define a supplier's performance assurance requirements and allow a supplier to meet its credit requirements with a certain amount of unsecured credit. The amount of unsecured credit is determined based on the supplier's credit ratings from the major credit rating agencies and the supplier's tangible net worth. The credit position is based on the initial market price, which is the forward price of energy on the day the procurement transaction is executed, compared to the forward price curve for energy on the valuation day. To the extent that the forward price curve for energy exceeds the initial market price, the supplier is required to post a parental guaranty or other security instrument such as a letter of credit or cash, as collateral to the extent the credit exposure is greater than the supplier's unsecured credit limit. As of September 30, 2020, primarily all of the posted collateral was in the form of parental guarantees. The unsecured credit used by the suppliers represents PSE&G's net credit exposure. PSE&G's BGS suppliers' credit exposure is calculated each business day. As of September 30, 2020, PSE&G had no net credit exposure with suppliers, including PSEG Power.

PSE&G is permitted to recover its costs of procuring energy through the BPU-approved BGS tariffs. PSE&G's counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates.

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### Note 14. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting guidance for fair value measurement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and establishes a fair value hierarchy that distinguishes between assumptions based on market data obtained from independent sources and those based on an entity's own assumptions. The hierarchy prioritizes the inputs to fair value measurement into three levels:

Level 1—measurements utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that PSEG, PSE&G and PSEG Power have the ability to access. These consist primarily of listed equity securities and money market mutual funds, as well as natural gas futures contracts executed on NYMEX.

Level 2—measurements include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable inputs such as interest rates and yield curves that are observable at commonly quoted intervals. These consist primarily of non-exchange traded derivatives such as forward contracts or options and most fixed income securities.

Level 3—measurements use unobservable inputs for assets or liabilities, based on the best information available and might include an entity's own data and assumptions. In some valuations, the inputs used may fall into different levels of the hierarchy. In these cases, the financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These consist primarily of certain electric load contracts and gas contracts.

Certain derivative transactions may transfer from Level 2 to Level 3 if inputs become unobservable and internal modeling techniques are employed to determine fair value. Conversely, measurements may transfer from Level 3 to Level 2 if the inputs become observable.

The following tables present information about PSEG's, PSE&G's and PSEG Power's respective assets and (liabilities) measured at fair value on a recurring basis as of September 30, 2020 and December 31, 2019, including the fair value measurements and the levels of inputs used in determining those fair values. Amounts shown for PSEG include the amounts shown for PSE&G and PSEG Power.

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Description	Recurring Fair Value Measurements as of September 30, 2020				
	Total	Netting (E)	Quoted Market Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Millions					
<b>PSEG</b>					
<b>Assets:</b>					
Cash Equivalents (A)	\$ 810	\$ —	\$ 810	\$ —	\$ —
Derivative Contracts:					
Energy-Related Contracts (B)	\$ 63	\$ (453)	\$ 28	\$ 486	\$ 2
NDT Fund (C)					
Equity Securities	\$ 1,219	\$ —	\$ 1,218	\$ 1	\$ —
Debt Securities—U.S. Treasury	\$ 203	\$ —	\$ —	\$ 203	\$ —
Debt Securities—Govt Other	\$ 354	\$ —	\$ —	\$ 354	\$ —
Debt Securities—Corporate	\$ 582	\$ —	\$ —	\$ 582	\$ —
Rabbi Trust (C)					
Equity Securities	\$ 27	\$ —	\$ 27	\$ —	\$ —
Debt Securities—U.S. Treasury	\$ 57	\$ —	\$ —	\$ 57	\$ —
Debt Securities—Govt Other	\$ 43	\$ —	\$ —	\$ 43	\$ —
Debt Securities—Corporate	\$ 134	\$ —	\$ —	\$ 134	\$ —
<b>Liabilities:</b>					
Derivative Contracts:					
Energy-Related Contracts (B)	\$ (7)	\$ 452	\$ (17)	\$ (440)	\$ (2)
Interest Rate Swaps (D)	\$ (2)	\$ —	\$ —	\$ (2)	\$ —
<b>PSE&amp;G</b>					
<b>Assets:</b>					
Cash Equivalents (A)	\$ 135	\$ —	\$ 135	\$ —	\$ —
Rabbi Trust (C)					
Equity Securities	\$ 5	\$ —	\$ 5	\$ —	\$ —
Debt Securities—U.S. Treasury	\$ 11	\$ —	\$ —	\$ 11	\$ —
Debt Securities—Govt Other	\$ 8	\$ —	\$ —	\$ 8	\$ —
Debt Securities—Corporate	\$ 27	\$ —	\$ —	\$ 27	\$ —
<b>PSEG Power</b>					
<b>Assets:</b>					
Derivative Contracts:					
Energy-Related Contracts (B)	\$ 63	\$ (453)	\$ 28	\$ 486	\$ 2
NDT Fund (C)					
Equity Securities	\$ 1,219	\$ —	\$ 1,218	\$ 1	\$ —
Debt Securities—U.S. Treasury	\$ 203	\$ —	\$ —	\$ 203	\$ —
Debt Securities—Govt Other	\$ 354	\$ —	\$ —	\$ 354	\$ —
Debt Securities—Corporate	\$ 582	\$ —	\$ —	\$ 582	\$ —
Rabbi Trust (C)					
Equity Securities	\$ 7	\$ —	\$ 7	\$ —	\$ —
Debt Securities—U.S. Treasury	\$ 14	\$ —	\$ —	\$ 14	\$ —
Debt Securities—Govt Other	\$ 11	\$ —	\$ —	\$ 11	\$ —
Debt Securities—Corporate	\$ 33	\$ —	\$ —	\$ 33	\$ —
<b>Liabilities:</b>					
Derivative Contracts:					
Energy-Related Contracts (B)	\$ (7)	\$ 452	\$ (17)	\$ (440)	\$ (2)

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Description	Recurring Fair Value Measurements as of December 31, 2019				
	Total	Netting (E)	Quoted Market Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Millions				
<b>PSEG</b>					
<b>Assets:</b>					
Cash Equivalents (A)	\$ 50	\$ —	\$ 50	\$ —	\$ —
Derivative Contracts:					
Energy-Related Contracts (B)	\$ 137	\$ (662)	\$ 19	\$ 770	\$ 10
NDT Fund (C)					
Equity Securities	\$ 1,151	\$ —	\$ 1,150	\$ 1	\$ —
Debt Securities—U.S. Treasury	\$ 225	\$ —	\$ —	\$ 225	\$ —
Debt Securities—Govt Other	\$ 352	\$ —	\$ —	\$ 352	\$ —
Debt Securities—Corporate	\$ 486	\$ —	\$ —	\$ 486	\$ —
Rabbi Trust (C)					
Equity Securities	\$ 28	\$ —	\$ 28	\$ —	\$ —
Debt Securities—U.S. Treasury	\$ 57	\$ —	\$ —	\$ 57	\$ —
Debt Securities—Govt Other	\$ 47	\$ —	\$ —	\$ 47	\$ —
Debt Securities—Corporate	\$ 114	\$ —	\$ —	\$ 114	\$ —
<b>Liabilities:</b>					
Derivative Contracts:					
Energy-Related Contracts (B)	\$ (32)	\$ 660	\$ (43)	\$ (646)	\$ (3)
Interest Rate Swaps (D)	\$ (5)	\$ —	\$ —	\$ (5)	\$ —
<b>PSE&amp;G</b>					
<b>Assets:</b>					
Rabbi Trust (C)					
Equity Securities	\$ 5	\$ —	\$ 5	\$ —	\$ —
Debt Securities—U.S. Treasury	\$ 11	\$ —	\$ —	\$ 11	\$ —
Debt Securities—Govt Other	\$ 9	\$ —	\$ —	\$ 9	\$ —
Debt Securities—Corporate	\$ 23	\$ —	\$ —	\$ 23	\$ —
<b>PSEG Power</b>					
<b>Assets:</b>					
Derivative Contracts:					
Energy-Related Contracts (B)	\$ 137	\$ (662)	\$ 19	\$ 770	\$ 10
NDT Fund (C)					
Equity Securities	\$ 1,151	\$ —	\$ 1,150	\$ 1	\$ —
Debt Securities—U.S. Treasury	\$ 225	\$ —	\$ —	\$ 225	\$ —
Debt Securities—Govt Other	\$ 352	\$ —	\$ —	\$ 352	\$ —
Debt Securities—Corporate	\$ 486	\$ —	\$ —	\$ 486	\$ —
Rabbi Trust (C)					
Equity Securities	\$ 8	\$ —	\$ 8	\$ —	\$ —
Debt Securities—U.S. Treasury	\$ 14	\$ —	\$ —	\$ 14	\$ —
Debt Securities—Govt Other	\$ 12	\$ —	\$ —	\$ 12	\$ —
Debt Securities—Corporate	\$ 28	\$ —	\$ —	\$ 28	\$ —
<b>Liabilities:</b>					
Derivative Contracts:					
Energy-Related Contracts (B)	\$ (32)	\$ 660	\$ (43)	\$ (646)	\$ (3)

(A) Represents money market mutual funds.

(B) Level 1—These contracts represent natural gas futures contracts executed on NYMEX, and are being valued solely on settled pricing inputs which come directly from the exchange.

Level 2—Fair values for energy-related contracts are obtained primarily using a market-based approach. Most derivative contracts (forward purchase or sale contracts and swaps) are valued using settled prices from similar assets and liabilities from an exchange, such as NYMEX, ICE and Nodal Exchange, or auction prices. Prices used in

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the valuation process are also corroborated independently by management to determine that values are based on actual transaction data or, in the absence of transactions, bid and offers for the day. Examples may include certain exchange and non-exchange traded capacity and electricity contracts and natural gas physical or swap contracts based on market prices, basis adjustments and other premiums where adjustments and premiums are not considered significant to the overall inputs.

Level 3—Unobservable inputs are used for the valuation of certain contracts. See “Additional Information Regarding Level 3 Measurements” below for more information on the utilization of unobservable inputs.

- (C) The fair value measurement table excludes foreign currency in the NDT Fund of \$1 million and \$2 million as of September 30, 2020 and December 31, 2019, respectively. The NDT Fund maintains investments in various equity and fixed income securities. The Rabbi Trust maintains investments in a Russell 3000 index fund and various fixed income securities. These securities are generally valued with prices that are either exchange provided (equity securities) or market transactions for comparable securities and/or broker quotes (fixed income securities).

Level 1—Investments in marketable equity securities within the NDT Fund are primarily investments in common stocks across a broad range of industries and sectors. Most equity securities are priced utilizing the principal market close price or, in some cases, midpoint, bid or ask price. Certain other equity securities in the NDT and Rabbi Trust Funds consist primarily of investments in money market funds which seek a high level of current income as is consistent with the preservation of capital and the maintenance of liquidity. To pursue its goals, the funds normally invest in diversified portfolios of high quality, short-term, dollar-denominated debt securities and government securities. The funds’ net asset value is priced and published daily. The Rabbi Trust’s Russell 3000 index fund is valued based on quoted prices in an active market and can be redeemed daily without restriction.

Level 2—NDT and Rabbi Trust fixed income securities include investment grade corporate bonds, collateralized mortgage obligations, asset-backed securities and certain government and U.S. Treasury obligations or Federal Agency asset-backed securities and municipal bonds with a wide range of maturities. Since many fixed income securities do not trade on a daily basis, they are priced using an evaluated pricing methodology that varies by asset class and reflects observable market information such as the most recent exchange price or quoted bid for similar securities. Market-based standard inputs typically include benchmark yields, reported trades, broker/dealer quotes and issuer spreads. The preferred stocks are not actively traded on a daily basis and therefore, are also priced using an evaluated pricing methodology. Certain short-term investments are valued using observable market prices or market parameters such as time-to-maturity, coupon rate, quality rating and current yield.

- (D) Interest rate swaps are valued using quoted prices on commonly quoted intervals, which are interpolated for periods different than the quoted intervals, as inputs to a market valuation model. Market inputs can generally be verified and model selection does not involve significant management judgment.
- (E) Represents the netting of fair value balances with the same counterparty (where the right of offset exists) and the application of collateral. See Note 13. Financial Risk Management Activities for additional detail.

### **Additional Information Regarding Level 3 Measurements**

For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivatives valued using indicative price quotations for contracts with tenors that extend into periods with no observable pricing. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 because the model inputs generally are not observable. PSEG considers credit and nonperformance risk in the valuation of derivative contracts categorized in Levels 2 and 3, including both historical and current market data, in its assessment of credit and nonperformance risk by counterparty. The impacts of credit and nonperformance risk were not material to the financial statements.

The fair value of PSEG Power’s electric load contracts in which load consumption may change hourly based on demand are measured using certain unobservable inputs, such as historic load variability and, accordingly, are categorized as Level 3. The fair value of PSEG Power’s gas physical contracts at certain illiquid delivery locations are measured using average historical basis and, accordingly, are categorized as Level 3. While these physical gas contracts have an unobservable component in their respective forward price curves, the fluctuations in fair value have been driven primarily by changes in the observable inputs.

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The following tables provide details surrounding significant Level 3 valuations as of September 30, 2020 and December 31, 2019.

Quantitative Information About Level 3 Fair Value Measurements							
Commodity	Level 3 Position	Fair Value as of September 30, 2020		Valuation Technique(s)	Significant Unobservable Input	Range	Arithmetic Average
		Assets	(Liabilities)				
		Millions					
PSEG Power							
Electricity	Electric Load Contracts	\$ 2	\$ (1)	Discounted Cash flow	Load Shaping Cost	0% to 12%	4%
Gas	Gas Physical Contracts	—	(1)	Discounted Cash flow	Historical Basis Adjustment	(50)% to (20)%	(31)%
Total PSEG Power		\$ 2	\$ (2)				
Total PSEG		\$ 2	\$ (2)				

Quantitative Information About Level 3 Fair Value Measurements							
Commodity	Level 3 Position	Fair Value as of December 31, 2019		Valuation Technique(s)	Significant Unobservable Input	Range	
		Assets	(Liabilities)				
Millions							
PSEG Power							
Electricity	Electric Load Contracts	\$ 10	\$ —	Discounted Cash flow	Historic Load Variability	0% to 10%	
Gas	Gas Physical Contracts	—	(3)	Discounted Cash flow	Average Historical Basis	(50)% to 0%	
Total PSEG Power		\$ 10	\$ (3)				
Total PSEG		\$ 10	\$ (3)				

As of September 30, 2020, significant unobservable inputs listed above would have a direct impact on the fair values of the above Level 3 instruments if they were adjusted. For energy-related contracts in cases where PSEG Power is a seller, an increase in the load variability would decrease the fair value. For gas-related contracts in cases where PSEG Power is a buyer, an increase in the average historical basis would increase the fair value.

A reconciliation of the beginning and ending balances of Level 3 derivative contracts and securities for the three months and nine months ended September 30, 2020 and September 30, 2019, respectively, follows:

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**Changes in Level 3 Assets and (Liabilities) Measured at Fair Value on a Recurring Basis  
for the Three Months and Nine Months Ended September 30, 2020**

Three Months Ended September 30, 2020						
Description	Balance as of June 30, 2020	Total Gains or (Losses) Realized/Unrealized Included in Income (A)	Purchases (Sales)	Issuances/Settlements (B)	Transfers In/Out (C)	Balance as of September 30, 2020
Millions						
<b>PSEG and PSEG Power</b>						
Net Derivative Assets (Liabilities)	\$ 10	\$ (2)	\$ —	\$ (8)	\$ —	\$ —
Nine Months Ended September 30, 2020						
Description	Balance as of December 31, 2019	Total Gains or (Losses) Realized/Unrealized Included in Income (A)	Purchases (Sales)	Issuances/Settlements (B)	Transfers In/Out (C)	Balance as of September 30, 2020
Millions						
<b>PSEG and PSEG Power</b>						
Net Derivative Assets (Liabilities)	\$ 7	\$ 7	\$ —	\$ (14)	\$ —	\$ —

**Changes in Level 3 Assets and (Liabilities) Measured at Fair Value on a Recurring Basis  
for the Three Months and Nine Months Ended September 30, 2019**

Three Months Ended September 30, 2019						
Description	Balance as of June 30, 2019	Total Gains or (Losses) Realized/Unrealized Included in Income (A)	Purchases (Sales)	Issuances/Settlements (B)	Transfers In/Out (C)	Balance as of September 30, 2019
Millions						
<b>PSEG and PSEG Power</b>						
Net Derivative Assets (Liabilities)	\$ 4	\$ 1	\$ —	\$ (4)	\$ —	\$ 1
Nine Months Ended September 30, 2019						
Description	Balance as of December 31, 2018	Total Gains or (Losses) Realized/Unrealized Included in Income (A)	Purchases (Sales)	Issuances/Settlements (B)	Transfers In/Out (C)	Balance as of September 30, 2019
Millions						
<b>PSEG and PSEG Power</b>						
Net Derivative Assets (Liabilities)	\$ 1	\$ 10	\$ —	\$ (10)	\$ —	\$ 1

(A) Unrealized gains (losses) in the following table represent the change in derivative assets and liabilities still held as of September 30, 2020 and 2019.



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	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	Total Gains (Losses)	Unrealized Gains (Losses)	Total Gains (Losses)	Unrealized Gains (Losses)	Total Gains (Losses)	Unrealized Gains (Losses)	Total Gains (Losses)	Unrealized Gains (Losses)
Millions								
<b>PSEG and PSEG Power</b>								
Operating Revenues	\$ (2)	\$ (11)	\$ (2)	\$ (4)	\$ 12	\$ (9)	\$ 14	\$ 5
Energy Costs	—	1	4	2	(5)	2	(4)	(4)
<b>Total</b>	<b>\$ (2)</b>	<b>\$ (10)</b>	<b>\$ 2</b>	<b>\$ (2)</b>	<b>\$ 7</b>	<b>\$ (7)</b>	<b>\$ 10</b>	<b>\$ 1</b>

(B) Includes settlements of \$(8) million and \$(14) million for the three months and nine months ended September 30, 2020, respectively, and \$(3) million and \$(9) million for the three months and nine months ended September 30, 2019, respectively.

(C) There were no transfers into or out of Level 3 during the three months and nine months ended September 30, 2020 and 2019.

As of September 30, 2020, PSEG carried \$3.5 billion of net assets that are measured at fair value on a recurring basis, of which balances measured using unobservable inputs and classified as Level 3 within the fair value hierarchy were immaterial.

As of September 30, 2019, PSEG carried \$2.4 billion of net assets that are measured at fair value on a recurring basis, of which \$1 million of net assets was measured using unobservable inputs and classified as Level 3 within the fair value hierarchy.

**Fair Value of Debt**

The estimated fair values were determined using the market quotations or values of instruments with similar terms, credit ratings, remaining maturities and redemptions as of September 30, 2020 and December 31, 2019.

	As of September 30, 2020		As of December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Millions				
<b>Long-Term Debt:</b>				
PSEG (A) (B)	\$ 3,533	\$ 3,629	\$ 2,441	\$ 2,479
PSE&G (B)	10,915	13,328	9,827	11,107
PSEG Power (B)	2,437	2,842	2,840	3,137
<b>Total Long-Term Debt</b>	<b>\$ 16,885</b>	<b>\$ 19,799</b>	<b>\$ 15,108</b>	<b>\$ 16,723</b>

(A) Includes floating-rate term loan of \$700 million at PSEG as of September 30, 2020 and December 31, 2019. The fair value of the term loan debt (Level 2 measurement) approximates the carrying value because the interest payments are based on LIBOR rates that are reset monthly and the debt is redeemable at face value by PSEG at any time.

(B) Given that these bonds do not trade actively, the fair value amounts of taxable debt securities (primarily Level 2 measurements) are generally determined by a valuation model that is based on a conventional discounted cash flow methodology. The fair value amounts above do not represent the price at which the outstanding debt may be called for redemption by each issuer under their respective debt agreements.

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**Note 15. Other Income (Deductions)**

	PSE&G	PSEG Power	Other (A)	Consolidated
	Millions			
Three Months Ended September 30, 2020				
NDT Fund Interest and Dividends	\$ —	\$ 12	\$ —	\$ 12
Allowance for Funds Used During Construction	24	—	—	24
Solar Loan Interest	3	—	—	3
Purchases of Tax Losses under New Jersey Technology Tax Benefit Transfer Program	—	—	—	—
Other	1	(1)	—	—
Total Other Income (Deductions)	\$ 28	\$ 11	\$ —	\$ 39
Nine Months Ended September 30, 2020				
NDT Fund Interest and Dividends	\$ —	\$ 39	\$ —	\$ 39
Allowance for Funds Used During Construction	65	—	—	65
Solar Loan Interest	11	—	—	11
Purchases of Tax Losses under New Jersey Technology Tax Benefit Transfer Program	—	(36)	—	(36)
Other	5	(3)	—	2
Total Other Income (Deductions)	\$ 81	\$ —	\$ —	\$ 81
Three Months Ended September 30, 2019				
NDT Fund Interest and Dividends	\$ —	\$ 14	\$ —	\$ 14
Allowance for Funds Used During Construction	14	—	—	14
Solar Loan Interest	4	—	—	4
Other	4	1	(2)	3
Total Other Income (Deductions)	\$ 22	\$ 15	\$ (2)	\$ 35
Nine Months Ended September 30, 2019				
NDT Fund Interest and Dividends	\$ —	\$ 44	\$ —	\$ 44
Allowance for Funds Used During Construction	41	—	—	41
Solar Loan Interest	12	—	—	12
Other	7	(1)	(2)	4
Total Other Income (Deductions)	\$ 60	\$ 43	\$ (2)	\$ 101

(A) Other consists of activity at PSEG (as parent company), Energy Holdings, Services, PSEG LI and intercompany eliminations.

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## Note 16. Income Taxes

PSEG's, PSE&G's and PSEG Power's effective tax rates for the three months and nine months ended September 30, 2020 and 2019 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
PSEG	17.4%	6.9%	15.7%	11.2%
PSE&G	11.3%	6.5%	15.9%	6.1%
PSEG Power	31.7%	20.9%	20.4%	29.1%

For the three months and nine months ended September 30, 2020, the differences in PSEG's effective tax rates as compared to the same periods in the prior year were due primarily to the reduction in the 2020 flowback of PSE&G's excess deferred income tax (EDIT) liabilities as PSE&G refunded all FERC-approved transmission-related EDIT liabilities that are not subject to the normalization rules in 2019. For the three months ended September 30, 2020, the difference in PSEG's effective tax rate as compared to the statutory tax rate of 28.11% was due primarily to the flowback of PSE&G's EDIT liabilities and tax repair-related accumulated deferred income taxes. For the nine months ended September 30, 2020, the difference in PSEG's effective tax rate as compared to the statutory tax rate of 28.11% was due primarily to the flowback of PSE&G's EDIT liabilities and tax repair-related accumulated deferred income taxes, the benefit of purchasing 2019 net operating losses (NOLs) under the New Jersey Technology Tax Benefit Transfer Program in the first quarter of 2020, and the tax benefit from changes in uncertain tax positions as a result of the settlement of the 2011-2016 federal income tax audits.

For the three months and nine months ended September 30, 2020, the differences in PSE&G's effective tax rates as compared to the same periods in the prior year were due primarily to the reduction in the 2020 flowback of PSE&G's EDIT liabilities, as PSE&G refunded all FERC-approved transmission-related EDIT liabilities that are not subject to the normalization rules in 2019, and bad debt related flow-through. For the three months and nine months ended September 30, 2020, the differences in PSE&G's effective tax rates as compared to the statutory tax rate of 28.11% were due primarily to the flowback of PSE&G's EDIT liabilities and tax repair-related accumulated deferred income taxes, which increased in the third quarter of 2020 as a result of PSE&G's IRS PLR, discussed below, offset by bad debt related flow-through.

For the three months ended September 30, 2020, the differences in PSEG Power's effective tax rate as compared to the same period in the prior year and the statutory tax rate of 28.11% were due primarily to higher pre-tax income from the NDT qualified fund, which is subject to an additional trust tax, and the impact of the retroactive increase in the 2020 New Jersey temporary surtax discussed below. For the nine months ended September 30, 2020 the differences in PSEG Power's effective tax rate as compared to the same period in the prior year and the statutory tax rate of 28.11% were due primarily to the benefit of purchasing 2019 NOLs under the New Jersey Technology Tax Benefit Transfer Program in 2020 and the tax benefit from changes in uncertain tax positions as a result of the settlement of the 2011-2016 federal income tax audits.

### Tax Cuts and Jobs Act of 2017 (Tax Act)

Effective January 1, 2018, the Tax Act established tax laws including, but not limited to, a limitation on deductible interest and limitations on the utilization of NOLs, such as eliminating carrybacks.

In November 2018, the IRS issued proposed regulations addressing the interest disallowance rules contained in the Tax Act. For non-regulated businesses, these rules set a cap on the amount of interest that can be deducted in a given year. Any amount that is disallowed can be carried forward indefinitely. For 2018 and 2019, the tax deductibility of a portion of PSEG's and PSEG Power's interest expense was disallowed and was recorded as a deferred tax asset. Amounts recorded under the Tax Act and relevant statutes, including but not limited to depreciation and interest disallowance, are subject to change based on several factors, including but not limited to, the IRS and state taxing authorities issuing additional guidance and/or further clarification.

In July 2020, the IRS issued final and proposed regulations addressing the limitation on deductible business interest expense contained in the Tax Act. These regulations retroactively allow depreciation to be added back in computing the 30% adjusted taxable income (ATI) cap, increasing the amount of interest that can be deducted by unregulated businesses in years before 2022. For years after 2021, the regulations continue to disallow the addback of depreciation in the computation of ATI, effectively lowering the cap on the amount of deductible business interest. The portion of PSEG's and PSEG Power's business interest expense that was disallowed in 2018 and 2019 will now be deductible in those respective years. PSEG is still in the process of analyzing these regulations, which may impact PSEG's, PSE&G's and PSEG Power's financial condition and cash flows.

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#### **Coronavirus Aid, Relief, and Economic Security Act (CARES Act)**

In March 2020, the CARES Act was signed into federal law. As applicable to PSEG and PSEG Power, the CARES Act favorably increases the limitation on the amount of interest that can be deducted in 2020. The increased limitation will allow a portion of the previously disallowed amounts to reduce PSEG's and PSEG Power's 2020 taxable income. The CARES Act also reversed certain NOL provisions from the Tax Act such as allowing five-year carrybacks of 2018, 2019 and 2020 NOLs.

#### **IRS PLR**

In April 2020, the IRS issued a PLR to PSE&G concluding that certain excess deferred taxes previously classified as protected should be classified as unprotected. Unprotected excess deferred income taxes are not subject to the normalization rules allowing them to be refunded to customers sooner as agreed to with FERC and the BPU. In July 2020, FERC and the BPU approved PSE&G's requests to refund these unprotected excess deferred income taxes to customers. FERC approved the refund of these unprotected excess deferred income taxes within the 2019 true-up filing. The BPU approved the refund of these unprotected excess deferred income taxes within the next five years beginning in July 2020. See Note 6. Rate Filings for additional information.

#### **Unrecognized Tax Benefits**

In April 2020, the Joint Committee on Taxation approved PSEG's nuclear carryback claim and federal tax returns for the years 2011 and 2012. In June 2020, the federal income tax audits for years 2011 through 2016 and the nuclear carryback claim were concluded. As a result, in the second quarter of 2020, PSEG, PSE&G, and PSEG Power decreased their total unrecognized tax benefits by \$149 million, \$83 million, and \$63 million, respectively. As these unrecognized tax benefits primarily relate to temporary differences for which there are associated accumulated deferred income taxes, PSEG, PSE&G, and PSEG Power recorded \$37 million, \$9 million, and \$25 million, respectively, of income statement benefits. The final cash settlement is expected to be completed within the next twelve months.

#### **New Jersey State Tax Reform**

In September 2020, New Jersey enacted its State Fiscal Year 2021 Budget, which amended the temporary surtax originally enacted into law in 2018, from 1.5% to 2.5% for 2020 and 2021 and extended the 2.5% surtax to 2023. PSE&G continues to be exempt and this amendment will not have a material impact on PSEG's and PSEG Power's financial statements.

In July 2018, New Jersey made changes to its income tax laws, including imposing the aforementioned temporary surtax, as well as requiring corporate taxpayers to file in a combined reporting group as defined under New Jersey law starting in 2019. Both provisions include an exemption for public utilities. PSEG believes PSE&G meets the definition of a public utility and, therefore, will not be impacted by the temporary surtax or be included in the combined reporting group. PSEG anticipates New Jersey will be issuing clarifying guidance regarding combined reporting rules. Any further guidance or clarification could impact PSEG's and PSEG Power's financial statements.

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**Note 17. Accumulated Other Comprehensive Income (Loss), Net of Tax**

<b>PSEG</b>				
<b>Three Months Ended September 30, 2020</b>				
<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Cash Flow Hedges</b>	<b>Pension and OPEB Plans</b>	<b>Available-for-Sale Securities</b>	<b>Total</b>
Millions				
Balance as of June 30, 2020	\$ (15)	\$ (493)	\$ 53	\$ (455)
Other Comprehensive Income before Reclassifications	—	—	3	3
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	4	3	(7)	—
Net Current Period Other Comprehensive Income (Loss)	4	3	(4)	3
<b>Balance as of September 30, 2020</b>	<b>\$ (11)</b>	<b>\$ (490)</b>	<b>\$ 49</b>	<b>\$ (452)</b>
<b>PSEG</b>				
<b>Three Months Ended September 30, 2019</b>				
<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Cash Flow Hedges</b>	<b>Pension and OPEB Plans</b>	<b>Available-for-Sale Securities</b>	<b>Total</b>
Millions				
Balance as of June 30, 2019	\$ (18)	\$ (437)	\$ 23	\$ (432)
Other Comprehensive Income (Loss) before Reclassifications	—	(20)	13	(7)
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	1	3	(3)	1
Net Current Period Other Comprehensive Income (Loss)	1	(17)	10	(6)
<b>Balance as of September 30, 2019</b>	<b>\$ (17)</b>	<b>\$ (454)</b>	<b>\$ 33</b>	<b>\$ (438)</b>
<b>PSEG</b>				
<b>Nine Months Ended September 30, 2020</b>				
<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Cash Flow Hedges</b>	<b>Pension and OPEB Plans</b>	<b>Available-for-Sale Securities</b>	<b>Total</b>
Millions				
Balance as of December 31, 2019	\$ (15)	\$ (499)	\$ 25	\$ (489)
Other Comprehensive Income (Loss) before Reclassifications	(4)	—	47	43
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	8	9	(23)	(6)
Net Current Period Other Comprehensive Income (Loss)	4	9	24	37
<b>Balance as of September 30, 2020</b>	<b>\$ (11)</b>	<b>\$ (490)</b>	<b>\$ 49</b>	<b>\$ (452)</b>
<b>PSEG</b>				
<b>Nine Months Ended September 30, 2019</b>				
<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Cash Flow Hedges</b>	<b>Pension and OPEB Plans</b>	<b>Available-for-Sale Securities</b>	<b>Total</b>
Millions				
Balance as of December 31, 2018	\$ (1)	\$ (360)	\$ (16)	\$ (377)
Cumulative Effect Adjustment to Reclassify Stranded Tax Effects Resulting in the Change in the Federal Corporate Income Tax to Retained Earnings	—	(81)	—	(81)
Current Period Other Comprehensive Income (Loss)				
Other Comprehensive Income (Loss) before Reclassifications	(17)	(23)	54	14
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	1	10	(5)	6
Net Current Period Other Comprehensive Income (Loss)	(16)	(13)	49	20
Net Change in Accumulated Other Comprehensive Income (Loss)	(16)	(94)	49	(61)
<b>Balance as of September 30, 2019</b>	<b>\$ (17)</b>	<b>\$ (454)</b>	<b>\$ 33</b>	<b>\$ (438)</b>

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<b>PSEG Power</b>				
<b>Three Months Ended September 30, 2020</b>				
<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Cash Flow Hedges</b>	<b>Pension and OPEB Plans</b>	<b>Available-for-Sale Securities</b>	<b>Total</b>
	Millions			
Balance as of June 30, 2020	\$ —	\$ (415)	\$ 41	\$ (374)
Other Comprehensive Income before Reclassifications	—	—	3	3
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	2	(5)	(3)
Net Current Period Other Comprehensive Income (Loss)	—	2	(2)	—
<b>Balance as of September 30, 2020</b>	<b>\$ —</b>	<b>\$ (413)</b>	<b>\$ 39</b>	<b>\$ (374)</b>
<b>PSEG Power</b>				
<b>Three Months Ended September 30, 2019</b>				
<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Cash Flow Hedges</b>	<b>Pension and OPEB Plans</b>	<b>Available-for-Sale Securities</b>	<b>Total</b>
	Millions			
Balance as of June 30, 2019	\$ —	\$ (372)	\$ 18	\$ (354)
Other Comprehensive Income before Reclassifications	—	(14)	10	(4)
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	2	(3)	(1)
Net Current Period Other Comprehensive Income (Loss)	—	(12)	7	(5)
<b>Balance as of September 30, 2019</b>	<b>\$ —</b>	<b>\$ (384)</b>	<b>\$ 25</b>	<b>\$ (359)</b>
<b>PSEG Power</b>				
<b>Nine Months Ended September 30, 2020</b>				
<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Cash Flow Hedges</b>	<b>Pension and OPEB Plans</b>	<b>Available-for-Sale Securities</b>	<b>Total</b>
	Millions			
Balance as of December 31, 2019	\$ —	\$ (420)	\$ 19	\$ (401)
Other Comprehensive Income before Reclassifications	—	—	38	38
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	7	(18)	(11)
Net Current Period Other Comprehensive Income (Loss)	—	7	20	27
<b>Balance as of September 30, 2020</b>	<b>\$ —</b>	<b>\$ (413)</b>	<b>\$ 39</b>	<b>\$ (374)</b>
<b>PSEG Power</b>				
<b>Nine Months Ended September 30, 2019</b>				
<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Cash Flow Hedges</b>	<b>Pension and OPEB Plans</b>	<b>Available-for-Sale Securities</b>	<b>Total</b>
	Millions			
Balance as of December 31, 2018	\$ —	\$ (306)	\$ (13)	\$ (319)
Cumulative Effect Adjustment to Reclassify Stranded Tax Effects Resulting in the Change in the Federal Corporate Income Tax to Retained Earnings	—	(69)	—	(69)
Current Period Other Comprehensive Income (Loss)				
Other Comprehensive Income (Loss) before Reclassifications	—	(17)	42	25
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	8	(4)	4
Net Current Period Other Comprehensive Income (Loss)	—	(9)	38	29
Net Change in Accumulated Other Comprehensive Income (Loss)	—	(78)	38	(40)
<b>Balance as of September 30, 2019</b>	<b>\$ —</b>	<b>\$ (384)</b>	<b>\$ 25</b>	<b>\$ (359)</b>

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PSEG		Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) to Income Statement					
		Three Months Ended September 30, 2020			Nine Months Ended September 30, 2020		
		Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Description of Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Pre-Tax Amount In Statement of Operations						
Millions							
<b>Cash Flow Hedges</b>							
Interest Rate Swaps	Interest Expense	\$ (5)	\$ 1	\$ (4)	\$ (11)	\$ 3	\$ (8)
<b>Total Cash Flow Hedges</b>		(5)	1	(4)	(11)	3	(8)
<b>Pension and OPEB Plans</b>							
Amortization of Prior Service (Cost) Credit	Non-Operating Pension and OPEB Credits (Costs)	6	(2)	4	18	(5)	13
Amortization of Actuarial Loss	Non-Operating Pension and OPEB Credits (Costs)	(10)	3	(7)	(30)	8	(22)
<b>Total Pension and OPEB Plans</b>		(4)	1	(3)	(12)	3	(9)
<b>Available-for-Sale Debt Securities</b>							
Realized Gains (Losses) and Impairments	Net Gains (Losses) on Trust Investments	11	(4)	7	37	(14)	23
<b>Total Available-for-Sale Debt Securities</b>		11	(4)	7	37	(14)	23
<b>Total</b>		<u>\$ 2</u>	<u>\$ (2)</u>	<u>\$ —</u>	<u>\$ 14</u>	<u>\$ (8)</u>	<u>\$ 6</u>

PSEG		Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) to Income Statement					
		Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
		Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Description of Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Pre-Tax Amount In Statement of Operations						
Millions							
<b>Cash Flow Hedges</b>							
Interest Rate Swaps	Interest Expense	\$ (1)	\$ —	\$ (1)	\$ (2)	\$ 1	\$ (1)
<b>Total Cash Flow Hedges</b>		(1)	—	(1)	(2)	1	(1)
<b>Pension and OPEB Plans</b>							
Amortization of Prior Service (Cost) Credit	Non-Operating Pension and OPEB Credits (Costs)	7	(2)	5	20	(6)	14
Amortization of Actuarial Loss	Non-Operating Pension and OPEB Credits (Costs)	(10)	2	(8)	(33)	9	(24)
<b>Total Pension and OPEB Plans</b>		(3)	—	(3)	(13)	3	(10)
<b>Available-for-Sale Debt Securities</b>							
Realized Gains (Losses)	Net Gains (Losses) on Trust Investments	6	(3)	3	9	(4)	5
<b>Total Available-for-Sale Debt Securities</b>		6	(3)	3	9	(4)	5
<b>Total</b>		<u>\$ 2</u>	<u>\$ (3)</u>	<u>\$ (1)</u>	<u>\$ (6)</u>	<u>\$ —</u>	<u>\$ (6)</u>

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PSEG Power		Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) to Income Statement					
		Three Months Ended			Nine Months Ended		
		September 30, 2020			September 30, 2020		
Description of Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Pre-Tax Amount In Statement of Operations	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Millions							
<b>Pension and OPEB Plans</b>							
Amortization of Prior Service (Cost) Credit	Non-Operating Pension and OPEB Credits (Costs)	\$ 5	\$ (2)	\$ 3	\$ 16	\$ (5)	\$ 11
Amortization of Actuarial Loss	Non-Operating Pension and OPEB Credits (Costs)	(8)	3	(5)	(25)	7	(18)
<b>Total Pension and OPEB Plans</b>		<b>(3)</b>	<b>1</b>	<b>(2)</b>	<b>(9)</b>	<b>2</b>	<b>(7)</b>
<b>Available-for-Sale Debt Securities</b>							
Realized Gains (Losses) and Impairments	Net Gains (Losses) on Trust Investments	9	(4)	5	30	(12)	18
<b>Total Available-for-Sale Debt Securities</b>		<b>9</b>	<b>(4)</b>	<b>5</b>	<b>30</b>	<b>(12)</b>	<b>18</b>
<b>Total</b>		<b>\$ 6</b>	<b>\$ (3)</b>	<b>\$ 3</b>	<b>\$ 21</b>	<b>\$ (10)</b>	<b>\$ 11</b>

PSEG Power		Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) to Income Statement					
		Three Months Ended			Nine Months Ended		
		September 30, 2019			September 30, 2019		
Description of Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Pre-Tax Amount In Statement of Operations	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Millions							
<b>Pension and OPEB Plans</b>							
Amortization of Prior Service (Cost) Credit	Non-Operating Pension and OPEB Credits (Costs)	\$ 6	\$ (2)	\$ 4	\$ 17	\$ (5)	\$ 12
Amortization of Actuarial Loss	Non-Operating Pension and OPEB Credits (Costs)	(9)	3	(6)	(28)	8	(20)
<b>Total Pension and OPEB Plans</b>		<b>(3)</b>	<b>1</b>	<b>(2)</b>	<b>(11)</b>	<b>3</b>	<b>(8)</b>
<b>Available-for-Sale Debt Securities</b>							
Realized Gains (Losses)	Net Gains (Losses) on Trust Investments	5	(2)	3	7	(3)	4
<b>Total Available-for-Sale Debt Securities</b>		<b>5</b>	<b>(2)</b>	<b>3</b>	<b>7</b>	<b>(3)</b>	<b>4</b>
<b>Total</b>		<b>\$ 2</b>	<b>\$ (1)</b>	<b>\$ 1</b>	<b>\$ (4)</b>	<b>\$ —</b>	<b>\$ (4)</b>



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## Note 18. Earnings Per Share (EPS) and Dividends

### EPS

Diluted EPS is calculated by dividing Net Income by the weighted average number of shares of common stock outstanding, including shares issuable upon exercise of stock options outstanding or vesting of restricted stock awards granted under PSEG's stock compensation plans and upon payment of performance share units or restricted stock units. The following table shows the effect of these stock options, performance share units and restricted stock units on the weighted average number of shares outstanding used in calculating diluted EPS:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
<b>EPS Numerator (Millions):</b>								
<b>Net Income</b>	<u>\$ 575</u>	<u>\$ 575</u>	<u>\$ 403</u>	<u>\$ 403</u>	<u>\$ 1,474</u>	<u>\$ 1,474</u>	<u>\$ 1,256</u>	<u>\$ 1,256</u>
<b>EPS Denominator (Millions):</b>								
Weighted Average Common Shares Outstanding	504	504	504	504	504	504	504	504
Effect of Stock Based Compensation Awards	—	3	—	3	—	3	—	3
<b>Total Shares</b>	<u>504</u>	<u>507</u>	<u>504</u>	<u>507</u>	<u>504</u>	<u>507</u>	<u>504</u>	<u>507</u>
<b>EPS</b>								
<b>Net Income</b>	<u>\$ 1.15</u>	<u>\$ 1.14</u>	<u>\$ 0.80</u>	<u>\$ 0.79</u>	<u>\$ 2.93</u>	<u>\$ 2.91</u>	<u>\$ 2.49</u>	<u>\$ 2.47</u>

### Dividends

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Dividend Payments on Common Stock</b>				
Per Share	\$ 0.49	\$ 0.47	\$ 1.47	\$ 1.41
In Millions	\$ 248	\$ 238	\$ 743	\$ 713

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**Note 19. Financial Information by Business Segment**

	PSE&G	PSEG Power	Other (A)	Eliminations (B)	Consolidated Total
	Millions				
<b>Three Months Ended September 30, 2020</b>					
Total Operating Revenues	\$ 1,660	\$ 746	\$ 143	\$ (179)	\$ 2,370
Net Income (Loss) (C)	313	254	8	—	575
Gross Additions to Long-Lived Assets	587	89	2	—	678
<b>Nine Months Ended September 30, 2020</b>					
Operating Revenues	\$ 4,999	\$ 2,649	\$ 447	\$ (894)	\$ 7,201
Net Income (Loss) (C)	1,036	437	1	—	1,474
Gross Additions to Long-Lived Assets	1,777	307	8	—	2,092
<b>Three Months Ended September 30, 2019</b>					
Total Operating Revenues	\$ 1,604	\$ 771	\$ 151	\$ (224)	\$ 2,302
Net Income (Loss)	344	53	6	—	403
Gross Additions to Long-Lived Assets	608	168	3	—	779
<b>Nine Months Ended September 30, 2019</b>					
Operating Revenues	\$ 5,018	\$ 3,270	\$ 379	\$ (1,069)	\$ 7,598
Net Income (Loss) (C)	974	309	(27)	—	1,256
Gross Additions to Long-Lived Assets	1,866	507	10	—	2,383
<b>As of September 30, 2020</b>					
Total Assets	\$ 34,833	\$ 12,719	\$ 2,952	\$ (928)	\$ 49,576
Investments in Equity Method Subsidiaries	\$ —	\$ 66	\$ 1	\$ —	\$ 67
<b>As of December 31, 2019</b>					
Total Assets	\$ 33,266	\$ 12,805	\$ 2,715	\$ (1,056)	\$ 47,730
Investments in Equity Method Subsidiaries	\$ —	\$ 66	\$ 1	\$ —	\$ 67

- (A) Includes amounts applicable to Energy Holdings and PSEG LI, which are below the quantitative threshold for separate disclosure as reportable segments. Other also includes amounts applicable to PSEG (parent company) and Services.
- (B) Intercompany eliminations primarily relate to intercompany transactions between PSE&G and PSEG Power. For a further discussion of the intercompany transactions between PSE&G and PSEG Power, see Note 20. Related-Party Transactions.
- (C) Includes an after-tax gain of \$86 million in the three months and nine months ended September 30, 2020 related to the sale of PSEG Power's interest in the Yards Creek generation facility and an after-tax loss of \$286 million in the nine months ended September 30, 2019 related to the sale of PSEG Power's ownership interests in the Keystone and Conemaugh fossil generation plants. See Item 1. Note 4. Early Plant Retirements/Asset Dispositions for additional information.

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## Note 20. Related-Party Transactions

The following discussion relates to intercompany transactions, which are eliminated during the PSEG consolidation process in accordance with GAAP.

### PSE&G

The financial statements for PSE&G include transactions with related parties presented as follows:

<b>Related-Party Transactions</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	Millions			
Billings from Affiliates:				
Net Billings from PSEG Power (A)	\$ 148	\$ 220	\$ 865	\$ 1,099
Administrative Billings from Services (B)	82	72	238	227
<b>Total Billings from Affiliates</b>	<b>\$ 230</b>	<b>\$ 292</b>	<b>\$ 1,103</b>	<b>\$ 1,326</b>

<b>Related-Party Transactions</b>	<b>As of September 30, 2020</b>	<b>As of December 31, 2019</b>
	Millions	
<b>Receivable from PSEG (C)</b>	<b>\$ —</b>	<b>\$ 1</b>
Payable to PSEG Power (A)	\$ 128	\$ 307
Payable to Services (B)	88	83
Payable to PSEG (C)	56	—
<b>Accounts Payable—Affiliated Companies</b>	<b>\$ 272</b>	<b>\$ 390</b>
<b>Working Capital Advances to Services (D)</b>	<b>\$ 33</b>	<b>\$ 33</b>
<b>Long-Term Accrued Taxes Payable</b>	<b>\$ 20</b>	<b>\$ 115</b>

### PSEG Power

The financial statements for PSEG Power include transactions with related parties presented as follows:

<b>Related-Party Transactions</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	Millions			
Billings to Affiliates:				
<b>Net Billings to PSE&amp;G (A)</b>	<b>\$ 148</b>	<b>\$ 220</b>	<b>\$ 865</b>	<b>\$ 1,099</b>
Billings from Affiliates:				
<b>Administrative Billings from Services (B)</b>	<b>\$ 40</b>	<b>\$ 41</b>	<b>\$ 127</b>	<b>\$ 132</b>

<b>Related-Party Transactions</b>	<b>As of September 30, 2020</b>	<b>As of December 31, 2019</b>
	Millions	
Receivable from PSE&G (A)	\$ 128	\$ 307
Receivable from PSEG (C)	26	101
<b>Accounts Receivable—Affiliated Companies</b>	<b>\$ 154</b>	<b>\$ 408</b>
Payable to Services (B)	\$ 22	\$ 5
<b>Accounts Payable—Affiliated Companies</b>	<b>\$ 22</b>	<b>\$ 5</b>
<b>Short-Term Loan to (from) Affiliate (E)</b>	<b>\$ 333</b>	<b>\$ 149</b>
<b>Working Capital Advances to Services (D)</b>	<b>\$ 17</b>	<b>\$ 17</b>
<b>Long-Term Accrued Taxes Payable</b>	<b>\$ 58</b>	<b>\$ 115</b>

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- (A) PSE&G has entered into a requirements contract with PSEG Power under which PSEG Power provides the gas supply services needed to meet PSE&G's BGSS and other contractual requirements. PSEG Power has also entered into contracts to supply energy, capacity and ancillary services to PSE&G through the BGS auction process and sells ZECs to PSE&G under the ZEC program. The rates in the BGS and BGSS contracts and for the ZEC sales are prescribed by the BPU. BGS and BGSS sales are billed and settled on a monthly basis. ZEC sales are billed on a monthly basis and settled annually following completion of each energy year. In addition, PSEG Power and PSE&G provide certain technical services for each other generally at cost in compliance with FERC and BPU affiliate rules.
- (B) Services provides and bills administrative services to PSE&G and PSEG Power at cost. In addition, PSE&G and PSEG Power have other payables to Services, including amounts related to certain common costs, which Services pays on behalf of each of the operating companies.
- (C) PSEG files a consolidated federal income tax return with its affiliated companies. A tax allocation agreement exists between PSEG and each of its affiliated companies. The general operation of these agreements is that the subsidiary company will compute its taxable income on a stand-alone basis. If the result is a net tax liability, such amount shall be paid to PSEG. If there are NOLs and/or tax credits, the subsidiary shall receive payment for the tax savings from PSEG to the extent that PSEG is able to utilize those benefits.
- (D) PSE&G and PSEG Power have advanced working capital to Services. The amounts are included in Other Noncurrent Assets on PSE&G's and PSEG Power's Condensed Consolidated Balance Sheets.
- (E) PSEG Power's short-term loans with PSEG are for working capital and other short-term needs. Interest Income and Interest Expense relating to these short-term funding activities were immaterial.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

This combined MD&A is separately filed by Public Service Enterprise Group Incorporated (PSEG), Public Service Electric and Gas Company (PSE&G) and PSEG Power LLC (PSEG Power). Information contained herein relating to any individual company is filed by such company on its own behalf. PSE&G and PSEG Power each make representations only as to itself and make no representations whatsoever as to any other company.

PSEG's business consists of two reportable segments, our principal direct wholly owned subsidiaries, which are:

- **PSE&G**—which is a public utility engaged principally in the transmission of electricity and distribution of electricity and natural gas in certain areas of New Jersey. PSE&G is subject to regulation by the New Jersey Board of Public Utilities (BPU) and the Federal Energy Regulatory Commission (FERC). PSE&G also invests in regulated solar generation projects and energy efficiency and related programs in New Jersey, which are regulated by the BPU, and
- **PSEG Power**—which is a multi-regional energy supply company that integrates the operations of its merchant nuclear and fossil generating assets with its power marketing businesses and fuel supply functions through competitive energy sales in well-developed energy markets primarily in the Northeast and Mid-Atlantic United States through its principal direct wholly owned subsidiaries. In addition, PSEG Power owns and operates solar generation in various states. PSEG Power's subsidiaries are subject to regulation by FERC, the Nuclear Regulatory Commission (NRC), the Environmental Protection Agency (EPA) and the states in which they operate.

PSEG's other direct wholly owned subsidiaries are: PSEG Long Island LLC (PSEG LI), which operates the Long Island Power Authority's (LIPA) transmission and distribution (T&D) system under an Operations Services Agreement (OSA); PSEG Energy Holdings L.L.C. (Energy Holdings), which primarily has investments in leveraged leases; and PSEG Services Corporation (Services), which provides certain management, administrative and general services to PSEG and its subsidiaries at cost.

Our business discussion in Part I, Item 1. Business of our 2019 Annual Report on 10-K (Form 10-K) provides a review of the regions and markets where we operate and compete, as well as our strategy for conducting our businesses within these markets, focusing on operational excellence, financial strength and making disciplined investments. Our risk factor discussion in Part I, Item 1A. Risk Factors of Form 10-K provides information about factors that could have a material adverse impact on our businesses. The following supplements that discussion and the discussion included in the Executive Overview of 2019 and Future Outlook provided in Item 7 in our Form 10-K by describing significant events and business developments that have occurred during 2020 and changes to the key factors that we expect may drive our future performance. The following discussion refers to the Condensed Consolidated Financial Statements (Statements) and the Related Notes to Condensed Consolidated Financial Statements (Notes). This discussion should be read in conjunction with such Statements, Notes and the Form 10-K.

### EXECUTIVE OVERVIEW OF 2020 AND FUTURE OUTLOOK

We are continuing our transformation into a primarily regulated electric and gas utility that is focused on meeting customer expectations and is aligned with public policy objectives promoting clean energy investments. Our business plan focuses on achieving growth while controlling costs and managing the risks associated with regulatory changes, fluctuating commodity prices and changes in customer demand. In furtherance of these goals, over the past few years, our investments have altered our business mix to reflect a higher percentage of earnings contribution by PSE&G. We also announced in July 2020 that we are exploring strategic alternatives for PSEG Power's non-nuclear generating fleet, which includes more than 6,750 megawatts (MW) of fossil generation located in New Jersey, Connecticut, New York and Maryland as well as the 467 MW Solar Source portfolio located in various states.

PSE&G, PSEG Power and PSEG LI continue to provide essential services during the ongoing coronavirus (COVID-19) pandemic. We have implemented a comprehensive set of enhanced safety actions to help protect our employees, customers and communities, and we will continue to closely monitor developments and adjust as needed to ensure that we continue to provide reliable service while protecting the safety and health of our workforce and the communities we serve. We continue to be guided by the recommendations of health authorities at the federal, state and local levels. Employees who can perform their job duties remotely are doing so. Those employees who must report to a work site are wearing personal protective equipment (PPE) and practicing physical distancing measures. Extensive cleaning protocols are also in place. Earlier this year, we suspended non-essential work activities, while continuing to respond to customer outages and requests for emergency service as well as infrastructure maintenance and upgrades. As New Jersey has relaxed its coronavirus response protocols over the past few months, we have initiated a phased re-starting of certain of these activities (i.e., inside premises appliance repair and monthly meter reading activities), while maintaining protocols for physical distancing and PPE. Similarly, we have also begun to formulate policies and protocols for the responsible reopening of our offices and work sites. Our "responsible reentry" policies

and protocols will continue to focus on the health and safety of our employees, customers and the communities we serve while also taking a cautious and measured approach toward reopening. We are continuing to assess the appropriate timeline for this process. In connection with their reopening plans, New Jersey, New York and Connecticut have issued advisories for anyone returning from states that have a significant degree of community-wide spread of COVID-19, referred to as “designated states.” These advisories include exceptions for essential employees and we are assessing what impact this may have on members of our workforce who may live in a designated state. We are also using enhanced physical distancing and safety protocols where there are impacts on members of our workforce who may live in or travel from a designated state.

The ongoing coronavirus pandemic has not had a material impact on our results of operations, financial condition or cash flows for the nine months ended September 30, 2020. However, the potential future impact of the pandemic and the associated economic impacts, which could extend beyond the duration of the pandemic, will depend on a number of factors outside of our control, including the duration and severity of the outbreak as well as third-party actions taken to contain its spread and mitigate its public health effects. While we currently cannot estimate the potential impact to our results of operations, financial condition and cash flows, this MD&A includes a discussion of potential effects of a prolonged outbreak.

## **PSE&G**

At PSE&G, our focus is on enhancing reliability and resiliency of our T&D system, meeting customer expectations and supporting public policy objectives by investing capital in T&D infrastructure and clean energy programs. For the five-year period ending December 31, 2024, PSE&G expects to invest between \$12.5 billion to \$14.7 billion, resulting in an expected compound annual rate base growth of 7% to 8%. These ranges are driven by certain unapproved investment programs, including the Energy Cloud (EC) and Electric Vehicle (EV)/Energy Storage (ES) portions of the Clean Energy Future (CEF) program, any extension of the CEF Energy Efficiency (EE) program beyond the initial three-years approved by the BPU in September 2020, and incremental reliability and resiliency investments anticipated in the 2024 timeframe that we intend to seek approval for under the third phase of existing infrastructure programs. See below for a description of the CEF program.

In 2019, we commenced our BPU-approved Gas System Modernization Program II (GSMP II), an expanded, five-year program to invest \$1.9 billion beginning in 2019 to replace approximately 875 miles of cast iron and unprotected steel mains in addition to other improvements to the gas system. Approximately \$1.6 billion will be recovered through periodic rate roll-ins, with the remaining \$300 million to be recovered through a future base rate proceeding. As part of the settlement approved by the BPU, PSE&G agreed to file for a base rate proceeding no later than December 2023, to maintain a base level of gas distribution capital expenditures of \$155 million per year and to achieve certain leakage reduction targets.

Also in 2019, the BPU approved our Energy Strong II Program (ES II), an \$842 million program to harden, modernize and improve the resiliency of our electric and gas distribution systems. This program began in the fourth quarter of 2019 and is expected to be completed by the end of 2023. Approximately \$692 million of the program will be recovered through periodic rate recovery filings, with the balance to be recovered in our next distribution base rate case.

In October 2018, we filed our proposed CEF program with the BPU, a six-year estimated \$3.5 billion investment covering four programs; (i) an EE program totaling \$2.5 billion of investment designed to achieve energy efficiency targets required under New Jersey’s Clean Energy law; (ii) an EV infrastructure program; (iii) an ES program, which was submitted to the BPU together with the EV infrastructure program in a single filing; and (iv) an EC program which will include installing approximately two million electric smart meters and associated infrastructure. In January 2020, New Jersey released its Energy Master Plan (EMP) which, among other things, recognizes the importance of the State’s EE targets and supported EVs, ES, and advanced metering infrastructure (AMI).

In September 2020, PSE&G reached a settlement with all parties in the CEF-EE proceeding, which the BPU approved. The settlement provides for an investment of \$1 billion over a three-year period. Costs will be recovered through annual rate-making, with returns aligned with our most recent base rate case and a ten-year amortization period.

The approval also included a Conservation Incentive Program (CIP), a mechanism that will provide for recovery of lost electric and gas variable margin revenues. The CIP is effective in June 2021 for electric and October 2021 for gas. PSE&G will suspend its gas Weather Normalization Charge (WNC) when the gas CIP deferral period begins.

The BPU has also issued procedural schedules for the CEF-EC and CEF-EV/ES investment program filings, with evidentiary hearings scheduled for the fourth quarter of 2020. In April 2020, PSE&G filed with the BPU an update of its CEF-EC petition to revise certain assumptions, including an updated deployment schedule based on the procedural schedule.

We also continue to invest in transmission infrastructure in order to (i) maintain and enhance system integrity and grid reliability, grid security and safety, (ii) address an aging transmission infrastructure, (iii) leverage technology to improve the operation of the system, (iv) reduce transmission constraints, (v) meet growing demand and (vi) meet environmental requirements and standards set by various regulatory bodies. Our planned capital spending for transmission in 2020-2022 is \$2.9 billion.

As noted above, PSE&G has been deemed by New Jersey to provide essential services during the ongoing coronavirus pandemic. Our capital programs, including GSMP II, ES II and our transmission infrastructure investments, have not been materially impacted to date. However, a prolonged outbreak and the associated economic impacts, which could extend beyond the duration of the pandemic, could impact our ability to obtain necessary permits and approvals and could lead to shortages of necessary materials, supplies and labor. In addition, a determination by any state or federal regulatory authority that one or all of our projects is non-essential could require us to temporarily halt work. Any delay in our planned capital program could impact our operational performance and could materially impact our results of operations and financial condition through decreased cost recovery.

Further, the ongoing coronavirus pandemic has led many state and federal agencies to implement remote working protocols and divert resources to address the pandemic which, if prolonged, could impact regulatory agencies' ability to review proposed programs and delay the timing of approvals for matters subject to regulatory approval, including parts of our CEF program that is currently before the BPU and the approval of various clause recovery mechanisms.

PSE&G has experienced a reduction in demand from its commercial and industrial (C&I) customers, partially offset by increases in residential demand, and adverse changes to residential and C&I payment patterns, and expects these changes to continue during a prolonged coronavirus pandemic. In October 2020, the state formally extended its moratorium on non-safety related service disconnections for non-payment for residential customers through March 15, 2021. During the moratorium, PSE&G has experienced a significant decrease in cash inflow and higher Accounts Receivable aging and an associated increase in bad debt expense, which we expect could extend beyond the duration of the coronavirus pandemic. PSE&G's electric distribution bad debt expense is recoverable through its Societal Benefits Clause (SBC) mechanism. PSE&G has deferred its incremental gas distribution bad debt expense as a result of COVID-19 as a Regulatory Asset and will seek recovery of that cost, as well as other net incremental COVID-19 costs, in its next base rate case as discussed below.

In July 2020, the BPU authorized regulated utilities in New Jersey, including PSE&G, to create a COVID-19-related Regulatory Asset by deferring on their books and records the prudently incurred incremental costs related to COVID-19 beginning on March 9, 2020 through September 30, 2021, or 60 days after the New Jersey governor determines that the Public Health Emergency is no longer in effect, or in the absence of such a determination, 60 days from the time the Public Health Emergency automatically terminates by law, whichever is later. Deferred costs are to be offset by any federal or state assistance that the utility may receive as a direct result of the COVID-19 pandemic. During the third quarter of 2020, PSE&G recorded a Regulatory Asset related to COVID-19 to defer incremental costs of \$35 million. There is no assurance that these costs will ultimately be recovered.

While the impact on our results of operations, financial condition and cash flows for the nine months ended September 30, 2020 has not been material, a prolonged coronavirus pandemic and the associated economic impacts, which could extend beyond the duration of the pandemic, could materially impact cash from operations, Accounts Receivable and bad debt expense.

#### **PSEG Power**

At PSEG Power, we strive to achieve operational excellence and manage costs in order to optimize cash flow generation from our fleet in light of low wholesale power and gas prices, environmental considerations and competitive market forces that reward efficiency and reliability. In the first nine months of 2020, our natural gas and nuclear units generated 16.8 and 24.0 terawatt hours and operated at a capacity factor of 49.0% and 94.2%, respectively. Our commitments for load, such as basic generation service (BGS) in New Jersey and other bilateral supply contracts, are backed by this generation or may be combined with the use of physical commodity purchases and financial instruments from the market to optimize the economic efficiency of serving our obligations. PSEG Power's hedging practices and ability to capitalize on market opportunities help it to manage some of the volatility of the merchant power business. More than 70% of PSEG Power's expected gross margin in 2020 relates to hedging of our energy margin, our expected revenues from the capacity market mechanisms, Zero Emission Certificate (ZEC) revenues that commenced in April 2019 and certain ancillary service payments such as reactive power.

As discussed further below under "Wholesale Power Market Design," FERC issued an order establishing new rules for PJM's capacity market, extending the PJM Minimum Offer Price Rule (MOPR) to include both new and existing resources that receive or are entitled to receive certain out-of-market payments, with certain exemptions. PSEG Power's New Jersey nuclear plants that receive ZEC payments will be subject to the new MOPR. In addition, as a result of FERC's finding that default procurement auctions such as BGS could be considered subsidies, it is possible that other PSEG units could be subject to the MOPR. The MOPR's floor prices are not expected to prevent either our nuclear or gas-fired units from clearing in the next Reliability Pricing Model (RPM) auction. We cannot predict whether additional changes will be made to the MOPR, or whether changes will occur in the PJM market that would impact our ability to clear any of these units in future RPM auctions.

In the first nine months of 2020, as a result of the ongoing coronavirus pandemic, PSEG Power experienced a decrease in aggregate wholesale electric demand. An extended outbreak could have a material adverse impact on future results of operations and cash flows.

PSEG Power has also implemented protocols to ensure the safety and health of employees at its generation facilities and contractors working at the facilities during planned outages. A prolonged unavailability of employees and contractors due to the ongoing coronavirus pandemic could materially and adversely impact our ability to operate our generation facilities, which would have a material impact on our business, results of operations and cash flows.

#### **PSEG LI**

Following the effects of Tropical Storm Isaias, the New York Attorney General initiated an inquiry into PSEG LI's preparation and response to the storm. In addition, the Department of Public Service within the New York State Public Service Commission launched an investigation of state electric service providers, including PSEG LI, and other state telephone, cable and internet providers into their preparation and restoration efforts following Tropical Storm Isaias. LIPA also initiated its own review of PSEG LI's performance. PSEG LI agreed with LIPA that it would fund claims by customers for food and medication spoilage costs incurred as a result of being without electric service during the storm up to the amount of incentive compensation earned by PSEG LI in 2020. PSEG LI does not expect the claims to be material. PSEG LI is fully cooperating in each of these inquiries, which remain ongoing. We cannot predict their outcome.

#### **Strategic Alternatives for PSEG Power's Non-Nuclear Fleet**

On July 31, 2020, PSEG announced that it is exploring strategic alternatives for PSEG Power's non-nuclear generating fleet, which includes more than 6,750 MW of fossil generation located in New Jersey, Connecticut, New York and Maryland as well as the 467 MW Solar Source portfolio located in various states. An exit from the fossil generation business would accelerate PSEG's transition to a primarily regulated and contracted business, with a zero-carbon generation platform. It is expected to reduce overall business risk and earnings volatility, improve PSEG's credit profile and is consistent with PSEG's climate strategy and sustainability efforts, which is to focus on clean energy investments, methane reduction, and zero-carbon generation. PSEG intends to retain ownership of PSEG Power's existing nuclear fleet. While PSEG is in the preliminary stage of this evaluation, the marketing of a potential transaction in one or a series of steps is anticipated to launch in the fourth quarter of this year, and any potential transaction is expected to be completed sometime in 2021. There is no assurance that the strategic review will result in a sale or other disposition of all or any portion of these assets on terms that are favorable to us, or at all. Any transaction would be subject to market conditions and customary closing conditions, including the receipt of all required regulatory approvals.

#### **Climate Strategy and Sustainability Efforts**

For more than a century, our mission has been to provide safe access to an around-the-clock supply of reliable, affordable power. Building on this mission, we believe in a future where customers universally use less energy, the energy they use is cleaner, and its delivery is more reliable and more resilient. In July 2019, we announced that we expect to cut carbon emissions at PSEG Power's generation fleet by 80% by 2046, from 2005 levels. We have also announced our vision of attaining net zero- carbon emissions by 2050, assuming advances in technology, public policy and customer behavior.

PSE&G has also undertaken a number of initiatives that support the reduction of greenhouse gas (GHG) emissions and the implementation of energy efficiency initiatives. The first phase of our GSMP replaced approximately 450 miles of cast-iron and unprotected steel gas infrastructure, and the second phase of this program is expected to replace an additional 875 miles of gas pipes through 2023. The GSMP is designed to significantly reduce gas leaks in our distribution system, which would reduce the release of methane, a GHG, into the air. In addition, PSE&G's CEF-EE program, which was approved by the BPU in September 2020 and CEF-EV/ES and EC proposals, which are under review by the BPU, are intended to support New Jersey's EMP through programs designed to help customers increase their energy efficiency, support the expansion of the electric vehicle infrastructure in the State, install energy storage capacity to supplement solar generation and enhance grid resiliency, install smart meters and supporting infrastructure to allow for the integration of other clean energy technologies and to more efficiently respond to weather and other outage events.

#### **Operational Excellence**

We emphasize operational performance while developing opportunities in both our competitive and regulated businesses. Flexibility in our generating fleet has allowed us to take advantage of opportunities in a rapidly evolving market as we remain diligent in managing costs. In the first nine months of 2020, our utility continued its efforts to control costs while maintaining strong operational performance and has implemented protocols to ensure that we are providing essential services to our customers during the ongoing coronavirus pandemic in a safe and reliable manner.

#### **Financial Strength**

Our financial strength is predicated on a solid balance sheet, positive operating cash flow and reasonable risk-adjusted returns on increased investment. Our financial position remained strong during the first nine months of 2020 as we

- maintained sufficient liquidity,



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- maintained solid investment grade credit ratings, and
- increased our indicative annual dividend for 2020 to \$1.96 per share.

We expect to be able to fund our planned capital requirements, as described in Liquidity and Capital Resources, and the impacts of the Tax Cuts and Jobs Act of 2017 (Tax Act) without the issuance of new equity.

**Financial Results**

The results for PSEG, PSE&G and PSEG Power for the three months and nine months ended September 30, 2020 and 2019 are presented as follows:

<b>Earnings (Losses)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	Millions			
PSE&G	\$ 313	\$ 344	\$ 1,036	\$ 974
PSEG Power (A)	254	53	437	309
Other (B)	8	6	1	(27)
<b>PSEG Net Income</b>	<b>\$ 575</b>	<b>\$ 403</b>	<b>\$ 1,474</b>	<b>\$ 1,256</b>
<b>PSEG Net Income Per Share (Diluted)</b>	<b>\$ 1.14</b>	<b>\$ 0.79</b>	<b>\$ 2.91</b>	<b>\$ 2.47</b>

- (A) Includes an after-tax gain of \$86 million in the three and nine months ended September 30, 2020 related to the sale of PSEG Power's interest in the Yards Creek generation facility and an after-tax loss of \$286 million in the nine months ended September 30, 2019 related to the sale of PSEG Power's ownership interests in the Keystone and Conemaugh fossil generation plants. See Item 1. Note 4. Early Plant Retirements/Asset Dispositions for additional information.
- (B) Other includes after-tax activities at the parent company, PSEG LI, and Energy Holdings as well as intercompany eliminations. Energy Holdings recorded an after-tax charge of \$32 million in the nine months ended September 30, 2019 related to its investment in leveraged leases. See Item 1. Note 8. Financing Receivables for additional information.

PSEG Power's results above include the Nuclear Decommissioning Trust (NDT) Fund activity and the impacts of non-trading commodity mark-to-market (MTM) activity, which consist of the financial impact from positions with future delivery dates.

The variances in our Net Income attributable to changes related to the NDT Fund and MTM are shown in the following table:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	Millions, after tax			
NDT Fund Income (Expense) (A) (B)	\$ 60	\$ (4)	\$ 43	\$ 97
Non-Trading MTM Gains (Losses) (C)	\$ (59)	\$ (88)	\$ (59)	\$ 140

- (A) NDT Fund Income (Expense) includes gains and losses on NDT securities which are recorded in Net Gains (Losses) on Trust Investments. See Item 1. Note 9. Trust Investments for additional information. NDT Fund Income (Expense) also includes interest and dividend income and other costs related to the NDT Fund recorded in Other Income (Deductions), interest accretion expense on PSEG Power's nuclear Asset Retirement Obligation (ARO) recorded in O&M Expense and the depreciation related to the ARO asset recorded in Depreciation and Amortization (D&A) Expense.
- (B) Net of tax (expense) benefit of \$(40) million and \$0 million for the three months and \$(30) million and \$(67) million for the nine months ended September 30, 2020 and 2019, respectively.
- (C) Net of tax (expense) benefit of \$23 million and \$33 million for the three months and \$23 million and \$(55) million for the nine months ended September 30, 2020 and 2019, respectively.

Our \$172 million increase in Net Income for the three months ended September 30, 2020 was driven primarily by

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- a gain on the sale of PSEG Power's ownership interest in the Yards Creek generating facility in 2020 (see Item 1. Note 4. Early Plant Retirements/Asset Dispositions),
- Net unrealized gains in 2020 on equity securities in the NDT Fund as compared to net unrealized losses in 2019 at PSEG Power, and
- higher earnings due to investments in T&D programs at PSE&G.

Our \$218 million increase in Net Income for the nine months ended September 30, 2020 was driven primarily by

- a gain on sale of PSEG Power's ownership interest in the Yards Creek generating facility in 2020,
- an asset impairment in 2019 related to the sale of PSEG Power's interests in the Keystone and Conemaugh fossil generation plants (see Item 1. Note 4. Early Plant Retirements/Asset Dispositions),
- higher earnings due to investments in T&D programs at PSE&G, and
- higher pension and OPEB credits,
- partially offset by MTM losses in 2020 as compared to gains in 2019 at PSEG Power, and
- a decrease at PSEG Power due to lower average realized prices on lower volumes of electricity sold in PJM and under the BGS contracts, as well as lower capacity revenues, partially offset by a net decrease in fuel costs and higher ZEC revenues starting in mid-April 2020.

The greater emphasis on capital spending in recent years for projects at PSE&G relative to PSEG Power, particularly those on which we receive contemporaneous returns at PSE&G has yielded strong results, which when combined with the cash flow generated by PSEG Power, has allowed us to meet customer needs and address market conditions and investor expectations. We continue our focus on operational excellence, financial strength and disciplined investment. These guiding principles have provided the base from which we have been able to execute our strategic initiatives.

### **Disciplined Investment**

We utilize rigorous criteria and consider a number of external factors, including the economic impact of the ongoing coronavirus pandemic, when determining how and when to efficiently deploy capital. We principally explore opportunities for investment in areas that complement our existing business and provide reasonable risk-adjusted returns. In the first nine months of 2020, we

- made additional investments in T&D infrastructure projects on time and on budget,
- continued to execute our Energy Efficiency and other existing BPU-approved utility programs, and
- continued to evaluate potential offshore wind opportunities.

### **Regulatory, Legislative and Other Developments**

In our pursuit of operational excellence, financial strength and disciplined investment, we closely monitor and engage with stakeholders on significant regulatory and legislative developments. Transmission planning rules and wholesale power market design are of particular importance to our results and we continue to advocate for policies and rules that promote fair and efficient electricity markets. For additional information about regulatory, legislative and other developments that may affect us, see Part I, Item 1. Business—Regulatory Issues in our Form 10-K and Item 5. Other Information in our Quarterly Reports on Form 10-Q for the periods ending March 31, 2020 and June 30, 2020 (first and second quarter 2020 10-Qs) and this Quarterly Report on Form 10-Q.

#### **Transmission Rate Proceedings and Return on Equity (ROE)**

In March 2020, FERC issued a Notice of Proposed Rulemaking (NOPR) proposing to revise its electric transmission incentive policy to encourage the development of infrastructure needed to ensure grid reliability and reduce congestion to lower the cost of power for consumers. The NOPR proposes to shift the focus in granting incentives from an approach based on the risks and challenges faced by a project to an approach based on economic and reliability benefits to consumers. The NOPR proposes to retain several existing incentives, increase the 50 basis point adder for Regional Transmission Organization (RTO) participation to 100 basis points and provide incentives for transmission technologies that enhance reliability, efficiency and capacity.

In May 2020, FERC issued an order revising an earlier order that established a new ROE policy for reviewing existing transmission ROEs. The revised methodology uses the Discounted Cash Flow (DCF) model, the Capital Asset Pricing model (CAPM) and the risk premium model to determine if an existing base ROE is unjust and unreasonable and, if so, what replacement ROE is appropriate. FERC's order indicated that it would not be bound by this revised methodology when

considering the just and reasonableness of a utility's ROE in future proceedings. We continue to analyze the potential impact of these methodologies.

ROE complaints have been pending before FERC regarding MISO transmission owners, the ISO New England Inc. transmission owners and utilities in other jurisdictions. In addition, over the past few years, several companies have negotiated settlements that have resulted in reduced ROEs.

We are engaged in settlement discussions with the BPU Staff and the New Jersey Division of Rate Counsel (New Jersey Rate Counsel) about the level of PSE&G's base transmission ROE; however, we cannot predict the outcome of these settlement discussions. An adverse change to PSE&G's base transmission ROE or ROE incentives could be material. We estimate that for each 25 basis point reduction in PSE&G's base transmission ROE, and all other factors unchanged, PSE&G's annual Net Income and annual cash inflows would decrease by approximately \$15 million.

### **Wholesale Power Market Design**

In December 2019, FERC issued an order establishing new rules for PJM's capacity market, extending the PJM MOPR to include both new and existing resources that receive or are entitled to receive certain out-of-market payments, with certain exemptions.

PSEG Power's New Jersey nuclear plants that receive ZEC payments will be subject to the new MOPR. In addition, as a result of FERC's finding that default procurement auctions such as BGS could be considered subsidies, it is possible that other PSEG units could be subject to the MOPR. Resources that are subject to the MOPR continue to have the ability to justify a bid below the MOPR floor price under the unit-specific exemption. The MOPR floor prices are not expected to prevent either our nuclear units or gas-fired units from clearing in the next RPM auction. A FERC order issued in May 2020 authorizing enhancements to the methodology used by PJM to price energy reserves has created additional uncertainty regarding the impact of the MOPR expansion in future RPM auctions on PSEG Power's nuclear units that receive ZECs. One of the findings made by FERC in that order will affect how the MOPR offer floors are calculated and could have the effect, in the future, of increasing the price floors for the plants and thereby increasing the risk of being unable to clear in an RPM auction. In addition, if one or more electric distribution zones in New Jersey (or another state) were to become fixed resource requirement (FRR) alternative service areas, procurements needed for that area could provide an alternate means for nuclear units whose ability to clear in RPM auctions was affected by the MOPR to provide capacity within PJM. We cannot predict whether additional changes will be made to the MOPR, or whether changes will occur in the PJM market that would impact our ability to clear any of these units in future RPM auctions.

States that have clean energy programs designed to achieve public policy goals that support such resources as solar, offshore wind and nuclear, are not prevented from pursuing those programs by the expanded MOPR and could choose to utilize the existing FRR approach authorized under the PJM tariff. Subsidized units that cannot clear in a RPM capacity auction because of the expanded MOPR could still count as capacity resources to a load serving entity (LSE) using the FRR approach. In a March 2020 order, the BPU initiated an investigation to examine whether New Jersey can achieve its long-term clean energy and environmental objectives under the current resource adequacy procurement paradigm and potential alternatives. One of the areas of inquiry concerns the potential creation of FRR service areas within New Jersey. We cannot predict the impact these rules or any measures taken by the BPU will have on the capacity market or our generating stations.

In January 2020, New Jersey rejoined the Regional Greenhouse Gas Initiative (RGGI). As a result, generating plants operating in New Jersey, including those owned by PSEG Power, that emit CO<sub>2</sub> emissions will be required to procure credits for each ton they emit. In response to RGGI, PJM initiated a process in 2019 to investigate the development of a carbon pricing mechanism that may mitigate the environmental and financial distortions that could occur when emissions "leak" from non-participating states to the RGGI states. If the process leads to a market solution, it could have a material impact on the value of PSEG Power's generating fleet.

### **Environmental Regulation**

We are subject to liability under environmental laws for the costs of remediating environmental contamination of property now or formerly owned by us and of property contaminated by hazardous substances that we generated. In particular, the historic operations of PSEG companies and the operations of numerous other companies along the Passaic and Hackensack Rivers are alleged by Federal and State agencies to have discharged substantial contamination into the Passaic River/Newark Bay Complex in violation of various statutes. We are also currently involved in a number of proceedings relating to sites where other hazardous substances may have been discharged and may be subject to additional proceedings in the future, and the costs of any such remediation efforts could be material.

For further information regarding the matters described above, as well as other matters that may impact our financial condition and results of operations, see Item 1. Note 11. Commitments and Contingent Liabilities.

## **Nuclear**

In April 2019, PSEG Power's Salem 1, Salem 2 and Hope Creek nuclear plants were awarded ZECs by the BPU. Pursuant to a process established by the BPU, ZECs are purchased from selected nuclear plants and recovered through a non-bypassable distribution charge in the amount of \$0.004 per kilowatt-hour used (which is equivalent to approximately \$10 per megawatt hour generated in payments to selected nuclear plants (ZEC payment)). These nuclear plants are expected to receive ZEC revenue for approximately three years, through May 2022, and will be obligated to maintain operations during that period, subject to exceptions specified in the ZEC legislation. PSEG Power has and will continue to recognize revenue monthly as the nuclear plants generate electricity and satisfy their performance obligations. The ZEC payment may be adjusted by the BPU (a) at any time to offset environmental or fuel diversity payments that a selected nuclear plant may receive from another source or (b) at certain times specified in the ZEC legislation if the BPU determines that the purposes of the ZEC legislation can be achieved through a reduced charge that will nonetheless be sufficient to achieve the State's air quality and other environmental objectives by preventing the retirement of nuclear plants. For instance, the New Jersey Rate Counsel, in written comments filed with the BPU, has advocated for the BPU to offset market benefits resulting from New Jersey's rejoining the RGGI from the ZEC payment. PSEG intends to vigorously defend against these arguments. Due to its preliminary nature, PSEG cannot predict the outcome of this matter.

The BPU's decision awarding ZECs has been appealed by the New Jersey Rate Counsel. PSEG cannot predict the outcome of this matter.

In October 2020, PSEG Power filed with the BPU its ZEC applications for Salem 1, Salem 2 and Hope Creek for the three-year eligibility period starting in June 2022. No other plants applied for ZECs for this eligibility period. The BPU's schedule to consider these applications includes the BPU Staff issuing their preliminary findings regarding ZEC eligibility and the value of ZEC payments for this period in December 2020, followed by public and evidentiary hearings and a final BPU decision by April 2021. PSEG Power is not aware of any changes from its ZEC application for the first eligibility period that would materially affect its ability to establish eligibility to be awarded ZECs during the second eligibility period. We cannot predict the outcome of either the BPU Staff's preliminary findings or the BPU's final determination.

In the event that (i) the ZEC program is overturned or is otherwise materially adversely modified through legal process; (ii) the amount of ZEC payments that may be awarded or other terms and conditions of the second ZEC eligibility period proposed by the BPU Staff in the December 2020 preliminary findings or by the BPU in its final decision differ from those of the current ZEC period; or (iii) any of the Salem 1, Salem 2 and Hope Creek plants is not awarded ZEC payments by the BPU and does not otherwise experience a material financial change, PSEG Power will take all necessary steps to cease to operate all of these plants. Alternatively, if all of the Salem 1, Salem 2 and Hope Creek plants are selected to continue to receive ZEC payments but the financial condition of the plants is materially adversely impacted by changes in commodity prices, FERC's changes to the capacity market construct (absent sufficient capacity revenues provided under a program approved by the BPU in accordance with a FERC-authorized capacity mechanism), or, in the case of the Salem nuclear plants, decisions by the EPA and state environmental regulators regarding the implementation of Section 316(b) of the Clean Water Act and related state regulations, or other factors, PSEG Power will take all necessary steps to cease to operate all of these plants. Ceasing operations of these plants would result in a material adverse impact on PSEG's and PSEG Power's results of operations.

## **Nuclear Refueling Outage**

The Salem 1 nuclear generating plant entered a scheduled refueling outage in October 2020, which is expected to continue through mid-December 2020. In light of the COVID-19 pandemic, we have implemented additional health protocols to protect the health and safety of our employees and contractors, including daily health screenings, increased hygiene, physical distancing, PPE requirements and close-contact monitoring. During this outage, the plant's main generator stator, which has reached the end of its useful life, is being replaced. The process for replacing Salem 1's generator stator is highly complex. During the outage, we are also performing additional reactor vessel inspections and upgrades. Limitations due to additional health protocols, delays in replacing the main generator stator due to its complexity, or adverse findings from the reactor vessel inspections could result in an extended outage and in turn, lower revenues and increased costs, which could have a material impact on the results of operations of the plant and PSEG Power.

## **Offshore Wind**

In June 2019, the BPU selected Ørsted US Offshore Wind's Ocean Wind project as the winning bid in New Jersey's initial solicitation for 1,100 MW of offshore wind generation. In October 2019, PSEG exercised its option on Ørsted's Ocean Wind project, resulting in a period of exclusive negotiation for PSEG to potentially acquire a 25% equity interest in the project, subject to negotiations toward a joint venture agreement, advanced due diligence and any required regulatory approvals. Additionally, PSEG and Ørsted each owns 50% of Garden State Offshore Energy LLC (GSOE) which holds rights to an offshore wind lease area. PSEG and Ørsted are exploring other offshore wind opportunities through GSOE.

## **Tax Legislation**

In July 2020, the Internal Revenue Service (IRS) issued final and proposed regulations addressing the limitation on deductible business interest expense contained in the Tax Act. These regulations retroactively allow depreciation to be added back in computing the 30% adjusted taxable income (ATI) cap, increasing the amount of interest that can be deducted by unregulated businesses in years before 2022. For years after 2021 the regulations continue to disallow the addback of depreciation in the computation of ATI, effectively lowering the cap on the amount of deductible business interest. The portion of PSEG's and PSEG Power's business interest expense that was disallowed in 2018 and 2019 will now be deductible in those respective years. PSEG is still in the process of analyzing these regulations, which may impact the financial condition and cash flows of PSEG, PSE&G and PSEG Power.

In March 2020, the federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted. We continue to assess the impact of the tax aspects of the CARES Act on our results of operations and cash flow. We expect that a prolonged coronavirus pandemic, the tax provisions of the CARES Act and any future coronavirus-related federal or state legislation could have a material impact on our effective tax rate and cash tax position.

Effective January 1, 2018, the Tax Act established tax laws including, but not limited to, a limitation on deductible interest and limitations on the utilization of net operating losses (NOLs), such as eliminating carrybacks.

In November 2018, the IRS issued proposed regulations addressing the interest disallowance rules contained in the Tax Act. For non-regulated businesses, the Tax Act enacted rules that set a cap on the amount of business interest that can be deducted in a given year. Any amount that is disallowed can be carried forward indefinitely. Amounts recorded under the Tax Act and the CARES Act, such as depreciation and business interest disallowance, are subject to change based on several factors, including but not limited to, the IRS and state taxing authorities issuing additional guidance and/or further clarification. Any such further guidance or clarification could impact PSEG's, PSE&G's and PSEG Power's financial statements. For additional information, see Item 1. Note 16. Income Taxes.

In July 2018, New Jersey made changes to its income tax laws, including requiring corporate taxpayers to file in a combined reporting group as defined under New Jersey law starting in 2019. This provision includes an exemption for public utilities. We believe PSE&G meets the definition of a public utility and, therefore, will not be included in the combined reporting group. We anticipate New Jersey will be issuing clarifying guidance regarding combined reporting rules. Any further guidance or clarification could impact PSEG's and PSEG Power's financial statements.

## **Future Outlook**

Our future success will depend on our ability to continue to maintain strong operational and financial performance to capitalize on or otherwise address regulatory and legislative developments that impact our business and to respond to the issues and challenges described below. In order to do this, we must continue to:

- obtain approval of and execute our utility capital investment program, including the remainder of our CEF program and other investments that yield contemporaneous and reasonable risk-adjusted returns, while enhancing the resiliency of our infrastructure and maintaining the reliability of the service we provide to our customers,
- focus on controlling costs while maintaining safety, reliability and customer satisfaction and complying with applicable standards and requirements,
- successfully manage our energy obligations and re-contract our open supply positions in response to changes in prices and demand,
- advocate for the continuation of the ZEC program and measures to ensure the implementation by PJM, FERC and state regulators of market design and transmission planning rules that continue to promote fair and efficient electricity markets, including recognition of the cost of emissions,
- engage multiple stakeholders, including regulators, government officials, customers, investors and suppliers,
- finalize our analysis of our strategic alternatives for PSEG Power's non-nuclear generating assets and successfully execute any transactions involving those assets, and
- successfully operate the LIPA T&D system and manage LIPA's fuel supply and generation dispatch obligations.

In addition to the risks described elsewhere in this Form 10-Q, the first and second quarter 2020 10-Qs and in our Form 10-K, for 2020 and beyond, the key issues and challenges we expect our business to confront include:

- regulatory and political uncertainty, both with regard to future energy policy, design of energy and capacity markets, transmission policy and environmental regulation, as well as with respect to the outcome of any legal, regulatory or other proceedings,

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- the continuing impact of the ongoing coronavirus pandemic and the associated economic impact, which could extend beyond the duration of the pandemic,
- the continuing impacts of the Tax and CARES Acts and future changes in federal and state tax laws, and
- the impact of changes in demand, natural gas and electricity prices and increasing environmental compliance costs.

We continually assess a broad range of strategic options to maximize long-term stockholder value. In assessing our options, we consider a wide variety of factors, including the performance and prospects of our businesses; the views of investors, regulators, customers and rating agencies; our existing indebtedness and restrictions it imposes; and tax considerations, among other things. Strategic options available to us include:

- the acquisition, construction or disposition of T&D facilities, clean energy investments and/or offshore wind opportunities,
- the disposition or reorganization of our merchant generation business or portions thereof or other existing businesses or the acquisition or development of new businesses, and
- investments in capital improvements and additions, including the installation of environmental upgrades and retrofits, improvements to system resiliency, modernizing existing infrastructure and participation in transmission projects through FERC's "open window" solicitation process.

There can be no assurance, however, that we will successfully develop and execute any of the strategic options noted above, or any additional options we may consider in the future. The execution of any such strategic plan may not have the expected benefits or may have unexpected adverse consequences.

## RESULTS OF OPERATIONS

### PSEG

Our results of operations are primarily comprised of the results of operations of our principal operating subsidiaries, PSE&G and PSEG Power, excluding charges related to intercompany transactions, which are eliminated in consolidation. For additional information on intercompany transactions, see Item 1. Note 20. Related-Party Transactions.

	Three Months Ended September 30,		Increase/ (Decrease)		Nine Months Ended September 30,		Increase/ (Decrease)	
	2020	2019	2020 vs. 2019		2020	2019	2020 vs. 2019	
	Millions		Millions		Millions		Millions	
				%				%
Operating Revenues	\$ 2,370	\$ 2,302	\$ 68	3	\$ 7,201	\$ 7,598	\$ (397)	(5)
Energy Costs	775	753	22	3	2,276	2,581	(305)	(12)
Operation and Maintenance	767	745	22	3	2,254	2,251	3	—
Depreciation and Amortization	317	307	10	3	956	928	28	3
(Gain) Loss on Asset Dispositions	(122)	7	(129)	N/A	(122)	402	(524)	N/A
Income from Equity Method Investments	4	3	1	33	10	10	—	—
Net Gains (Losses) on Trust Investments	107	(3)	110	N/A	87	164	(77)	(47)
Other Income (Deductions)	39	35	4	11	81	101	(20)	(20)
Net Non-Operating Pension and OPEB Credits (Costs)	62	55	7	13	186	121	65	54
Interest Expense	149	147	2	1	453	417	36	9
Income Tax (Benefit) Expense	121	30	91	N/A	274	159	115	72

The following discussions for PSE&G and PSEG Power provide a detailed explanation of their respective variances.

**PSE&G**

	Three Months Ended September 30,		Increase/ (Decrease)		Nine Months Ended September 30,		Increase/ (Decrease)	
	2020	2019	2020 vs. 2019		2020	2019	2020 vs. 2019	
	Millions		Millions	%	Millions		Millions	%
Operating Revenues	\$ 1,660	\$ 1,604	\$ 56	3	\$ 4,999	\$ 5,018	\$ (19)	—
Energy Costs	663	618	45	7	1,881	2,094	(213)	(10)
Operation and Maintenance	409	388	21	5	1,175	1,165	10	1
Depreciation and Amortization	218	206	12	6	657	620	37	6
Net Gains (Losses) on Trust Investments	1	—	1	N/A	2	1	1	100
Other Income (Deductions)	28	22	6	27	81	60	21	35
Net Non-Operating Pension and OPEB Credits (Costs)	51	46	5	11	154	105	49	47
Interest Expense	97	92	5	5	291	268	23	9
Income Tax Expense (Benefit)	40	24	16	67	196	63	133	N/A

**Three Months Ended September 30, 2020 as Compared to 2019**

**Operating Revenues** increased \$56 million due to changes in delivery, commodity, clause and other operating revenues.

**Delivery Revenues** decreased \$1 million due primarily to

- Gas distribution revenues decreased by \$24 million due primarily to a \$27 million decrease in the WNC, partially offset by a \$3 million increase from the GSMP I and GSMP II.
- Electric and Gas revenues decreased by \$11 million due to an increase in the flowback to customers of excess deferred tax liabilities and tax repair-related accumulated deferred income tax benefits resulting from rate reductions, which is offset in Income Tax Expense.
- Transmission revenues were \$25 million higher due primarily to an increase in 2020 revenue requirements attributable to higher rate base investment.
- Electric distribution revenues increased by \$9 million due to a \$13 million increase from higher volumes, partially offset by a \$4 million decrease in the collection of Green Program Recovery Charges (GPRC).

**Commodity Revenues** increased \$42 million as a result of higher Electric revenues, partially offset by lower Gas revenues. The changes in Commodity revenues for both electric and gas are entirely offset by the changes in Energy Costs. PSE&G earns no margin on the provision of BGS or basic gas supply service (BGSS) to retail customers.

- Electric commodity revenues increased \$52 million due primarily to \$31 million from higher BGS sales volumes and \$20 million in higher prices.
- Gas commodity revenues decreased \$10 million due primarily to \$6 million from lower BGSS sales volumes and a \$3 million decrease in prices.

**Clause Revenues** increased \$15 million due primarily to higher SBC revenues of \$9 million, a \$6 million increase in GPRC deferrals and a \$2 million increase in Margin Adjustment Clause (MAC) collections. These increases were partially offset by a \$2 million decrease in Tax Adjustment Credit (TAC) deferrals. The changes in the SBC and MAC amounts and the GPRC and TAC deferrals are entirely offset by changes in the amortization of Regulatory Assets and Regulatory Liabilities and related costs in O&M, D&A, Interest and Income Tax Expenses. PSE&G does not earn margin on SBC or MAC revenues or GPRC and TAC deferrals.

**Other Operating Revenues** was flat over the prior year. A \$3 million increase in solar renewable energy credits (SREC) included in this component of revenues is entirely offset by changes to Energy Costs.



**Energy Costs** increased \$45 million. This is entirely offset by changes in Commodity Revenues and Other Operating Revenues.

**Operation and Maintenance** increased \$21 million due primarily to a \$10 million increase in gas maintenance costs, a \$10 million increase in appliance service costs, a net \$6 million increase in clause and renewable-related expenses, a \$5 million increase in storm costs, a \$4 million increase in vegetation management and a \$9 million increase in other operating expenses. These increases were partially offset by reductions of \$12 million and \$11 million for COVID-19 related costs and gas bad debt expense, respectively, due primarily to the deferrals recorded in the third quarter as authorized by the BPU. See Note 6. Rate Filings for additional information.

**Depreciation and Amortization** increased \$12 million due primarily to additional plant in service.

**Other Income (Deductions)** increased \$6 million due primarily to an increase in the allowance for funds used during construction (AFUDC).

**Net Non-Operating Pension and OPEB Credits (Costs)** increased \$5 million due primarily to a \$4 million increase in the expected return on plan assets and a \$3 million decrease in interest cost, partially offset by a \$1 million increase in the amortization of the net actuarial loss and a \$1 million decrease in the amortization of prior service credit.

**Interest Expense** increased \$5 million due primarily to a \$7 million increase from new debt issuances in 2020 and a \$1 million increase from net debt issuances in August 2019. These increases were partially offset by a \$2 million decrease due to a reduction in short-term borrowings and AFUDC.

**Income Tax Expense** increased \$16 million due primarily to an increase in bad debt flow-through and the reduction in the 2020 flowback of PSE&G's excess deferred income tax liabilities.

#### **Nine Months Ended September 30, 2020 as Compared to 2019**

**Operating Revenues** decreased \$19 million due to changes in delivery, commodity, clause and other operating revenues.

**Delivery Revenues** increased \$156 million due primarily to

- Transmission revenues were \$163 million higher due to an increase of \$89 million in 2020 revenue requirements attributable to higher rate base investment and a decrease in the net flowback to customers of \$74 million of certain excess deferred taxes.
- Electric distribution revenues increased \$7 million due primarily to a \$13 million increase attributable to higher sales volumes, partially offset by a \$6 million decrease in GPRC collections.
- Gas distribution revenues decreased \$1 million due primarily to a \$28 million reduction due to lower volumes and a \$3 million decrease in GPRC revenues. These decreases were partially offset by a \$21 million increase from the GSMP I and GSMP II and a \$9 million increase in WNC.
- Electric and Gas revenues decreased by \$13 million due to a net increase in the flowback to customers of excess deferred tax liabilities and tax repair-related accumulated deferred income tax benefits resulting from rate reductions, which is offset in Income Tax Expense.

**Commodity Revenues** decreased \$285 million as a result of lower Gas revenues and lower Electric revenues. The changes in Commodity revenues for both gas and electric are entirely offset by the changes in Energy Costs. PSE&G earns no margin on the provision of BGSS and BGS to retail customers.

- Gas commodity revenues decreased \$146 million due primarily to lower BGSS prices of \$87 million and lower BGSS sales volumes of \$59 million.
- Electric commodity revenues decreased \$139 million due primarily to \$143 million in lower BGS prices, partially offset by a \$5 million increase in non-utility generation charges.

**Clause Revenues** increased \$40 million due primarily to a \$32 million increase in TAC and GPRC deferrals and higher SBC revenues of \$15 million. These increases were partially offset by a \$6 million decrease in MAC revenues. The changes in TAC and GPRC deferral amounts, SBC and MAC revenues are entirely offset by changes in the amortization of Regulatory Assets and Regulatory Liabilities and related costs in O&M, D&A, Interest and Income Tax Expenses. PSE&G does not earn margin on TAC and GPRC deferrals, SBC and MAC revenues.

**Other Operating Revenues** increased by \$70 million due primarily to \$44 million in ZEC revenues billed since mid-April 2019 and a \$28 million increase in SREC revenues. See Item 1. Note 4. Early Plant Retirements/Asset Disposition. The changes in these components of revenues are entirely offset by changes to Energy Costs.



## Operating Expenses

**Energy Costs** decreased \$213 million. This is entirely offset by changes in Commodity Revenues and Other Operating Revenues.

**Operation and Maintenance** increased \$10 million due primarily to a \$17 million increase in gas maintenance costs, a \$12 million increase in vegetation management and a \$7 million increase in storm costs. These increases were partially offset by a \$6 million decrease in distribution corrective and preventative maintenance, a \$5 million decrease in injuries and damages, a \$4 million net decrease in clause and renewable-related expenses and an \$11 million reduction in other operating expenses.

**Depreciation and Amortization** increased \$37 million due primarily to a \$32 million increase related to additional plant in service and a \$3 million increase in the amortization of Regulatory Assets.

**Other Income (Deductions)** increased \$21 million due primarily to an increase in AFUDC.

**Net Non-Operating Pension and OPEB Credits (Costs)** increased \$49 million due primarily to a \$27 million increase in the expected return on plan assets, a \$20 million decrease in interest cost and a \$6 million decrease in the amortization of the net actuarial loss, partially offset by a \$4 million decrease in the amortization of prior service credit.

**Interest Expense** increased \$23 million due primarily to a \$16 million increase from net debt issuances in 2020 and a \$12 million increase from net debt issuances in May and August 2019. These increases were partially offset by a decrease of \$6 million due to a reduction in short-term borrowings and AFUDC.

**Income Tax Expense** increased \$133 million due primarily to higher pre-tax income, the reduction in the 2020 flowback of PSE&G's excess deferred income tax liabilities and an increase in bad debt flow-through.

## PSEG Power

	Three Months Ended September 30,		Increase/ (Decrease)		Nine Months Ended September 30,		Increase/ (Decrease)	
	2020	2019	2020 vs. 2019		2020	2019	2020 vs. 2019	
	Millions	Millions	Millions	%	Millions	Millions	Millions	%
Operating Revenues	\$ 746	\$ 771	\$ (25)	(3)	\$ 2,649	\$ 3,270	\$ (621)	(19)
Energy Costs	290	359	(69)	(19)	1,289	1,556	(267)	(17)
Operation and Maintenance	213	233	(20)	(9)	679	736	(57)	(8)
Depreciation and Amortization	91	93	(2)	(2)	276	282	(6)	(2)
(Gain) Loss on Asset Dispositions	(122)	7	(129)	N/A	(122)	402	(524)	N/A
Income from Equity Method Investments	4	3	1	33	10	10	—	—
Net Gains (Losses) on Trust Investments	103	(4)	107	N/A	79	160	(81)	(51)
Other Income (Deductions)	11	15	(4)	(27)	—	43	(43)	(100)
Net Non-Operating Pension and OPEB Credits (Costs)	8	8	—	—	25	14	11	79
Interest Expense	28	34	(6)	(18)	92	85	7	8
Income Tax Expense (Benefit)	118	14	104	N/A	112	127	(15)	(12)

### Three Months Ended September 30, 2020 as Compared to 2019

**Operating Revenues** decreased \$25 million due primarily to changes in generation revenues.

**Generation Revenues** decreased \$24 million due primarily to

- a net decrease of \$30 million due to lower generation in the PJM region primarily due to the sale of our ownership interests in Keystone and Conemaugh generation plants in 2019 coupled with lower prices in the PJM region. This was partially offset by higher volumes sold under our load contract obligations in the PJM and New England (NE) regions, and
- a decrease of \$18 million in electricity sold under our BGS contracts primarily due to lower volumes coupled with

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lower prices,

- partially offset by a net increase of \$23 million due to less MTM losses in 2020 as compared to 2019. Of this amount, there was a \$41 million increase due to changes in forward prices this year as compared to last year, partially offset by an \$18 million decrease due to more losses on positions reclassified to realized upon settlement.

**Gas Supply Revenues** decreased \$1 million due primarily to

- a net decrease of \$6 million in sales under the BGSS contract, primarily due to lower average sales prices, and
- a decrease of \$5 million due to MTM losses in 2020, primarily due to changes in forward prices,
- partially offset by a net increase of \$10 million related to sales to third parties, of which \$23 million was due to higher volumes sold, partially offset by \$13 million due to lower average sales prices.

### **Operating Expenses**

**Energy Costs** represent the cost of generation, which includes fuel costs for generation as well as purchased energy in the market, and gas purchases to meet PSEG Power's obligation under its BGSS contract with PSE&G. Energy Costs decreased \$69 million due to

**Generation costs** decreased \$57 million due primarily to

- a net decrease of \$51 million in fuel costs primarily in the PJM region reflecting utilization of lower gas volumes and lower gas prices coupled with the utilization of lower volumes of coal due to the sale of our ownership interests in Keystone and Conemaugh generation plants, and
- a net decrease of \$21 million due to higher MTM gains in 2020 as compared to 2019. Of this amount, there was a \$15 million decrease due to changes in forward prices this year as compared to last year coupled with a \$6 million decrease due to more gains on positions reclassified to realized upon settlement,
- partially offset by a net increase of \$10 million primarily due to increased renewable energy credit obligations in the PJM and NE regions.

**Gas costs** decreased \$12 million due mainly to

- a net decrease of \$20 million related to sales under the BGSS contract, which was primarily due to a net decrease in the average cost of gas. Included in the average cost of gas were \$11 million of interstate gas pipeline refunds due to a settlement on pipeline rates from prior periods,
- partially offset by a net increase of \$8 million related to sales to third parties, of which \$21 million was due to higher volumes sold, partially offset by \$13 million due to a decrease in the average cost of gas.

**Operation and Maintenance** decreased \$20 million due primarily to a net decrease at our fossil plants due to the sale of our ownership interests in the Keystone and Conemaugh generation plants in 2019 and our ownership interest in the Yards Creek generation facility in September 2020, coupled with higher planned outage costs in 2019.

**Depreciation and Amortization** decreased \$2 million due primarily to a net decrease at our nuclear plants due to the Peach Bottom License Renewal that was approved by the NRC in March 2020, partially offset by an increased asset base.

**(Gain) Loss on Asset Dispositions** reflects a gain on the sale of our ownership interest in the Yards Creek generation facility in September 2020 and a loss related to the sale of our ownership interests in the Keystone and Conemaugh generation plants in 2019. (see Item 1. Note 4. Early Plant Retirements/Asset Dispositions).

**Net Gains (Losses) on Trust Investments** increased \$107 million due primarily to a \$55 million increase resulting from net unrealized gains in 2020 as compared to net unrealized losses in 2019 on equity investments in the NDT Fund and a \$52 million increase in net realized gains on NDT Fund investments.

**Interest Expense** decreased \$6 million due primarily to an April 2020 debt maturity.

**Income Tax Expense** increased \$104 million due primarily to higher pre-tax income, including higher pre-tax income from the NDT qualified fund, which is subject to an additional trust tax, and the impact of the increase in the 2020 New Jersey temporary surtax.

### **Nine Months Ended September 30, 2020 as Compared to 2019**

**Operating Revenues** decreased \$621 million due primarily to changes in generation and gas supply revenues.

**Generation Revenues** decreased \$524 million due primarily to

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- a net decrease of \$313 million due to MTM losses in 2020 as compared to MTM gains in 2019. Of this amount, there was a \$164 million decrease due to losses on positions reclassified to realized upon settlement in 2020 compared to gains in 2019 coupled with a \$149 million decrease due to changes in forward prices this year as compared to last year,
- a net decrease of \$143 million due primarily to lower average realized prices in PJM, NE and NY regions coupled with lower volumes sold in the PJM region primarily due to the sale of our ownership interests in Keystone and Conemaugh generation plants. This was partially offset by higher volumes of electricity sold in the NE region, primarily due to the commencement of commercial operations of Bridgeport Harbor Unit 5 (BH5) in Connecticut in June 2019 and higher volumes of electricity sold in the NY region,
- a net decrease of \$67 million in capacity revenues due primarily to decreases in auction prices in the PJM region coupled with lower volumes due to the sale of our ownership interests in the Keystone and Conemaugh generation plants, and
- a decrease of \$66 million in electricity sold under our BGS contracts primarily due to lower volumes coupled with lower prices,
- partially offset by an increase of \$70 million due to ZEC revenues that started in mid-April 2019.

**Gas Supply Revenues** decreased \$97 million due primarily to

- a decrease of \$107 million in sales under the BGSS contract, of which \$64 million was due to a decrease in sales volumes and \$43 million was due to lower average sales prices, and
- a decrease of \$9 million due to MTM losses in 2020, primarily due to changes in forward prices,
- partially offset by a net increase of \$19 million related to sales to third parties, of which \$80 million was due to higher volumes sold, partially offset by \$61 million due to lower average sales prices.

### **Operating Expenses**

**Energy Costs** represent the cost of generation, which includes fuel costs for generation as well as purchased energy in the market, and gas purchases to meet PSEG Power's obligation under its BGSS contract with PSE&G. Energy Costs decreased \$267 million due to

**Generation costs** decreased \$180 million due primarily to

- a net decrease of \$159 million in fuel costs, reflecting lower gas prices in the PJM and NY regions coupled with the utilization of lower volumes of coal in the PJM region primarily due to the sale of our ownership interests in Keystone and Conemaugh generation plants, and lower volumes of gas in the PJM region. This was partially offset by utilization of higher volumes of gas in the NE region at higher prices due to the commencement of commercial operations of BH5 in June 2019 coupled with utilization of higher volumes of gas in the NY region, and
- a net decrease of \$46 million due to higher MTM gains in 2020 as compared to 2019. Of this amount, there was a \$34 million decrease due to changes in forward prices this year as compared to last year coupled with a \$12 million decrease due to higher gains on positions reclassified to realized upon settlement in 2020 as compared to 2019,
- partially offset by a net increase of \$21 million in emission costs primarily due to New Jersey reentering the RGGI program beginning in 2020, and
- an \$11 million increase due to a net lower of cost or market adjustment on oil inventory caused by a decrease in oil demand and pricing earlier in 2020.

**Gas costs** decreased \$87 million due mainly to

- a decrease of \$106 million related to sales under the BGSS contract, of which \$58 million was due to a decrease in the average cost of gas and \$48 million was due to a decrease in send out volumes. Included in the average cost of gas were \$18 million of interstate gas pipeline refunds due to a settlement on pipeline rates from prior periods,
- partially offset by a net increase of \$19 million related to sales to third parties, of which \$74 million was due to higher volumes sold, partially offset by \$55 million due to a decrease in the average cost of gas.

**Operation and Maintenance** decreased \$57 million due primarily to a net decrease at our fossil plants due to the sale of our ownership interests in the Keystone and Conemaugh generation plants in 2019 and our ownership interest in the Yards Creek generation facility in September 2020, coupled with lower planned outage costs in 2020.

**Depreciation and Amortization** decreased \$6 million due primarily to a \$6 million net decrease at our nuclear plants due to the Peach Bottom License Renewal that was approved by the NRC in March 2020, partially offset by an increased asset base. This decrease was coupled with a \$1 million net decrease at our fossil plants, primarily due to the sale of our ownership interests in the Keystone and Conemaugh generation plants in 2019, partially offset by an increase due to BH5 being placed into service in June 2019.

**(Gain) Loss on Asset Dispositions** reflects a gain on the sale of our ownership interest in the Yards Creek generation facility in September 2020 and a loss on the sale of our ownership interests in the Keystone and Conemaugh generation plants in 2019. (see Item 1. Note 4. Early Plant Retirements/Asset Dispositions).

**Net Gains (Losses) on Trust Investments** decreased \$81 million due primarily to a \$116 million decrease resulting from net unrealized losses in 2020 as compared to net unrealized gains in 2019 on equity investments in the NDT Fund, partially offset by a \$37 million increase in net realized gains on NDT Fund investments.

**Other Income (Deductions)** decreased \$43 million primarily due to purchases of net operating losses in 2020 under New Jersey's Technology Tax Benefit Transfer Program and lower interest and dividend income on NDT Fund investments.

**Net Non-Operating Pension and OPEB Credits (Costs)** increased \$11 million due to a \$7 million decrease in interest cost, a \$5 million increase in the expected return on plan assets, and a \$3 million decrease in the amortization of the net actuarial loss, partially offset by a \$3 million increase in co-owner charges and a \$1 million decrease in the amortization of prior service credit.

**Interest Expense** increased \$7 million due primarily to lower capitalized interest as a result of BH5 being placed into service in 2019, partially offset by an April 2020 debt maturity.

**Income Tax Expense** decreased \$15 million due primarily to the benefit from the 2019 net operating losses purchased under the New Jersey Technology Tax Benefit Transfer Program in 2020, and the tax benefit from changes in uncertain tax positions as a result of the settlement of the 2011-2016 federal income tax audits, offset by higher pre-tax income and changes in uncertain tax positions unrelated to the settlement of the 2011-2016 federal income tax audits.

## **LIQUIDITY AND CAPITAL RESOURCES**

The following discussion of our liquidity and capital resources is on a consolidated basis, noting the uses and contributions, where material, of our two direct major operating subsidiaries.

### **Operating Cash Flows**

We continue to expect our operating cash flows combined with cash on hand and financing activities to be sufficient to fund planned capital expenditures and provide opportunities for shareholder dividends.

For the nine months ended September 30, 2020, our operating cash flow decreased \$192 million as compared to the same period in 2019. The net decrease was primarily due to the net changes from our subsidiaries, as discussed below, offset by net tax refunds in 2020 as compared to net tax payments in 2019 at the parent company and lower tax payments in 2020 at Energy Holdings.

Given the current economic challenges, PSE&G has informed both our residential customers and state regulators that all non-safety related service disconnections for non-payment will be temporarily suspended. In addition, the current economic conditions have adversely impacted residential and C&I customer payment patterns. During the moratorium, PSE&G has experienced a significant decrease in cash inflow and higher Accounts Receivable aging and an associated increase in bad debt expense, which we expect will extend beyond the duration of the coronavirus pandemic. While the impact on our results of operations, financial condition and cash flows for the nine months ended September 30, 2020 has not been material, a prolonged coronavirus pandemic and the associated economic impacts, which could extend beyond the duration of the pandemic, is expected to materially impact cash from operations, Accounts Receivable and bad debt expense.

### **PSE&G**

PSE&G's operating cash flow decreased \$57 million from \$1,481 million to \$1,424 million for the nine months ended September 30, 2020, as compared to the same period in 2019, due primarily to tax payments in 2020 as compared to tax refunds in 2019, a decrease of \$97 million from higher accounts receivable in 2020 and a net decrease of \$50 million deferred as Regulatory Assets due to storm and COVID-19 costs, reduced revenues from a warmer than normal winter, and an increase in the TAC with a partial offsetting decrease in transmission formula rate true-ups. These decreases were partially offset by a \$123 million increase largely due to lower BGS payments from decreased sales and higher earnings.

## PSEG Power

PSEG Power's operating cash flow decreased \$362 million from \$1,362 million to \$1,000 million for the nine months ended September 30, 2020, as compared to the same period in 2019, due to a \$313 million reduction resulting from an increase in counterparty cash collateral posting requirements in 2020 as compared to a significant reduction in postings in 2019, and tax payments in 2020 as compared to tax refunds in 2019, partially offset by higher earnings.

## Short-Term Liquidity

PSEG meets its short-term liquidity requirements, as well as those of PSEG Power, primarily through the issuance of commercial paper and, from time to time, short-term loans. PSE&G maintains its own separate commercial paper program to meet its short-term liquidity requirements. Each commercial paper program is fully back-stopped by its own separate credit facilities.

We continually monitor our liquidity and seek to add capacity as needed to meet our liquidity requirements. Each of our credit facilities is restricted as to availability and use to the specific companies as listed below; however, if necessary, the PSEG facilities can also be used to support our subsidiaries' liquidity needs.

In March 2020, PSEG entered into a \$300 million, 364-day term loan agreement. In April 2020, PSEG entered into two 364-day term loan agreements for \$200 million and \$300 million which were prepaid in August 2020. These term loans are not included in the credit facility amounts presented in the following table.

Our total credit facilities and available liquidity as of September 30, 2020 were as follows:

Company/Facility	As of September 30, 2020		
	Total Facility	Usage	Available Liquidity
	Millions		
PSEG	\$ 1,500	\$ 13	\$ 1,487
PSE&G	600	17	583
PSEG Power	2,100	175	1,925
<b>Total</b>	<b>\$ 4,200</b>	<b>\$ 205</b>	<b>\$ 3,995</b>

As of September 30, 2020, our credit facility capacity was in excess of our projected maximum liquidity requirements over our 12 month planning horizon as we continue to monitor the impact and volatility of the ongoing coronavirus pandemic on cash flows and capital market conditions. Our maximum liquidity requirements are based on stress scenarios that incorporate changes in commodity prices and the potential impact of PSEG Power losing its investment grade credit rating from S&P or Moody's, which would represent a three level downgrade from its current S&P or Moody's ratings. In the event of a deterioration of PSEG Power's credit rating, certain of PSEG Power's agreements allow the counterparty to demand further performance assurance. The potential additional collateral that we would be required to post under these agreements if PSEG Power were to lose its investment grade credit rating was approximately \$844 million and \$974 million as of September 30, 2020 and December 31, 2019, respectively.

For additional information, see Item 1. Note 12. Debt and Credit Facilities.

## Long-Term Debt Financing

During the next twelve months,

- PSEG has a \$700 million floating rate term loan maturing in November 2020,
- PSE&G has \$9 million of 7.04% Medium-Term Notes (MTN), Series A, maturing in November 2020, \$300 million of 1.90% MTN, Series K, maturing in March 2021 and \$134 million of 9.25% Mortgage Bonds Series CC maturing in June 2021, and
- PSEG Power has a \$700 million 3.00% Senior Note maturing in June 2021 and a \$250 million 4.15% Senior Note maturing in September 2021.

PSEG, PSEG Power, Energy Holdings, PSEG LI and Services participate in a corporate money pool, an aggregation of daily cash balances designed to efficiently manage their respective short-term liquidity needs, which are accounted for as intercompany loans.

For additional information see Item 1. Note 12. Debt and Credit Facilities.

## Guarantor Financial Information

PSEG Power's Senior Notes are fully and unconditionally guaranteed on a joint and several basis by its subsidiaries, PSEG Fossil LLC, PSEG Nuclear LLC and PSEG Energy Resources & Trade LLC. Each guarantor subsidiary is a wholly owned consolidated subsidiary of PSEG Power.

Summarized financial information is being presented, on a combined basis, only for PSEG Power (parent company) and the guarantors of PSEG Power's Senior Notes, excluding investments in, and earnings (losses) from, subsidiaries that are not guarantors. All transactions between PSEG Power (parent company) and the guarantor subsidiaries are eliminated in the combined summarized financial information. The required disclosures for the year-to-date interim period and the most recent fiscal year have been moved outside the Notes to Condensed Consolidated Financial Statements and are provided in the following tables.

	Nine Months Ended September 30, 2020		Year Ended December 31, 2019	
	Millions			
Operating Revenues (A)	\$	2,592	\$	4,315
Operating Income	\$	518	\$	451
Net Income	\$	440	\$	484

- (A) Operating Revenues include sales to affiliates of \$883 million and \$1,463 million, respectively for the nine months ended September 30, 2020 and year ended December 31, 2019, respectively.

	As of September 30, 2020		As of December 31, 2019	
	Millions			
Current Receivables from Subsidiaries and Affiliates	\$	2,380	\$	2,456
Total Current Assets	\$	3,395	\$	3,559
Noncurrent Receivables from Affiliates	\$	17	\$	17
Total Noncurrent Assets	\$	7,194	\$	7,025
Current Payables to Subsidiaries and Affiliates	\$	259	\$	218
Total Current Liabilities	\$	1,740	\$	1,155
Noncurrent Payables to Affiliates	\$	58	\$	115
Total Noncurrent Liabilities	\$	4,052	\$	4,934

## Pension and NDT Fund Obligations

IRS minimum funding requirements for pension plans are determined based on the fund assets and liabilities at the end of a calendar year for the subsequent calendar year. As a result, the market downturn associated with the ongoing coronavirus pandemic is not expected to impact our pension contributions in 2020. In the event of a prolonged economic downturn associated with the ongoing coronavirus pandemic, our contributions to the pension plans may increase in future periods to meet IRS minimum funding requirements. PSEG had accumulated funding credits totaling approximately \$600 million through 2019, which represent historical contributions in excess of IRS minimum funding requirements, and these credits can be applied to offset any future cash contribution obligations.

In addition, the NRC requires a biennial filing of the NDT fund balances against the decommissioning liability estimate. Any funding shortfalls are required to be cured prior to the next NRC reporting period. The market downturn associated with the ongoing coronavirus pandemic is not currently expected to result in any supplemental required funding of the NDT Fund. To the extent of a prolonged economic downturn associated with the ongoing coronavirus pandemic, our funding requirements may increase in future periods to meet NRC minimum funding requirements.

## Common Stock Dividends

On July 21, 2020, our Board of Directors declared a \$0.49 dividend per share of common stock for the third quarter of 2020. This reflects an indicative annual dividend rate of \$1.96 per share. We expect to continue to pay cash dividends on our common stock; however, the declaration and payment of future dividends to holders of our common stock will be at the discretion of the Board of Directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our

businesses, alternate investment opportunities, legal requirements, regulatory constraints, industry practice, the impact of the ongoing coronavirus pandemic on our business and the capital and credit markets and other factors that the Board of Directors deems relevant. For additional information related to cash dividends on our common stock, see Item 1. Note 18. Earnings Per Share (EPS) and Dividends.

### Credit Ratings

If the rating agencies lower or withdraw our credit ratings, such revisions may adversely affect the market price of our securities and serve to materially increase our cost of capital and limit access to capital. Credit Ratings shown are for securities that we typically issue. Outlooks are shown for Issuer Credit Ratings (Moody's) and Corporate Credit Ratings (S&P) and can be Stable, Negative, or Positive. There is no assurance that the ratings will continue for any given period of time or that they will not be revised by the rating agencies, if in their respective judgments, circumstances warrant. Each rating given by an agency should be evaluated independently of the other agencies' ratings. The ratings should not be construed as an indication to buy, hold or sell any security. In August 2020, S&P lowered PSEG Power's Senior Note rating to BBB from BBB+.

	Moody's (A)	S&P (B)
<b>PSEG</b>		
Outlook	Stable	Stable
Senior Notes	Baa1	BBB
Commercial Paper	P2	A2
<b>PSE&amp;G</b>		
Outlook	Stable	Stable
Mortgage Bonds	Aa3	A
Commercial Paper	P1	A2
<b>PSEG Power</b>		
Outlook	Stable	Stable
Senior Notes	Baa1	BBB

(A) Moody's ratings range from Aaa (highest) to C (lowest) for long-term securities and P1 (highest) to NP (lowest) for short-term securities.

(B) S&P ratings range from AAA (highest) to D (lowest) for long-term securities and A1 (highest) to D (lowest) for short-term securities.

### CAPITAL REQUIREMENTS

We expect that all of our capital requirements over the next three years will come from a combination of internally generated funds and external debt financing. There were no material changes to our projected capital expenditures at PSEG Power and Services as compared to amounts disclosed in our 2019 Form 10-K.

In September 2020, the BPU issued an Order approving our CEF-EE program, authorizing PSE&G to spend \$1 billion to achieve energy efficiency targets required under New Jersey's Clean Energy law over a three-year period. The CEF-EE program was not included in PSE&G's projected capital expenditures disclosed in our 2019 Form 10-K. See Executive Overview of 2020 and Future Outlook for additional information.

#### PSE&G

During the nine months ended September 30, 2020, PSE&G made capital expenditures of \$1,777 million, primarily for T&D system reliability. This does not include expenditures for cost of removal, net of salvage, of \$77 million, which are included in operating cash flows.

#### PSEG Power

During the nine months ended September 30, 2020, PSEG Power made capital expenditures of \$147 million, excluding \$160 million for nuclear fuel, primarily related to various nuclear, solar and fossil projects.

### ACCOUNTING MATTERS

For information related to recent accounting matters, see Item 1. Note 2. Recent Accounting Standards.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The risk inherent in our market-risk sensitive instruments and positions is the potential loss arising from adverse changes in commodity prices, equity security prices and interest rates as discussed in the Notes to Condensed Consolidated Financial Statements. It is our policy to use derivatives to manage risk consistent with business plans and prudent practices. We have a Risk Management Committee comprised of executive officers who utilize a risk oversight function to ensure compliance with our corporate policies and risk management practices.

Additionally, we are exposed to counterparty credit losses in the event of non-performance or non-payment. We have a credit management process, which is used to assess, monitor and mitigate counterparty exposure. In the event of non-performance or non-payment by a major counterparty, there may be a material adverse impact on our financial condition, results of operations or net cash flows.

#### Commodity Contracts

The availability and price of energy-related commodities are subject to fluctuations from factors such as weather, environmental policies, changes in supply and demand, state and federal regulatory policies, market rules and other events. To reduce price risk caused by market fluctuations, we enter into supply contracts and derivative contracts, including forwards, futures, swaps and options with approved counterparties. These contracts, in conjunction with physical sales and other services, help reduce risk and optimize the value of owned electric generation capacity.

#### Value-at-Risk (VaR) Models

VaR represents the potential losses, under normal market conditions, for instruments or portfolios due to changes in market factors, for a specified time period and confidence level. We estimate VaR across our commodity businesses.

MTM VaR consists of MTM derivatives that are economic hedges. The MTM VaR calculation does not include market risks associated with activities that are subject to accrual accounting, primarily our generating facilities and some load-serving activities.

The VaR models used are variance/covariance models adjusted for the change of positions with 95% and 99.5% confidence levels and a one-day holding period for the MTM activities. The models assume no new positions throughout the holding periods; however, we actively manage our portfolio.

From July through September 2020, MTM VaR was relatively stable between a low of \$5 million and a high of \$12 million at the 95% confidence level. The range of VaR was narrower for the three months ended September 30, 2020 as compared with the year ended December 31, 2019.

	MTM VaR	
	Three Months Ended September 30, 2020	Year Ended December 31, 2019
	Millions	
<i>95% Confidence Level, Loss could exceed VaR one day in 20 days</i>		
Period End	\$ 7	\$ 9
Average for the Period	\$ 8	\$ 12
High	\$ 12	\$ 35
Low	\$ 5	\$ 5
<i>99.5% Confidence Level, Loss could exceed VaR one day in 200 days</i>		
Period End	\$ 11	\$ 14
Average for the Period	\$ 12	\$ 19
High	\$ 19	\$ 54
Low	\$ 8	\$ 8

See Item 1. Note 13. Financial Risk Management Activities for a discussion of credit risk.



## ITEM 4. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

#### PSEG, PSE&G and PSEG Power

We have established and maintain disclosure controls and procedures as defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) that are designed to provide reasonable assurance that information required to be disclosed in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported and is accumulated and communicated to the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of each respective company, as appropriate, by others within the entities to allow timely decisions regarding required disclosure. We have established a disclosure committee which includes several key management employees and which reports directly to the CFO and CEO of each of PSEG, PSE&G and PSEG Power. The committee monitors and evaluates the effectiveness of these disclosure controls and procedures. The CFO and CEO of each of PSEG, PSE&G and PSEG Power have evaluated the effectiveness of the disclosure controls and procedures and, based on this evaluation, have concluded that disclosure controls and procedures at each respective company were effective at a reasonable assurance level as of the end of the period covered by the report.

### Internal Controls

#### PSEG, PSE&G and PSEG Power

There have been no changes in internal control over financial reporting that occurred during the third quarter of 2020 that have materially affected, or are reasonably likely to materially affect, each registrant’s internal control over financial reporting.

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

We are party to various lawsuits and environmental and regulatory matters, including in the ordinary course of business. For information regarding material legal proceedings, including updates to information reported in Item 3 of Part I of the Form 10-K, see Part I, Item 1. Note 11. Commitments and Contingent Liabilities and Item 5. Other Information in the first and second quarter 2020 10-Qs and in this Quarterly Form 10-Q.

## ITEM 1A. RISK FACTORS

The discussion of our business and operations in this Quarterly Report on Form 10-Q should be read together with the risk factors contained in Part I, Item 1A of our Form 10-K and Part II, Item 1A in the first quarter 2020 10-Q, which describes various risks and uncertainties that could have a material adverse impact on our business, prospects, financial position, results of operations or cash flows and could cause results to differ materially from those expressed elsewhere in this report. We expect that the risks and uncertainties described in this Form 10-Q, our first quarter 2020 10-Q and our Form 10-K will be further adversely impacted by the ongoing coronavirus pandemic and any related, sustained economic downturn, which could extend beyond the duration of the pandemic. In addition to the foregoing, the following risk factor should be read together with the risk factors in our first quarter 2020 10-Q and our Form 10-K.

### **The timeline and ultimate outcome of PSEG’s exploration of strategic alternatives relating to its non-nuclear generating fleet is uncertain.**

In July 2020, PSEG announced that it was exploring strategic alternatives for PSEG Power’s non-nuclear generating fleet with the intention of accelerating the transformation of PSEG into a primarily regulated electric and gas utility, with a contracted generation business. PSEG further announced that it was then in the preliminary stages of this process and it anticipated beginning the marketing process in the fourth quarter of 2020, with the expectation that the process would be completed sometime in 2021.

The timeline and ultimate outcome of this process are uncertain. The ability of PSEG to divest all or a portion of these assets, and the applicable terms, conditions and timeline, will depend in large part on the participation of potentially interested parties and the value such parties place on the applicable assets. It is possible that third parties may wish to acquire all, a portion or none of the applicable assets, and the value that such third parties may place on such assets is uncertain. The process may further be impacted by, among other things, global and domestic market and economics conditions, conditions generally impacting the fossil and solar generating industries and changes in the regulatory environment. Any transaction agreement that

PSEG may enter into will contain various terms and conditions, and it is possible that even if entered into, such transaction may fail to be completed. It is also possible that such a transaction could be completed on a shorter timeline than currently anticipated.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In November 2019, we entered into a share repurchase plan that complies with Rule 10b5-1 of the Exchange Act, as amended, solely with respect to the repurchase of shares to satisfy obligations under equity compensation awards that are expected to vest in 2020. There are no remaining shares available for repurchase under the plan.

## **ITEM 5. OTHER INFORMATION**

Certain information reported in the Form 10-K is updated below. Additionally, certain information is provided for new matters that have arisen subsequent to the filing of the Form 10-K and first and second quarter 2020 10-Qs. References are to the related pages on the Form 10-K and the first quarter and second quarter 2020 10-Qs.

### **State Regulation**

#### ***Energy Efficiency Initiatives***

**December 31, 2019 Form 10-K page 19 and June 30, 2020 Form 10-Q page 92.** In May 2018, the New Jersey governor signed legislation that requires the State's electric and gas utilities to implement energy efficiency programs that are expected to achieve energy savings targets for electric and gas usage within five years of the utilities' implementation of those BPU-approved energy efficiency programs. In June 2020, the BPU issued an order finalizing this stakeholder process, setting forth its conclusions and directives regarding utility energy efficiency programs, including the appropriate scope of utility programs versus programs run by the State, as well as utility cost recovery and the measurement of utility performance in achieving the State's energy savings goals. In September 2020, PSE&G reached a settlement with all parties in the CEF-EE proceeding, which the BPU approved. The settlement provides for an investment of \$1 billion over a three-year period. Costs will be recovered through annual rate-making, with returns aligned with our most recent base rate case and a ten-year amortization period.

In May 2020, the BPU initiated a stakeholder proceeding to consider the role of the State's electric utilities in developing an EV ecosystem. In September 2020, the Board issued an order adopting a "shared responsibility model" pursuant to which the utilities' role would be primarily to prepare sites for publicly accessible charging infrastructure. The order does not require PSE&G to refile its pending CEF-EV proposal.

#### ***New Jersey Solar Initiatives***

**December 31, 2019 Form 10-K page 19 and March 31, 2020 Form 10-Q pg. 82.** Pursuant to New Jersey's Clean Energy Act of 2018, the BPU was required to undertake several initiatives in connection with New Jersey's solar energy market.

The BPU established a "Community Solar Energy Pilot Program," permitting customers to participate in solar energy projects remotely located from their properties, and allowing for bill credits related to that participation effective in February 2019. The BPU is currently engaged in a stakeholder process with the State's EDCs and others regarding issues including minor modifications to the community solar pilot program, discussions regarding the potential implementation of consolidated billing for the benefit of project developers and participants, and developing a cost recovery mechanism for the EDCs.

The New Jersey Clean Energy Act of 2018 required the BPU to close the existing solar renewable energy certificate (SREC) program to new applications at the earlier of June 1, 2021 or the date at which 5.1% of New Jersey retail electric sales are derived from solar. The 5.1% threshold was attained and the SREC market was closed to new applications on April 30, 2020, with limited exceptions related to the impact of COVID-19 on projects under development. Solar projects that failed to achieve commercial operation before April 30, 2020 may be entitled to receive transition renewable energy certificates (TREC) for each megawatt hour of solar production. The New Jersey electric distribution companies (EDCs), including PSE&G, are required to purchase, using the services of a TREC administrator, TRECs from solar projects at rates set by the BPU. PSE&G filed for rate recovery of these costs in April 2020. In August 2020, the BPU approved PSE&G's rate recovery filing. The BPU is continuing to work with the state's EDCs to establish the mechanisms for implementing the transition incentive program.

### **Environmental Matters**

#### ***Environmental Justice***

In September 2020, the New Jersey governor signed legislation that enacted an environmental justice process for applicants seeking environmental permits, including those emission permits regulated under Title V of the Clean Air Act, for facilities

located in what the law defines as overburdened communities. With this law, New Jersey has embarked on a path toward a declared legislative goal that no community should bear “a disproportionate share of the adverse environmental and public health consequences that accompany New Jersey’s economic growth.” In some cases, this process may result in permit denials, and in others, the imposition of permit conditions to alleviate adverse impacts. The law does not go into effect until the New Jersey Department of Environmental Protection (NJDEP) adopts implementing regulations. The NJDEP’s initial action is to publish a list of environmental justice communities within 120 days of passage of the law. PSEG has multiple facilities with Title V permits that would potentially be subject to the requirements of the regulations depending on the final structure of the rules and list of overburdened communities. We cannot estimate the impact of this action on our business or operations at this time.

## ITEM 6. EXHIBITS

A listing of exhibits being filed with this document is as follows:

**a. PSEG:**

<a href="#">Exhibit 31:</a>	<a href="#">Certification by Ralph Izzo Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act</a>
<a href="#">Exhibit 31.1:</a>	<a href="#">Certification by Daniel J. Cregg Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act</a>
<a href="#">Exhibit 32:</a>	<a href="#">Certification by Ralph Izzo Pursuant to Section 1350 of Chapter 63 of Title 18 of the U.S. Code</a>
<a href="#">Exhibit 32.1:</a>	<a href="#">Certification by Daniel J. Cregg Pursuant to Section 1350 of Chapter 63 of Title 18 of the U.S. Code</a>
Exhibit 101.INS:	Inline XBRL Instance Document - The Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
Exhibit 101.SCH:	Inline XBRL Taxonomy Extension Schema
Exhibit 101.CAL:	Inline XBRL Taxonomy Extension Calculation Linkbase
Exhibit 101.LAB:	Inline XBRL Taxonomy Extension Labels Linkbase
Exhibit 101.PRE:	Inline XBRL Taxonomy Extension Presentation Linkbase
Exhibit 101.DEF:	Inline XBRL Taxonomy Extension Definition Document
Exhibit 104:	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

**b. PSE&G:**

<a href="#">Exhibit 31.2:</a>	<a href="#">Certification by Ralph Izzo Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act</a>
<a href="#">Exhibit 31.3:</a>	<a href="#">Certification by Daniel J. Cregg Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act</a>
<a href="#">Exhibit 32.2:</a>	<a href="#">Certification by Ralph Izzo Pursuant to Section 1350 of Chapter 63 of Title 18 of the U.S. Code</a>
<a href="#">Exhibit 32.3:</a>	<a href="#">Certification by Daniel J. Cregg Pursuant to Section 1350 of Chapter 63 of Title 18 of the U.S. Code</a>
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Exhibit 101.DEF:	Inline XBRL Taxonomy Extension Definition Document
Exhibit 104:	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

**c. PSEG Power:**

<a href="#">Exhibit 22:</a>	<a href="#">Guaranteed Securities</a>
<a href="#">Exhibit 31.4:</a>	<a href="#">Certification by Ralph Izzo Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act</a>
<a href="#">Exhibit 31.5:</a>	<a href="#">Certification by Daniel J. Cregg Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act</a>
<a href="#">Exhibit 32.4:</a>	<a href="#">Certification by Ralph Izzo Pursuant to Section 1350 of Chapter 63 of Title 18 of the U.S. Code</a>
<a href="#">Exhibit 32.5:</a>	<a href="#">Certification by Daniel J. Cregg Pursuant to Section 1350 of Chapter 63 of Title 18 of the U.S. Code</a>
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Exhibit 101.DEF:	Inline XBRL Taxonomy Extension Definition Document
Exhibit 104:	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

## SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED**  
(Registrant)

By: /S/ ROSE M. CHERNICK  
**Rose M. Chernick**  
**Vice President and Controller**  
**(Principal Accounting Officer)**

Date: October 30, 2020

## SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**  
(Registrant)

By: /S/ ROSE M. CHERNICK  
**Rose M. Chernick**  
**Vice President and Controller**  
**(Principal Accounting Officer)**

Date: October 30, 2020

## SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

**PSEG POWER LLC**  
(Registrant)

By: /S/ ROSE M. CHERNICK  
**Rose M. Chernick**  
**Vice President and Controller**  
**(Principal Accounting Officer)**

Date: October 30, 2020

**EXHIBIT 22**

The following wholly owned subsidiaries of PSEG Power LLC have fully and unconditionally guaranteed all Senior Notes issued by PSEG Power LLC on a joint and several basis.

<u>Name</u>	<u>State of Incorporation</u>
PSEG Fossil LLC	Delaware
PSEG Nuclear LLC	Delaware
PSEG Energy Resources & Trade LLC	Delaware

**Certification Pursuant to Rules 13a-14 and 15d-14  
of the 1934 Securities Exchange Act**

I, Ralph Izzo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Public Service Enterprise Group Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2020

/s/ Ralph Izzo

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**Ralph Izzo**

Public Service Enterprise Group Incorporated  
Chief Executive Officer

**Certification Pursuant to Rules 13a-14 and 15d-14  
of the 1934 Securities Exchange Act**

I, Daniel J. Cregg, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Public Service Enterprise Group Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2020

/s/ Daniel J. Cregg

**Daniel J. Cregg**

Public Service Enterprise Group Incorporated  
Chief Financial Officer



**Certification Pursuant to Rules 13a-14 and 15d-14  
of the 1934 Securities Exchange Act**

I, Ralph Izzo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Public Service Electric and Gas Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2020

/s/ Ralph Izzo

**Ralph Izzo**

Public Service Electric and Gas Company  
Chief Executive Officer

**Certification Pursuant to Rules 13a-14 and 15d-14  
of the 1934 Securities Exchange Act**

I, Daniel J. Cregg, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Public Service Electric and Gas Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2020

/s/ Daniel J. Cregg

**Daniel J. Cregg**

Public Service Electric and Gas Company  
Chief Financial Officer

**Certification Pursuant to Rules 13a-14 and 15d-14  
of the 1934 Securities Exchange Act**

I, Ralph Izzo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PSEG Power LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2020

/s/ Ralph Izzo

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**Ralph Izzo**  
PSEG Power LLC  
Chief Executive Officer

**Certification Pursuant to Rules 13a-14 and 15d-14  
of the 1934 Securities Exchange Act**

I, Daniel J. Cregg, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PSEG Power LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2020

/s/ Daniel J. Cregg

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**Daniel J. Cregg**  
PSEG Power LLC  
Chief Financial Officer

**Certification Pursuant to Section 1350 of Chapter 63 of Title 18  
of the United States Code**

I, Ralph Izzo, Chief Executive Officer of Public Service Enterprise Group Incorporated, to the best of my knowledge, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that (i) the Quarterly Report of Public Service Enterprise Group Incorporated on Form 10-Q for the quarter ended September 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Public Service Enterprise Group Incorporated.

/s/ Ralph Izzo

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**Ralph Izzo**

Public Service Enterprise Group Incorporated

Chief Executive Officer

October 30, 2020

**Certification Pursuant to Section 1350 of Chapter 63 of Title 18  
of the United States Code**

I, Daniel J. Cregg, Chief Financial Officer of Public Service Enterprise Group Incorporated, to the best of my knowledge, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that (i) the Quarterly Report of Public Service Enterprise Group Incorporated on Form 10-Q for the quarter ended September 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Public Service Enterprise Group Incorporated.

/s/ Daniel J. Cregg

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**Daniel J. Cregg**

Public Service Enterprise Group Incorporated

Chief Financial Officer

October 30, 2020

**Certification Pursuant to Section 1350 of Chapter 63 of Title 18  
of the United States Code**

I, Ralph Izzo, Chief Executive Officer of Public Service Electric and Gas Company, to the best of my knowledge, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that (i) the Quarterly Report of Public Service Electric and Gas Company on Form 10-Q for the quarter ended September 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Public Service Electric and Gas Company.

/s/ Ralph Izzo

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**Ralph Izzo**

Public Service Electric and Gas Company

Chief Executive Officer

October 30, 2020

**Certification Pursuant to Section 1350 of Chapter 63 of Title 18  
of the United States Code**

I, Daniel J. Cregg, Chief Financial Officer of Public Service Electric and Gas Company, to the best of my knowledge, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that (i) the Quarterly Report of Public Service Electric and Gas Company on Form 10-Q for the quarter ended September 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Public Service Electric and Gas Company.

/s/ Daniel J. Cregg

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**Daniel J. Cregg**

Public Service Electric and Gas Company

Chief Financial Officer

October 30, 2020



**Certification Pursuant to Section 1350 of Chapter 63 of Title 18  
of the United States Code**

I, Ralph Izzo, Chief Executive Officer of PSEG Power LLC, to the best of my knowledge, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that (i) the Quarterly Report of PSEG Power LLC on Form 10-Q for the quarter ended September 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of PSEG Power LLC.

/s/ Ralph Izzo

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**Ralph Izzo**

PSEG Power LLC  
Chief Executive Officer  
October 30, 2020

**Certification Pursuant to Section 1350 of Chapter 63 of Title 18  
of the United States Code**

I, Daniel J. Cregg, Chief Financial Officer of PSEG Power LLC, to the best of my knowledge, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that (i) the Quarterly Report of PSEG Power LLC on Form 10-Q for the quarter ended September 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of PSEG Power LLC.

/s/ Daniel J. Cregg

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**Daniel J. Cregg**

PSEG Power LLC  
Chief Financial Officer  
October 30, 2020