1976 Annual Report

PSEG

Helping the U.S. to Achieve Energy Independence

Highlights

	1976	1975	% Change
Financial			
Earnings per average share of Common Stock	$2.79	$2.25	24
Shares of Common Stock			
Average	58,308,000	54,513,000	7
Year end	58,976,000	56,523,000	4
Dividends paid per share of Common Stock	$1.78	$1.72	3
Total Operating Revenues	$1,869,535,000	$1,630,525,000	15
Total Operating Expenses	$1,581,097,000	$1,380,293,000	15
Balance Available for Common Stock	$ 162,767,000	$ 122,598,000	33
Gross Additions to Utility Plant	$ 350,576,000	$ 297,418,000	18
Total Utility Plant	$5,255,286,000	$4,920,768,000	7
Electric Operations			
Electric Operating Revenues	$1,316,077,000	$1,213,488,000	8
Kilowatthour Sales to Customers	27,957,732,000	26,995,491,000	4
Peak Load—Kilowatts	6,190,000	6,270,000	—1
Cooling Degree Hours	6,513	6,543	
Gas Operations			
Gas Operating Revenues	$ 553,458,000	$ 417,037,000	33
Therm Sales to Customers	1,822,726,000	1,761,478,000	3
Maximum Day's Sendout—Therms	12,803,000	11,077,000	16
Heating Degree Days	5,349	4,653	15

PSE&G
The Energy People

Public Service Electric and Gas Company

80 Park Place Newark, New Jersey 07101

Annual Meeting

Please note that the Annual Meeting of Stockholders of the Company will be held in the Company auditorium, 70 Park Place, Newark, New Jersey (rather than the Robert Treat Hotel) on Tuesday (rather than Monday), April 19, 1977, at 2:00 p.m. A summary of the meeting will be sent to stockholders at a later date.

Financial and Statistical Review

A comprehensive statistical supplement to this report, containing financial and operating data for the years 1966-1976, will be available this spring. If you wish to receive a copy, please write to the Vice President and Treasurer, Public Service Electric and Gas Company, P. O. Box 570, Newark, N.J. 07101

Transfer Agents

All Stocks

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

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

Registrars

$1.40 Dividend Preference Common Stock and Common Stock

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

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

Preferred Stocks

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

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

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Cover Illustration, Aerial view of Salem Generating Station on the Delaware River in Salem County, New Jersey

President's Message to Shareholders

The Bicentennial Year was a period of continuing improvement in the financial condition of the Company. A revenue increase of $239 million resulted from rate increases, more severe weather conditions and a hesitant emergence from the industrial recession. Demand for both electricity and gas increased by 3 to 4% compared to 1975. Earnings increased $40.2 million, and earnings per share of common stock rose from $2.25 to $2.79.

At mid-year, quarterly dividend payments on common stock were increased from 43 cents to 45 cents a share, raising the annual rate from $1.72 to $1.80. Management recognizes that periodic dividend increases are necessary to maintain existing shareholder support and encourage additional investor interest in providing the funds necessary to complete our multi-billion dollar construction program. Future dividend increases will, of course, depend on the maintenance of the Company's favorable financial condition.

Salem, the first nuclear generating station for which the Company has design and operating responsibility, produced electricity from nuclear fission for the first time on December 25th. The first unit at Salem is one of a series of eight 1100-megawatt nuclear units planned for service between now and the early 1990's. Ownership of most of these generating plants will be shared with neighboring utilities, but the Company will be the principal owner and will have complete responsibility for operation.

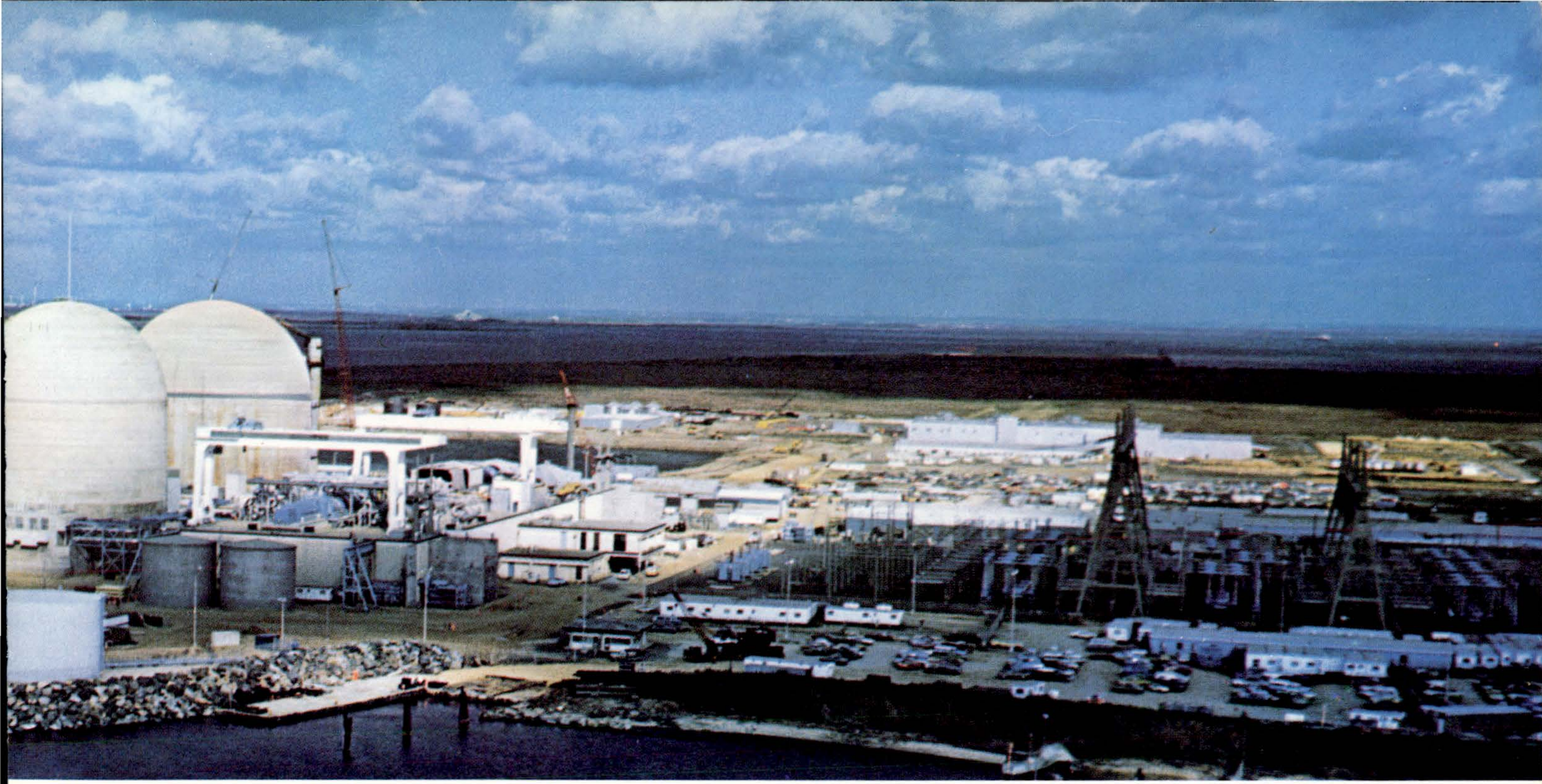
We are relying on these nuclear units to meet the future electric demands, which are forecast to grow at an average annual rate of 4% over the next 15 years. Obviously, predicting electric energy demands in today's chaotic energy atmosphere is fraught with uncertainty. Prior to the Arab oil embargo in 1973, the Company's annual growth rate in electric demand averaged 6 to 7%. However, after two years of negative growth in 1974 and 1975 and recognizing the effects of conservation, higher energy costs and reduced growth patterns in New Jersey since 1973, a 4% growth rate appears to be reasonable.

The demand for gas, on the other hand, is virtually impossible to predict because gas is supply-limited. Our current pipeline suppliers of natural gas continue to curtail our contracted amounts of gas, and no additional gas is available. We presently have a moratorium on new gas customers and a lifting of that moratorium will depend on the availability of new gas or a decrease in present demands. As we have indicated in prior years, we are attempting to secure additional supplies through the importation of liquefied natural gas from Algeria and by drilling for domestic gas through our exploration and development subsidiary, Energy Development Corporation.

If the Algerian importation project is successfully concluded, major additional supplies of gas will be available in the early 1980's. The contribution of Energy Development Corporation activities to our gas supply picture is somewhat unpredictable. However, unless we increase our annual investment significantly from the current level of $20 million a year, our exploration and drilling activities will not make a major contribution to gas supply. If additional gas supplies do not materialize in sufficient quantity to meet national and local needs, consumers will be forced to switch to alternate energy sources. Oil is an obvious substitute, but with paralleling domestic oil shortages and the desire to reduce oil imports, electricity may well be the most reasonable replacement energy source.

There is another energy source which is receiving considerable attention these days – the sun. Solar power is being proclaimed by some as the solution to our energy problems. We initiated a research program in 1976 to resolve cost and feasibility questions associated with the use of the sun as a controlled energy source.

One of the reasons for intense interest in alternate



Salem Generating Station, Lower Alloways Creek, New Jersey

forms of energy is the high cost, as well as the dwindling supply, of conventional energy sources. We can see little prospect of price relief in sight for our customers and, as inflation continues, we perceive an undeniable need for additional rate increases. Our last rate case was filed in January 1976, and a final Order was received in October 1976. Although the amount of relief received was considerably less than that requested, the case was processed in record time, and we see this as a recognition on the part of the Public Utility Commission of the importance of prompt decisions.

The Company is working with the Public Utility Commission in the development of innovative rate structures for residential customers. One of these experimental rates is designed to reduce the consumption of electricity during peak periods while providing an opportunity for the customer to reduce his overall energy cost by scheduling his major use of electricity during off-peak periods. Late in 1976, the Company submitted an interruptible rate for large industrial customers which requires them to reduce electric use during peak periods. This lower rate, subsequently approved by the Commission, provides an incentive for industry to locate in New Jersey. It will also help delay the expenditure involved in constructing new generating facilities. Postponing the construction of new facilities will, of course, benefit all customers.

As we review the overall energy situation, it is still obvious that the nation sorely needs a consistent, constructive energy policy. Conservation must be a keystone of that policy. The price of oil and natural gas should be deregulated to encourage domestic exploration. Dependence on foreign imports and on the diminishing domestic supplies of oil and gas for the generation of electricity should be reduced. The generation of electricity from coal and uranium should be endorsed and supported. Research to develop alternate energy sources should be encouraged. As far as the Company is concerned, the most important feature of the required energy policy is the support of nuclear power. Our studies consistently show that, for our particular situation in New Jersey, nuclear power offers the best economic and environmental solution to the problem of supplying electricity to our customers. We are convinced that nuclear plants will provide electricity at the lowest possible cost and, for that reason, the management of your Company urges that you actively support development of nuclear power.

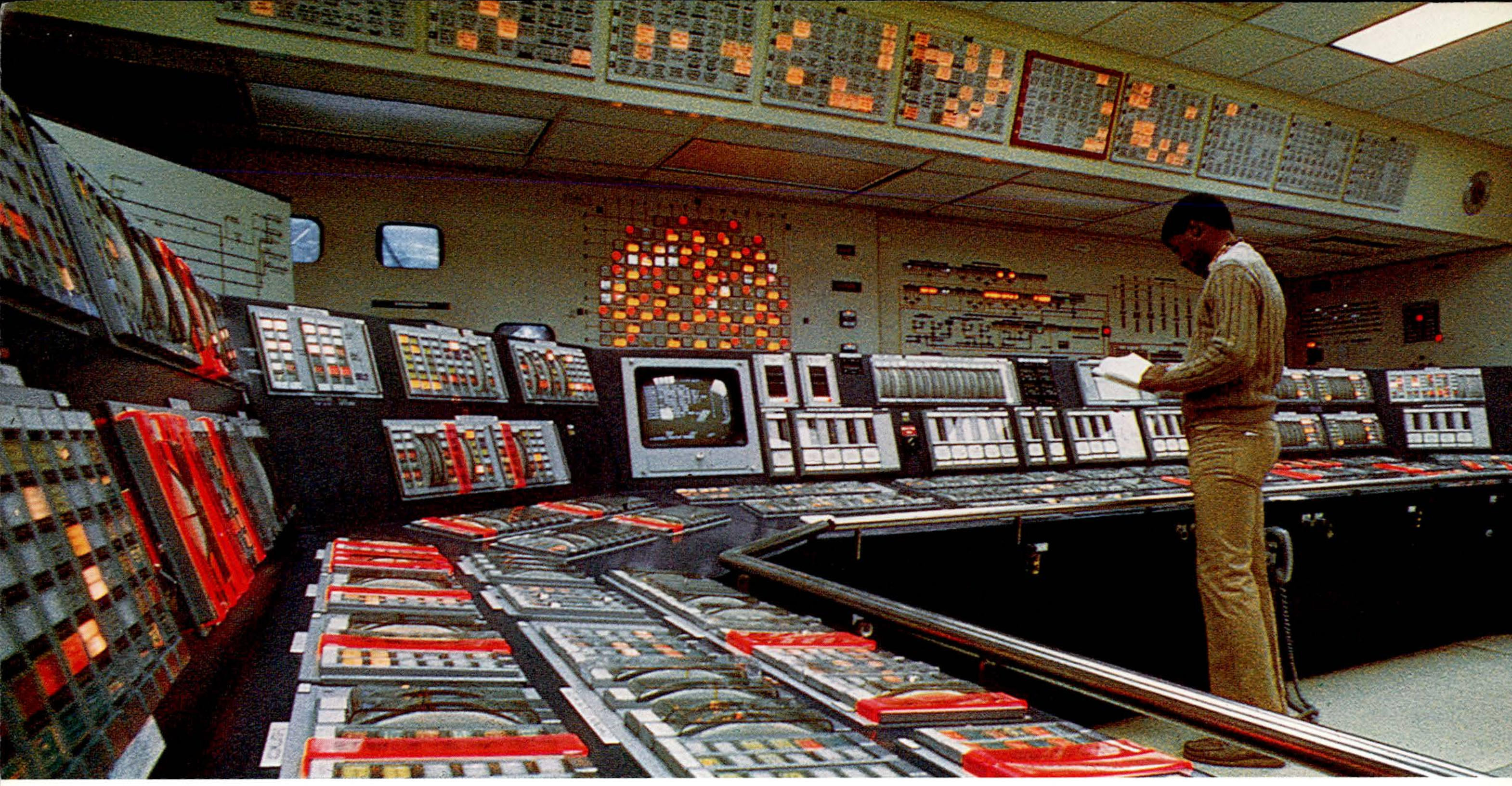
In reviewing the Bicentennial Year, the contributions of our talented and highly-motivated employees to the improved position of the Company must be recognized. Outstanding results were obtained throughout the organization in reducing costs. Innovations in many areas of our operations improved service to our customers while bringing benefits to the Company. Our employees, many of whom are shareholders, should also be commended for their dedicated involvement in community service activities outside of their normal work assignments.

The Board of Directors and the management of the Company appreciate the level of understanding exhibited by our shareholders during the critical days of the past few years. As we look to the future, we know that there will be challenging times ahead, but with the cooperation of our employees and the support of our shareholders we are confident that the Company will continue to prosper.

Robert L. Smith

President and Chief Executive Officer

February 10, 1977



Control room at Salem

Revenues Increase $239 Million

Revenues increased $239 million, or 14.7%, to $1.9 billion in 1976. About $120 million of the rise resulted from rate increases which took effect in June and November 1975 and in October 1976.

Electric revenues increased 8.5% to $1.3 billion, representing 70% of total revenues. Gas revenues rose 32.7% to $553 million, or 30% of the total. Revenues for the year by customer classification were:

	Electric	Gas	Combined
Residential	34%	62%	42%
Commercial	36	26	33
Industrial	28	12	23
Street Lighting and other	2	–	2
Total	100%	100%	100%

Operating Expenses Rise $201 Million

Operating expenses were $1.6 billion, an increase of $201 million, or 14.5% over the 1975 total. Power production expenses increased 4.6% for the year over 1975, principally as the result of a 3.8% increase in electric output. Similarly, fuel expenditures continued to rise, increasing 6.7% in 1976. There was a modest decrease of 4.6% in the amount of power we purchased from our power pool, the Pennsylvania-New Jersey-Maryland Interconnection. The total cost of that power fell 12.3% or $17 million in 1976 because more of it was produced at nuclear stations.

Costs of natural gas and materials to manufacture gas increased 31.5%. Because of larger curtailments by our three principal pipeline suppliers, we had to make emergency purchases of natural gas in December from other sources and manufacture more gas.

The 1976 Income Dollar

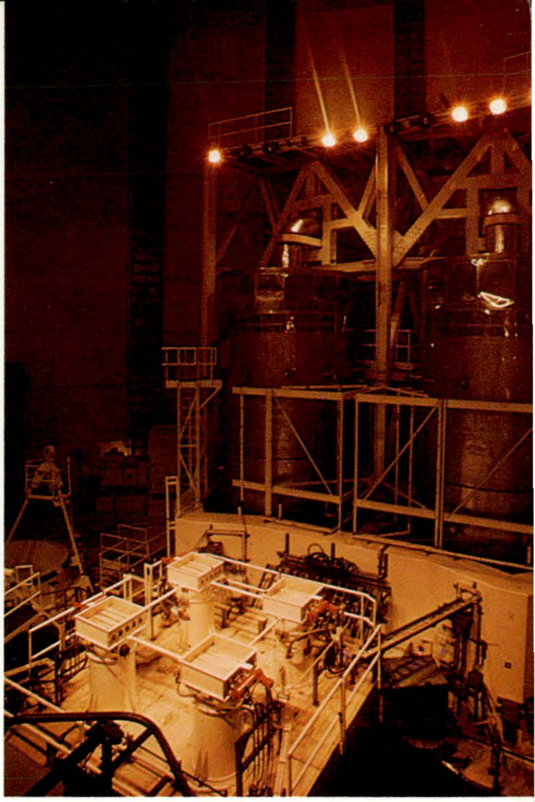
Where It Came From:

$ .69	Electric Revenues
.29	Gas Revenues
.02	Allowance For Funds Used During Construction
$1.00	

Where It Went:

$ .39	Fuel, Purchased Power and Gas
.05	Maintenance
.12	Other Operation
.17	Taxes
.07	Interest
.07	Dividends
.13	Reinvested in Business
$1.00	





Nuclear fuel delivery and loading

Maintenance of property and equipment was up $16 million, or 19.3% over 1975 levels.

The effect of rate relief resulted in a significant increase in revenue-related taxes. Gross receipts taxes rose $32 million, or 14.9% and Federal income taxes, both current and deferred, increased $46 million, or 84.6% over 1975 totals. Deferred income taxes, which represent the tax effect of the difference between book and taxable income to the extent permitted for rate-making purposes by the Public Utility Commission of New Jersey, consist mainly of investment tax credits. The substantially greater taxable income, resulting primarily from rate increases, allowed the Company to utilize investment tax credits available under Federal income tax law. These credits are deferred on the books and amortized over the average life of the related plant.

Earnings and Dividends Up

Earnings available for Common Stock rose to $2.79 a share from $2.25 a share in 1975 when there were 3.8 million fewer average shares outstanding.

Dividends totaling $1.78 a share were paid on the Common Stock, up from $1.72 in 1975. The increase reflects a rise in the quarterly dividend rate from 43 cents to 45 cents beginning with the June 30 payment, the first increase since 1972. All 1976 dividends are considered fully taxable for income tax purposes.

The Company's Common Stock and the $1.40 Dividend Preference Common Stock are traded on the New York Stock Exchange and use the stock symbol PEG. The Common Stock is also listed on the Philadelphia Stock Exchange. Shown in the following table are the range of trading prices and dividends paid for the last two years.

	Common Stock		$1.40 Dividend Preference Common Stock	
	1976	1975	1976	1975
Quarterly Dividends Paid Per Share	$.45*	$.43	$.35	$.35
First Quarter	20¼-17⅝	16⅞-12	16-14½	15¼-12¼
Second Quarter	19⅞-18	17⅜-14⅜	15⅞-14⅝	14⅞-13½
Third Quarter	23⅛-19¼	16¾-15	16⅞-15	14⅝-13⅝
Fourth Quarter	23⅜-21¾	19-15¾	16¾-15⅝	15-13⅝

* $.43 First Quarter only.

Rate Case Decision

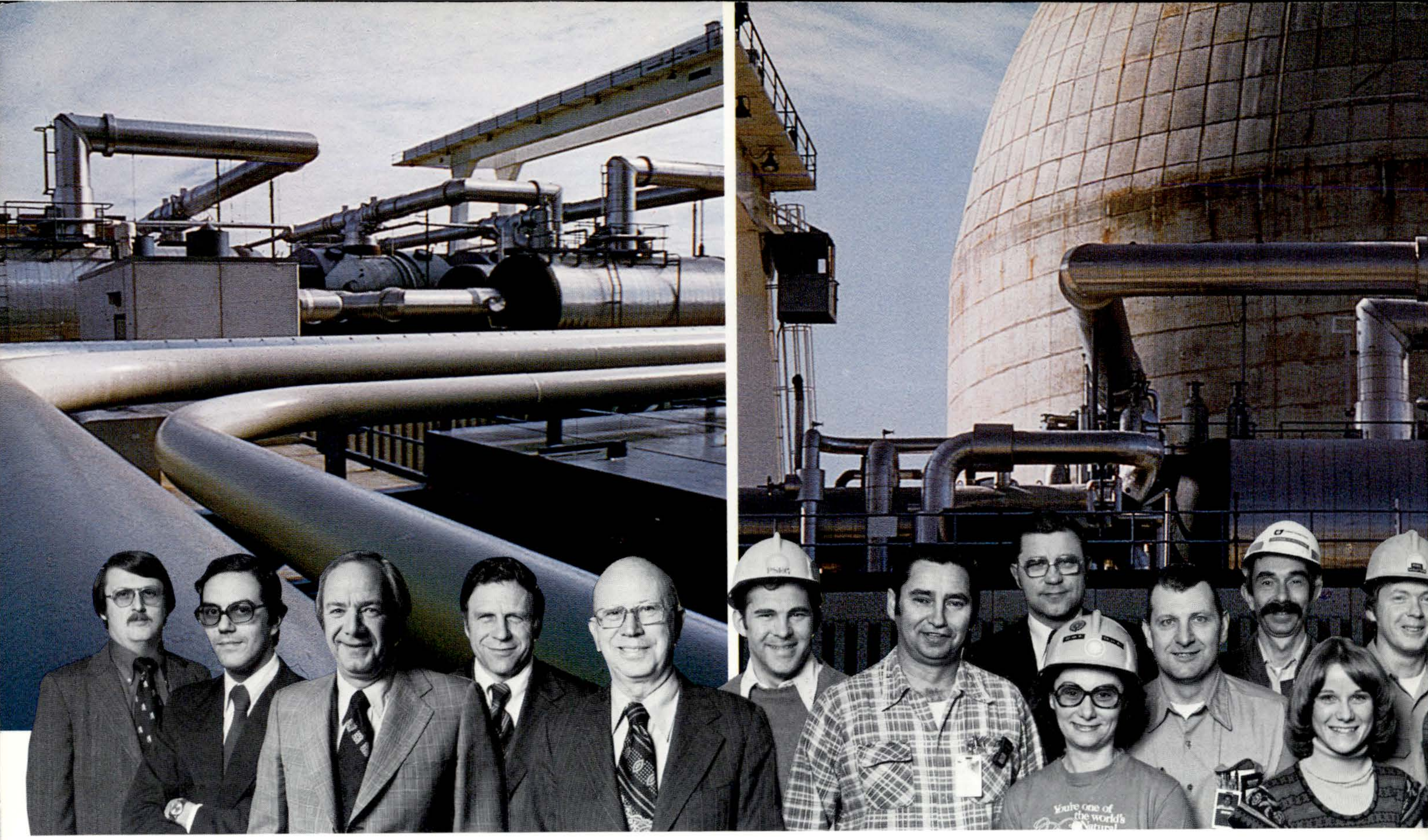
The New Jersey Board of Public Utility Commissioners granted the Company a rate increase of $136.5 million annually for electric and gas service, effective October 21, 1976. The increase allowed $103.3 million additional electric revenues and $33.2 million gas revenues.

Our original petition filed in January 1976 requested rate increases totaling $447 million. This amount was later reduced to $318 million as a result of stipulations and by the updating of the test year with 12 months of actual results.

The final order came about nine months after the original filing in contrast to the 18 months required for a decision in our previous rate relief request.

The order granted the Company a 13% return on common equity, the same return approved in the prior case, and an overall return of 8.83% on rate base. We had requested a 14% return on equity and a 9.34% return on rate base.

The decision also approved higher depreciation rates which will raise the composite rate from 3.32% to 3.46%.



Exterior scenes at Salem

Construction Expenditures Up

After declining for five years, cash expenditures for new facilities increased in 1976 to $333 million from $267 million in 1975. Construction expenditures, including nuclear fuel and advances to subsidiaries, in 1977 are expected to rise to $427 million and will continue to increase for at least the next four years. Nuclear generating facilities and nuclear fuel will represent the largest portion of these expenditures. Current estimates for the years 1977 through 1981, excluding allowance for funds used during construction, are:

Year	1977	1978	1979	1980	1981	Total
Millions of $	427	605	665	800	926	3,423

We expect to generate internally about 55% of our construction expenditure needs for the five years, 1977-81, provided that adequate rate relief is obtained during this period.

Financing

Two million shares of Common Stock were sold for $35,090,000 in March. In April we sold $60 million of 8¾% First and Refunding Mortgage Bonds. Proceeds from both issues helped to prepay $150 million of Five-Year Term Notes issued in 1974.

In September, PSE&G completed two offerings: two million shares of 8.70% Cumulative Preferred Stock – $25 Par for $50 million and $60 million principal amount of 8.45% First and Refunding Mortgage Bonds. In October, the Company issued $14.3 million of tax-exempt 6.30% First and Refunding Mortgage Bonds to provide funds for its share of air and water pollution control facilities at Peach Bottom nuclear station in York County, Pennsylvania.

The Company raised an additional $9.4 million in 1976 by the sale to stockholders of 452,587 shares of Common Stock through the Dividend Reinvestment Plan.

Commercial paper was utilized modestly during the year to meet interim capital requirements. The average daily amount of commercial paper outstanding in 1976 was only $6.4 million. At December 31, the Company had $4.7 million outstanding in short-term obligations.

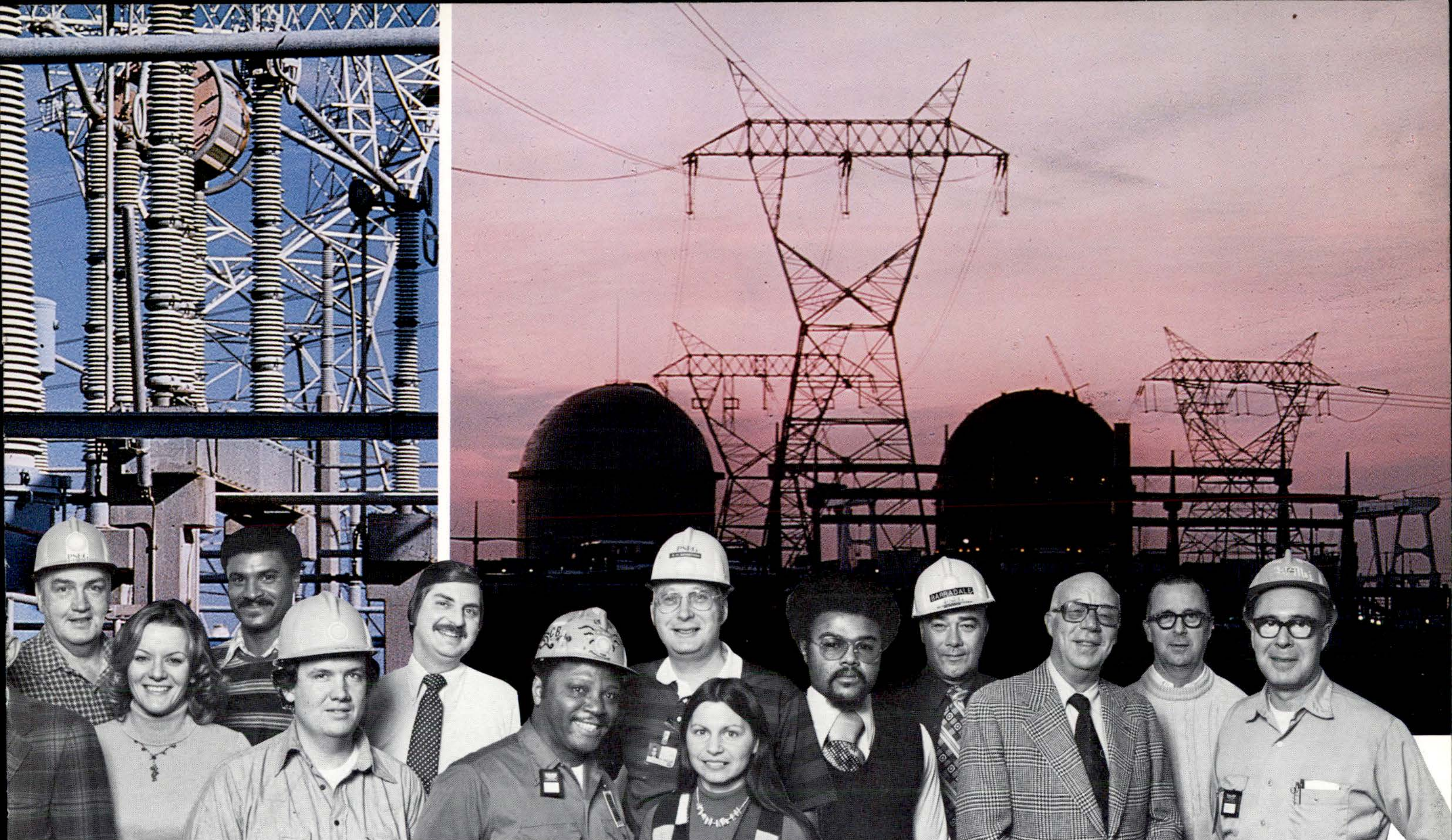
We plan to raise about $100 million of capital in 1977 from sales of securities. If PSE&G is to raise this capital at reasonable costs, it is essential that we earn a fair return on our invested capital and that we continue to maintain high credit ratings on all of our securities.

Stockholders

The number of stockholders continued to grow in 1976. At year end there were 216,191 holders of Common Stock; 14,414 holders of $1.40 Dividend Preference Common Stock; and 34,040 holders of Preferred Stock. At December 31, there were 25,507 holders of Common Stock participating in the Company's Automatic Dividend Reinvestment Plan, an increase of 4,678 from a year earlier.

Investor Relations

PSE&G pursued an active investor relations program in 1976. To insure effective communications with the financial community, management met with groups of security analysts, portfolio managers, and other members of the investment community in several major cities during the year. In addition to a formal presentation before the New York Society of Security Analysts, the Company held two seminars in Cherry Hill, New Jersey, for senior security analysts. These seminars focused on industry developments and on our



Nuclear energy to serve the State

Company's current and projected operations. We intend to continue our comprehensive information program for investors during 1977.

Financial Policies and Objectives

Your management at PSE&G continues to assign the highest priority to the task of maintaining the Company in a sound financial condition. This is of very special importance as we face the task of financing our construction program in the years ahead.

We were successful this past year in reaching certain minimum goals we had set several years ago. Among these financial objectives were: a sound capital structure comprising 50% debt, 13% preferred stock and 37% common equity; a minimum earnings coverage of fixed charges of 3.0 times; stronger cash flow, higher quality earnings, and the maintenance of high credit ratings for all of our securities. While we feel there is still room for improvement in the areas of cash flow and higher quality earnings, particularly as we view the future, we were pleased that at year end we had exceeded our minimum goals for capital structure and coverage ratios.

It is also of prime concern to us that we earn a fair return on invested capital to support the market price of the Company's common shares at a reasonable premium above book value.

Corporate Modeling System

Our near-term financing plans are extremely important in placing the Company in the best possible position to finance the extremely heavy construction program that we face in the next 3 to 10 years. To aid in this effort and to assure proper steps are taken to maintain high credit ratings for our securities, PSE&G in 1976 installed the most advanced corporate modeling and financial planning system available with assistance from On-Line Decisions, Inc. This system allows us to adjust our plans for changing current conditions as well as for changing estimates of future activity quickly. Answers to most "what if" type questions can now be provided in terms of minutes and hours rather than in terms of days and weeks.

Electric and Gas Production

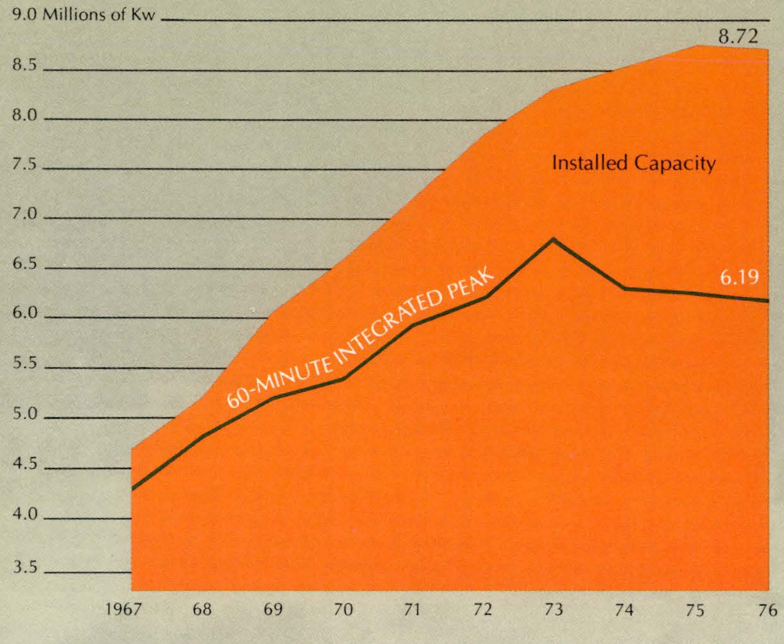
Electric output registered an increase in 1976, the first since 1973. Total kilowatthours produced, purchased and interchanged rose 4% to 30.4 billion.

This year's hourly peak demand of 6,190 megawatts recorded on August 26, 1976 was below the 1975 peak of 6,270 megawatts and considerably lower than the all time peak of 6,816 reached in 1973. The year's highest daily output, also on August 26, was 117,091,000 net kilowatthours, 3% below the 1975 figure. However, we did experience a new winter peak demand of 4,806 megawatts on December 13, 1976.

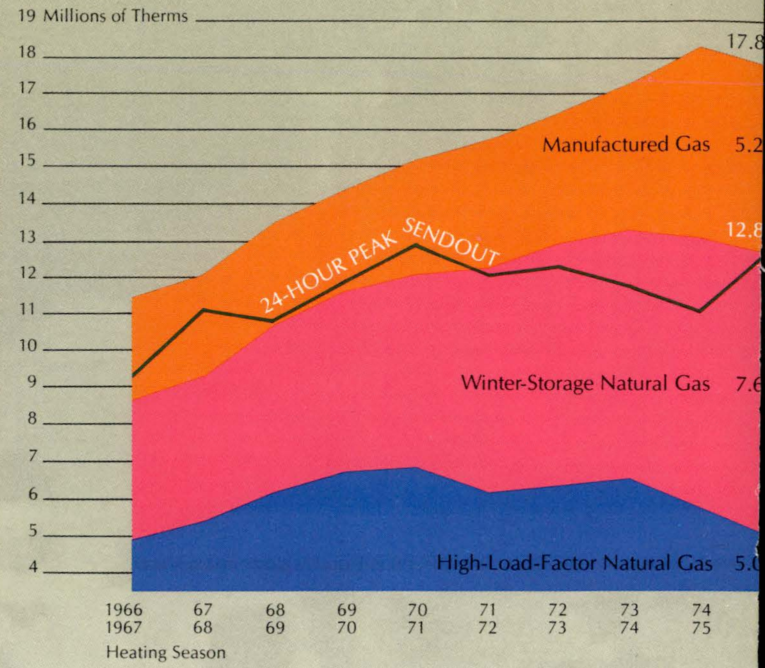
Gas sendout for the year totaled 1.9 billion therms, 4% more than in 1975 and the first annual increase experienced since 1972. The highest sendout in 1976 for a single day was 12,803,000 therms on February 2, when the temperature averaged 12°F. The highest sendout in 1975 for a single day was 11,077,000 therms on January 20, when the temperature averaged 18°F.

A new record for a single day was set on January 17, 1977 with a sendout of 14,006,000 therms when the day's average temperature was 3°F. The previous record 24-hour sendout was 12,872,000 therms on February 1, 1971 when the average temperature was 10°F.

Electric Peak Load and Installed Capacity at Time of Peak



Gas Peak Sendout and Daily Capacity at Time of Peak



Generating Capacity

The installed generating capacity at year end was 8,741 megawatts, a decrease of 88 megawatts from December 1975. The decline resulted primarily from decreased ratings of several generating units during the year.

The generating capacity forecast for the peak loads expected during the next eleven years, when the Company's projected sixth nuclear facility is scheduled to enter commercial operation, indicates a reserve of about 20% at all times. The anticipated peaks, installed capacity and reserve during this period are:

Year	Peak Load	Installed Capacity	% Reserve
	(Megawatts)		
1977	7,100	9,245	30
1978	7,380	9,265	26
1979	7,670	9,740	27
1980	7,970	9,740	22
1981	8,290	9,928	20
1982	8,630	10,328	20
1983	8,990	10,728	19
1984	9,370	11,242	20
1985	9,750	11,762	21
1986	10,130	12,037	19
1987	10,530	12,557	19

Nuclear Generating Facilities

Salem Generating Station Unit 1, the first nuclear unit to be designed and operated by PSE&G, received a full-power operating license from the Nuclear Regulatory Commission (NRC) on December 1, 1976. This unit, which first produced power on December 25, is expected to reach full output of 1,090 megawatts by May 1977.

The Company holds a 42.59% interest in the station and is entitled to 464 megawatts as its share of this unit. Also sharing in the ownership and output are: Philadelphia Electric Company (42.59%); Atlantic City Electric Company and Delmarva Power & Light Company (7.41% each).

Total annual PSE&G electric output generated by nuclear energy was 16% in 1976 compared with 15% in 1975. With the addition of Salem 1, this output is expected to rise to 24% in 1977.

Construction and installation of equipment at Salem 2 is expected to be completed in time for commercial service in May 1979. When this unit achieves full power output, the additional 475 megawatts allocated to PSE&G as its share will increase the Company's nuclear generation to 31% of total power output.

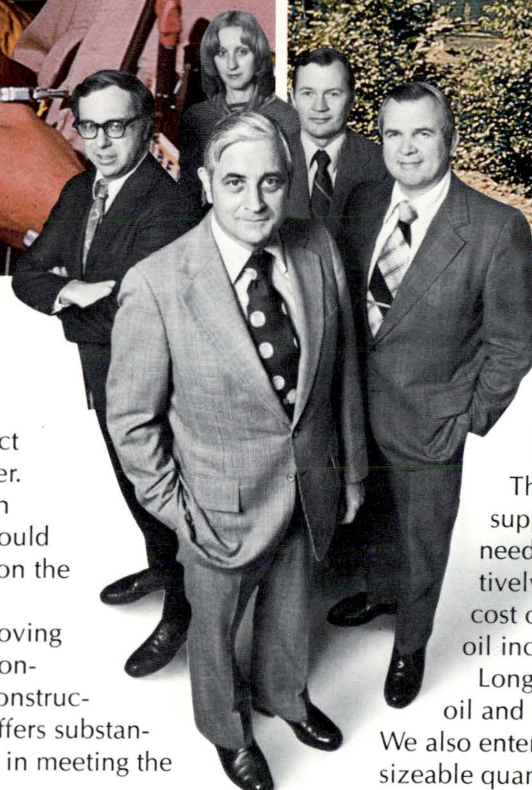
Construction work on the Hope Creek Generating Station commenced in March 1976 after a number of delays. Hope Creek 1 is now scheduled to enter commercial service in May 1984 and Hope Creek 2 in May 1986.

Early in 1976, Atlantic City Electric Company reduced its ownership interest in the Hope Creek units from 10% to 5%, thus increasing PSE&G's share to 95%. Each unit is scheduled to produce 1,067 megawatts when full operation is attained.

The necessary steps are being taken to obtain appropriate permits for the Atlantic Generating Station to be located almost three miles off the New Jersey shore and 12 miles northeast of Atlantic City. Licensing for the floating nuclear power units, Atlantic 1 and 2, is a two-pronged procedure. A license to construct the plants in Jacksonville, Florida is being sought by Offshore Power Systems and NRC hearings are expected to be completed by the end of 1977. Our Company has applied for a license to construct a break-

Uranium mine, Wyoming. Agreements were made to provide fuel for Salem and Hope Creek Generating Stations into the '90's.

Coal cleaning plant, Virginia. Contract signed in '76, added to existing agreements, assures Company of 60% of its low-sulfur coal needs for the next decade.



water at the Atlantic site and we expect public hearings to begin in the summer.

An environmental review by NRC in October 1976 stated that the plants would have "no significant adverse impact" on the environment.

Although the licensing process is moving slowly, the Company remains firmly convinced that the offshore concept for construction and operation of nuclear plants offers substantial advantages over other alternatives in meeting the future energy needs of our customers.

At the end of 1976, PSE&G had expended $394 million on its Salem units, $204 million on its Hope Creek project, and $156 million on the Atlantic project.

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

Fossil Fuel

The Company was able to obtain adequate supplies of fossil fuels for its production needs throughout 1976. Prices remained relatively stable during the year. The delivered cost of low sulfur coal increased 1% and light oil increased 8% while heavy oil declined 3%.

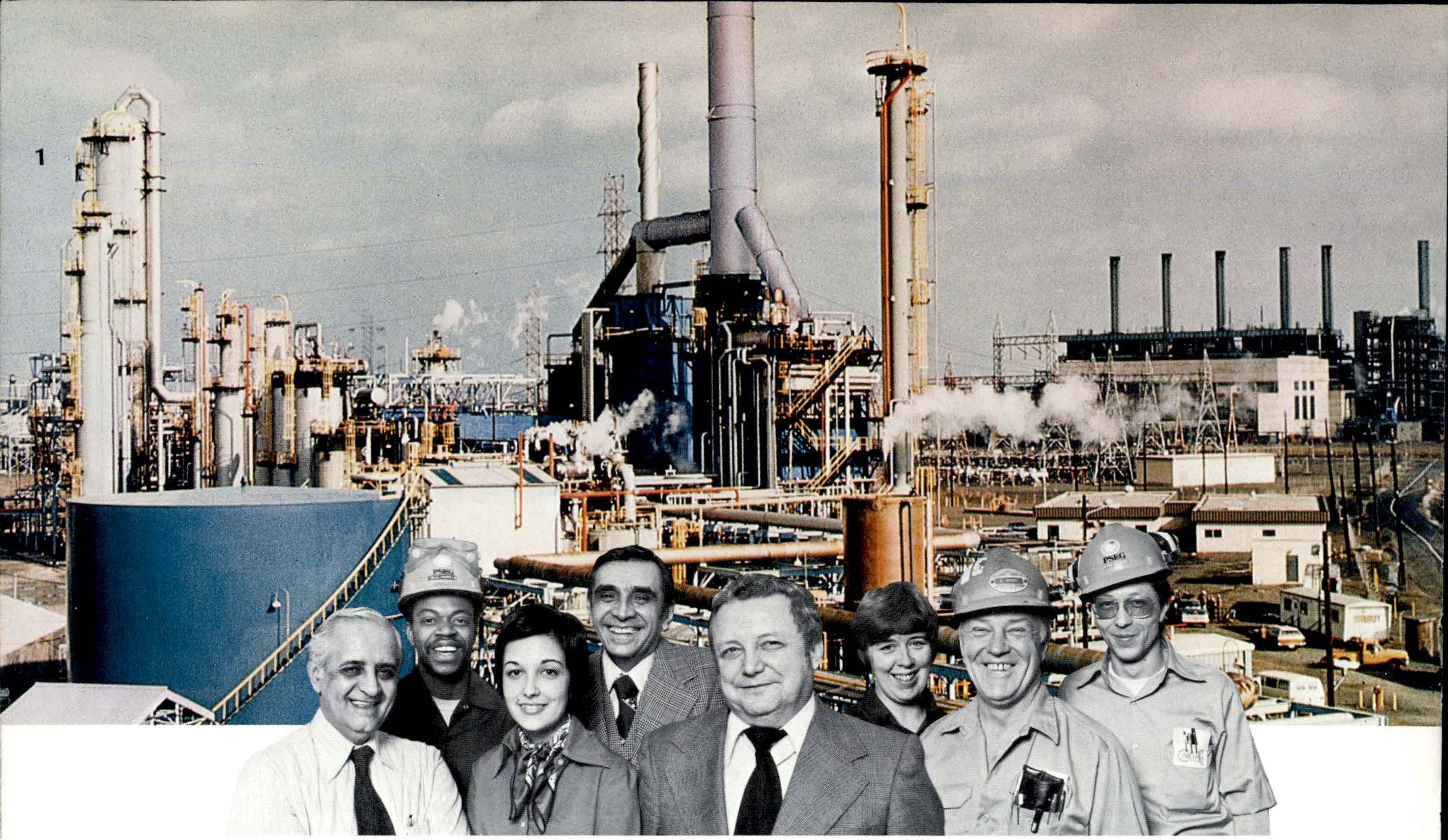
Long-term contracts for low sulfur heavy fuel oil and kerosene were successfully negotiated. We also entered into a new long-term contract for a sizeable quantity of low sulfur coal which will substantially strengthen our coal supply position.

Nuclear Fuel

The Company successfully completed negotiations during 1976 for uranium which should meet the anticipated fuel needs for Salem and Hope Creek nuclear generating plants through the early 1990's.

A contract with Kerr-McGee Nuclear Corporation provides for the purchase by PSE&G of all uranium, up to 20 million pounds, produced from reserves on the supplier's properties at South Powder River Basin in Wyoming between 1980 and 1995. Deliveries are scheduled at the approximate rate of 1.6 million pounds annually. The Company will also have the right of first refusal on other uranium deposits which may be developed on the basin properties. The price of the uranium will be the same as the generally prevailing domestic level at the time of delivery. In addition, the Company has agreed to make interest-bearing advances of up to $115 million over an eight-year period to help finance the mining and milling facilities.

In another contract signed with Homestake Mining Company, we agreed to finance 90% of a $10 million explora-



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Energy Centers: 1) Linden Synthetic Natural Gas Plant, with Linden Generating Station to the rear; 2) PSE&G subsidiary, Energy Terminal Services Corporation, will receive imported liquefied natural gas. At top left is Company's Sewaren Generating Station; 3) Burlington Liquefied Natural Gas Plant in foreground, followed by a combined cycle unit which utilizes waste heat from the cluster of gas turbine generator units, and our Burlington Generating Station.

tion and development program on the Homestake properties in Wyoming. Under the contract, PSE&G has options to purchase uranium concentrates, the quantity depending upon the results of the program.

Although domestic uranium continues to be in short supply, prior contracts made by the Company will provide enough fuel to operate Salem 1 and 2 into 1980. The price of uranium continued to rise in 1976 but at a slower rate than in 1974 and 1975. While the course of future prices cannot be estimated with certainty, it is likely that the price of uranium, like that of all fuels, will continue to increase.

In October, uranium mining operations began at two properties in Utah where the Company has a 50% interest through our exploration and development subsidiary, Energy Development Corporation. Approximately 1,000 tons of ore have been extracted by Uranium Production Company, the mine operator. This ore will be milled at the Cotter Corporation mill under a one-year contract. Long Island Lighting Company also holds a 50% interest in this joint venture which is managed by Nuclear Assurance Corporation.

Gas Supply

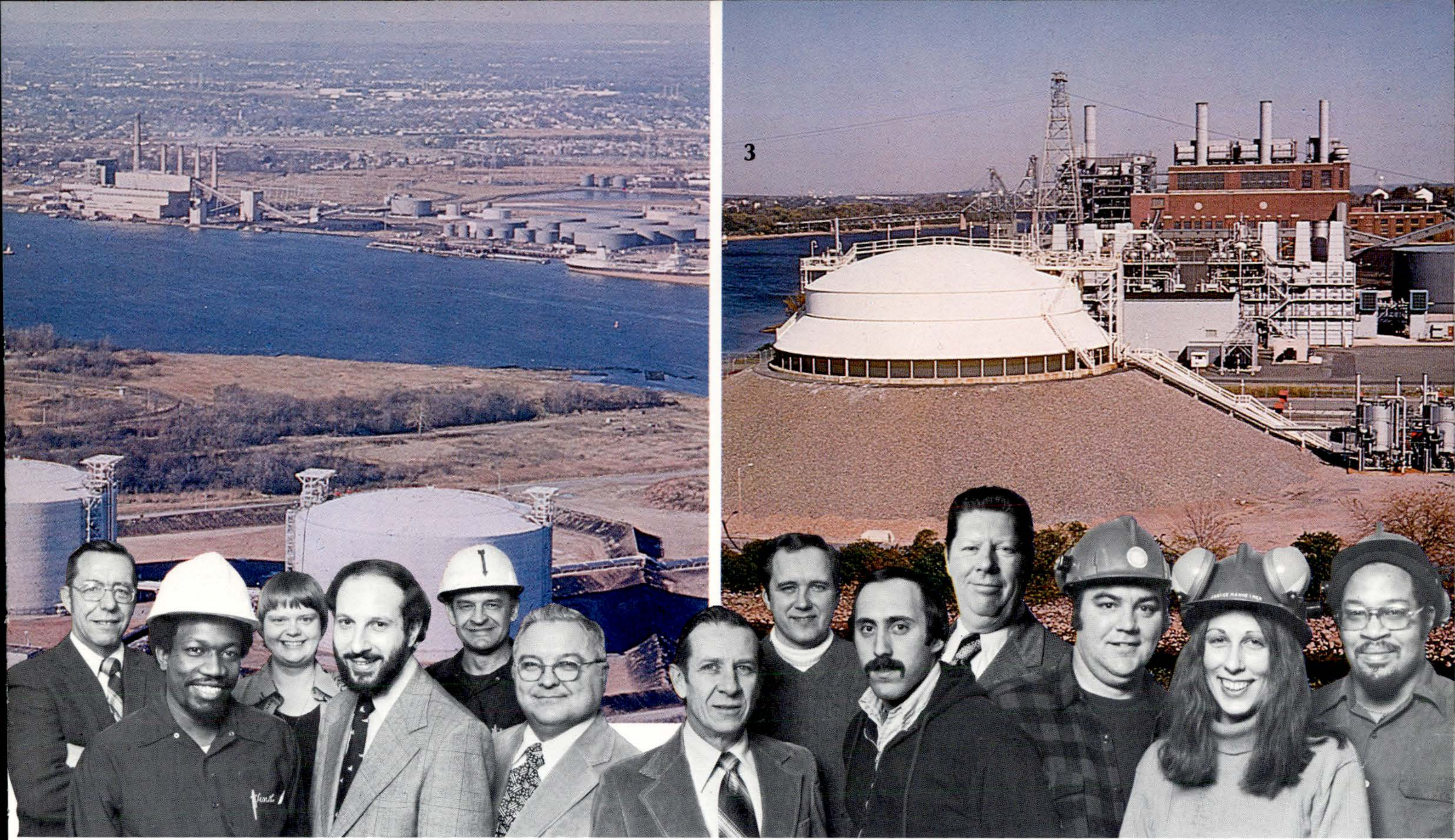
The daily gas capacity, excluding the effect of pipeline curtailments, declined to 19,449,000 therms during the year from 19,575,000 therms in 1975. The decrease results from the termination of 126,000 therms of delivery capacity from temporary field storage service provided in 1975 by Transcontinental Gas Pipe Line Corporation. The composition of the daily capacity on December 31, 1976 was:

Type of Gas	*Therms Per Day*
Natural Gas	14,257,000
Liquefied Petroleum Gas	2,068,000
Oil Gas	1,510,000
Refinery Gas	255,000
Synthetic Natural Gas	1,325,000
Holder Stock Available	34,000

Natural Gas

The daily supply of natural gas included in the total capacity declined to 14,257,000 therms from 14,383,000 therms at the end of 1975. About 47% of the daily natural gas capacity constitutes high-load-factor gas, available every day of the year. The balance comes from field storage, liquefied storage, and contract peaking supply.

During 1976, the Company purchased and used 1,734 million therms of natural gas including storage gas. The rise of 80 million therms or 5% over 1975, even with curtailments in pipeline deliveries, resulted primarily because of deliveries from Energy Development Corporation, emergency purchases and withdrawals from storage. Curtailments of natural gas shipments covered by contracts were again imposed by each of the Company's three major pipeline suppliers. These curtailments, which started in 1971 with the national shortage of natural gas, averaged



31% or 2 million therms per day in 1976 compared with an average cut-off of 27%, or 1.8 million therms a day in 1975.

Supplementary Gas Supply

The Company supplements its supplies of purchased natural gas and refinery gas with synthetic natural gas (SNG) manufactured from naphtha, oil gas made from kerosene, and liquefied petroleum gas produced from butane and propane. Although all of these feedstocks are refined petroleum products, supplies were adequate in 1976. The daily capacity for producing these gases is 4.9 million therms, unchanged from 1975. In 1976, total output dropped to 42.9 million therms, or 15.2 million less than in the prior year.

The volume of refinery gas purchased from Exxon Company's refinery in New Jersey was 118 million therms in 1976, an increase of 6% over 1975. This source accounted for 6% of PSE&G's total supply of gas in 1976. The average cost of refinery gas bought in 1976 rose 24% from the 1975 level to $2.82 per million Btu. Deliveries of refinery gas are under contract with Exxon through 1978.

Imported LNG

As part of a long-range program to supplement its supplies of natural gas, the Company has been attempting since 1972 to obtain liquefied natural gas (LNG) from Algeria. In November 1975 an agreement was reached with Sonatrach, Algeria's state-owned gas and oil company, to import LNG and to market this gas through a jointly-owned subsidiary, Eascogas LNG, Inc. Our partner in this joint venture is Algonquin Gas Transmission Company, which operates in New England. About 72% of the projected LNG shipments will be unloaded at terminal facilities at Staten Island, N.Y., acquired in August 1976 from the Cabot Corporation. After sales to other companies, PSE&G's share of the total imports from Sonatrach will be about 20-25% of the approximately 49 billion therms of LNG to be shipped over some 22 years. In October, the Cabot terminal and pipeline corporations, which had become wholly-owned subsidiaries of PSE&G, were renamed Energy Terminal Services Corporation and Energy Pipeline Corporation. In November, a transportation agreement was signed with Burmah Oil Tankers Ltd. It covers 60% of the shipping required under the Sonatrach supply contract. The remaining 40% of the transportation, to be provided by the Algerians, is presently under negotiation with Sonatrach.

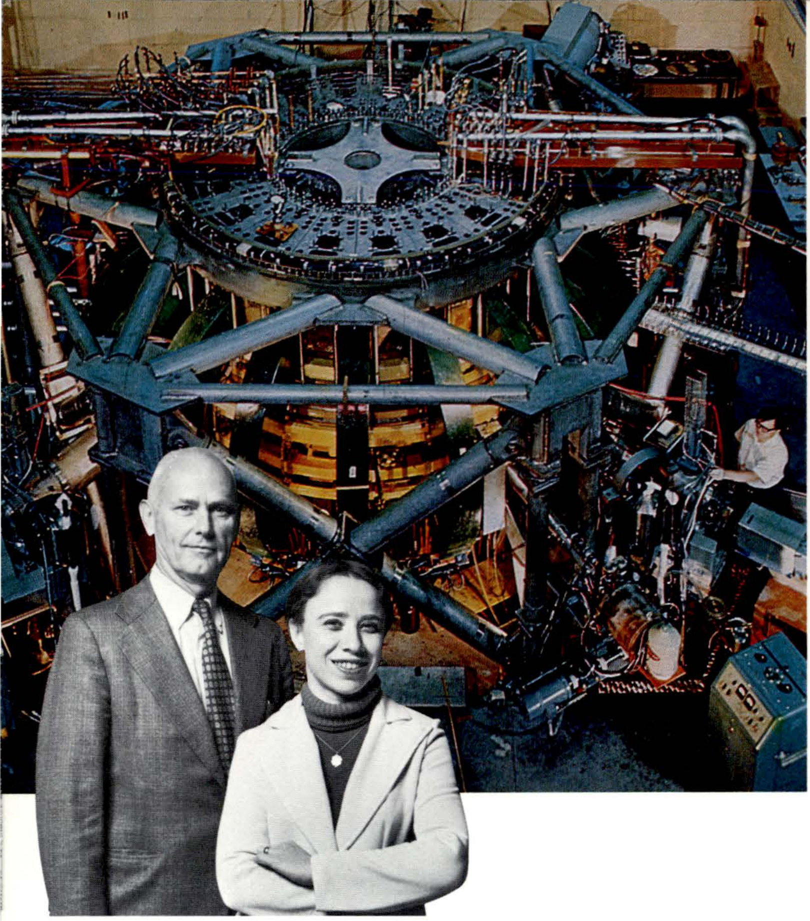
If deliveries are to commence during the winter of 1977-78, a number of approvals must be secured from governmental authorities in both Algeria and the United States. First, Eascogas must be authorized by the Federal Power Commission to import and to sell LNG in the United States. Permits to operate the terminal and to build and operate a proposed pipeline to transport the LNG from the terminal to PSE&G's system are also needed.

Exploration and Development

Energy Development Corporation (EDC), the Company's exploration and development subsidiary, expanded its domestic activities during 1976 in both onshore and offshore areas in its continuing search for new energy sources.

Natural gas joint exploration programs were conducted in the Texas and Louisiana Gulf Coast regions.

By the end of 1976, EDC had drilled a total of 50 exploration wells and 32 development wells, of which 38 had been classified as commercial producers. Gas produced from two of the discovery fields, Colorado Delta and Parc Perdue, was transported during the year to PSE&G's system at the rate



Princeton Large Torus, the largest Tokomak in the world, is an important step in the development of fusion power plants by the 1990's. PSE&G has been actively supporting the Princeton fusion project since 1957.

PSE&G is prime contractor to design and build a national test facility to develop large batteries for energy storage. This will allow the most efficient generating units to supply lower-cost energy for use during peak hours.

of 58,000 therms a day. Two discovery fields in East Texas may increase substantially the volume of gas transported to the Company when development work is completed and necessary authorizations are secured.

EDC extended its gas exploration program into federal offshore waters in 1976. Gas was discovered in one area off the shore of Louisiana, where additional drilling will determine if the amount will reach commercial proportions. Participating as a member of the Transco Exploration Company group, EDC also acquired interests in five tracts in the Gulf of Mexico. In the first Atlantic Outer Continental Shelf lease sale, off the Mid-Atlantic coast, the PSE&G subsidiary acquired lease rights as a member of the Shell Oil Company group. The group, in which EDC's participation ranges from 1.4% to 3.5% of individual leases, made winning bids totaling $183 million on 12 tracts. In addition, EDC purchased a 2% interest in four other tracts. Exploratory drilling is expected to start by the spring of 1977.

Transmission and Distribution

In August, six years after initial application, final state and federal permits were received to build a 500,000 volt overhead transmission line to link New Jersey and Delaware. This line, scheduled to be completed late in 1977, will not only remove a transmission bottleneck in the lower Delaware Valley, but will also allow the full output of Salem Generating Station to reach the customers of PSE&G and the other utilities participating in Salem.

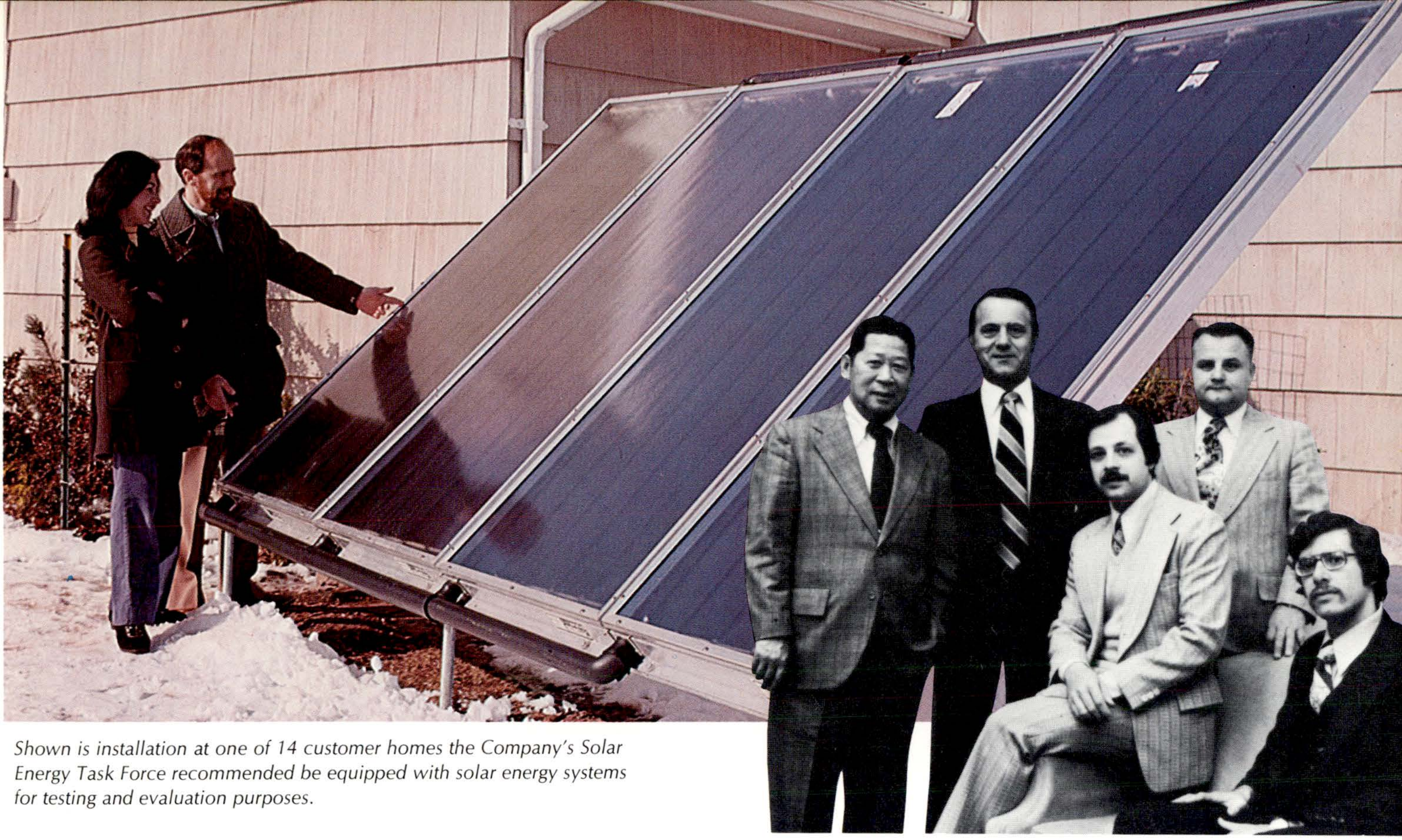
Construction continued during the year on two other 500,000 volt overhead lines to strengthen the Company's bulk power capability in northern and central New Jersey. Both lines, one scheduled for completion in 1977 and the other in 1979, will serve as important links for transmitting power generated at Salem.

The Company's electric transmission system was expanded by completion of an underground 230,000 volt line and by extension of a 230,000 volt overhead circuit to supply a new substation.

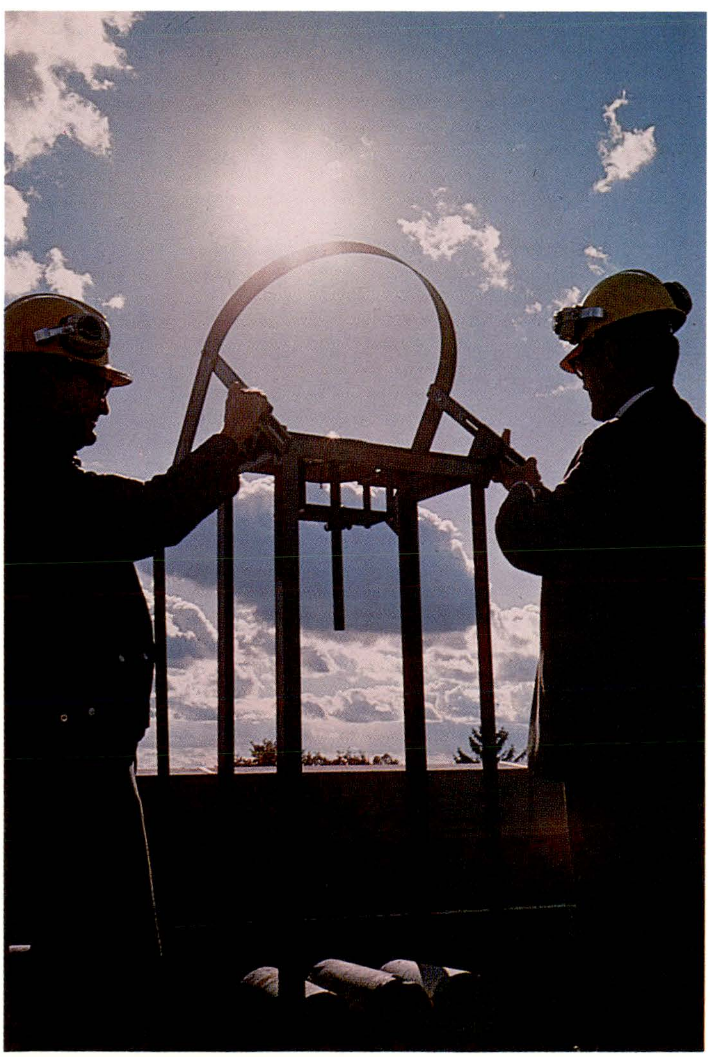
Major improvements included installation of five new expandable substations, discontinuance of four unit substations of limited capacity, and installation of eight new 13,000 volt distribution circuits. Field operations were consolidated by the discontinuance of three subheadquarters.

In November, the Company received permission to build a 230,000 volt overhead line in Union County after encountering four years of delays. Scheduled for completion in 1979, the five-mile section will complete the transmission line between Deans Switching Station in Middlesex County and Aldene Switching Station in Union County.

In furthering efforts to conserve gas energy, the Company is participating in an industry-wide program to improve the efficiency of gas space heating systems. With the cooperation of 200 of our customers, experimental changes are being made in such areas as ignition, fuel input, venting, ductwork, adjustment of circulating air or water, and flue heat recovery in tests that will extend over two winter seasons.



Shown is installation at one of 14 customer homes the Company's Solar Energy Task Force recommended be equipped with solar energy systems for testing and evaluation purposes.



Energy Pooling: New Interconnection Agreements

The Company signed an agreement in April with six of the 10 other member companies of the Pennsylvania-New Jersey-Maryland Interconnection to build additional 500,000 volt lines in Pennsylvania. The agreement, which adds new east-west transmission facilities, augments the existing Keystone-Conemaugh 500,000 volt network which supplies power to PSE&G and other pool members from mine-mouth generating stations in the Pennsylvania coal regions. The new transmission facilities, scheduled for service in 1978, are expected to provide additional energy from lower cost sources.

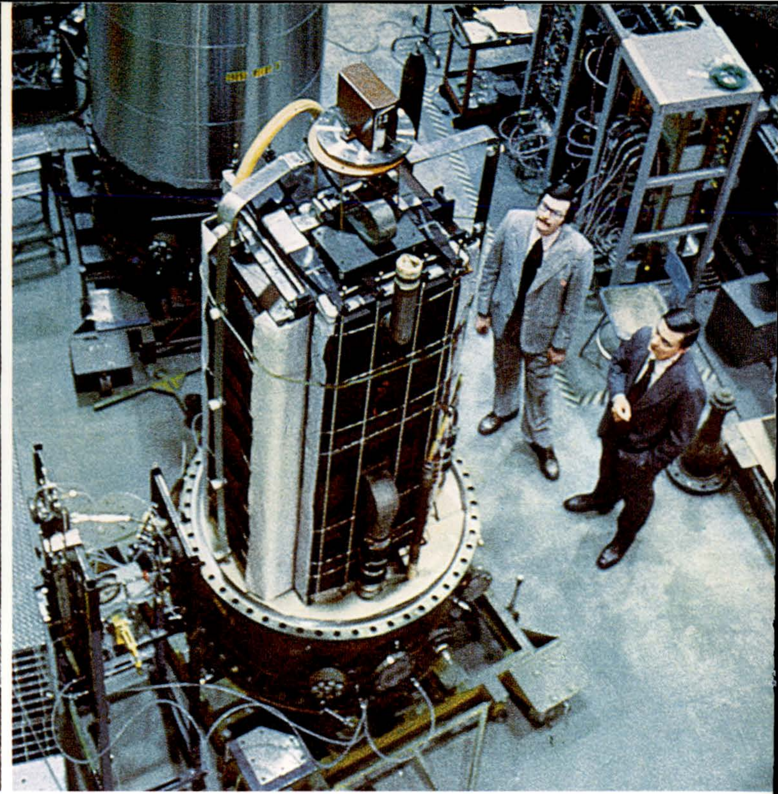
Research and Development

We accelerated our emphasis in 1976 on research and development programs seeking practical solutions for current and long-term energy problems. Research activities included continuation of existing projects and initiation of additional energy conservation programs.

In expanding its role in research, PSE&G has continued to seek outside financing from major national research organizations whose projects can best be coordinated with the needs and objectives of our Company. In 1976, PSE&G was awarded 11 research contracts totaling $9 million in outside funding. The Company also allocated $12 million for its own research programs and for PSE&G's share of jointly sponsored projects. This is in addition to the more than $16 million previously authorized for expenditure through 1980.

Four new weather monitoring stations will provide a centralized weather data bank to help determine solar energy availability under varying conditions and to provide weather information for general Company use.

Research is being carried out to determine feasibility of adding hydrogen to natural gas distribution systems to help stretch supply. Hydrogen from off-peak nuclear power could conceivably be used for this purpose.



PSE&G employees at United Technologies Corporation, Connecticut, where Company-supported research is being carried out to develop 26-megawatt fuel cell power plants to more efficiently meet energy needs in urban areas.

Battery Energy Storage Test Facility

The Company was selected by the Federal Energy Research and Development Administration (ERDA) as the prime contractor for a Battery Energy Storage Test (BEST) facility. This facility, expected to play a vital national role in developing new types of batteries for storing energy on electric power systems, will be used to evaluate and to test several types of advanced batteries and associated auxiliary equipment operating in parallel with our electric system.

The BEST project, jointly funded by ERDA and by the Electric Power Research Institute (EPRI), will evaluate advanced batteries and serve as the focal point for development of efficient and economic batteries for energy storage. This will allow large nuclear and fossil base-load generators to operate at maximum efficiency in off-peak periods and this lower cost energy could then be stored for use during peak load periods.

Construction of the BEST facility is scheduled to start in mid-1977 and to be operational by 1980. It will cost an estimated $8.6 million to build and equip the facility and an additional $3 to $5 million for supplementary equipment. The Company will contribute about $1.5 million for costs associated with the Somerset County site, the building, and substation equipment. This contribution is expected to be offset by Federal funding during operation of the facility which has a life expectancy of 10 years.

Gas Blending Studies

The Company is conducting a 15-month study to determine the feasibility of blending hydrogen into natural gas distribution systems. The project is funded by a $188,000 research contract with ERDA. Results to date indicate that up to 10% hydrogen could be used in existing appliances, and concentrations of up to 20% could be used by adjusting certain appliances. With fossil fuels and petroleum feedstocks becoming more expensive and some supplies more uncertain, hydrogen technology has been attracting greater interest among utilities. The concept of blending hydrogen, if proved commercially feasible, holds the potential of extending our limited reserves of natural gas.

Aquaculture Project Expanded

The Company's aquaculture project at Mercer Generating Station was extended for an additional three years to demonstrate the economic feasibility of utilizing warm water discharged from power plants to raise commercial-size freshwater shrimp, trout, striped bass and eels. The initial phase of the program, started as an experiment in 1974 and concluded in November 1976, proved that heated water could produce high yields of protein from fish caged in raceways of special design and controlled environments. Expansion of the raceways at Mercer is being funded by $271,000 as the first step of an $895,000 research grant from the National Science Foundation, sponsor of the first phase of the project.

Fuel Cell Demonstrator Program

As a result of advances made in a 26,000-kilowatt fuel cell development program, which PSE&G has been supporting with eight other utilities, a $42 million demonstration program has been launched by EPRI and ERDA. A 4,800-kilowatt fuel cell power plant will be installed on a utility system to determine operational and performance characteristics. PSE&G will propose to ERDA that it serve as

"The Meadowlands," the nation's finest sports and entertainment center. The 78,000-seat stadium is home of the Giants football team while the adjacent racetrack can accommodate 35,000 fans.

the host utility system. If successful, the program could lead to commercial fuel cell power plants within ten years.

Energy from Refuse

The Company signed an agreement with Combustion Equipment Associates to participate in a one-year program to test the use of a powdered fuel to be burned as a supplement with oil at Bergen Generating Station. The fuel, known as Eco-Fuel II, is derived from solid waste. If tests are successful, the agreement provides for a 19-year purchase arrangement. The Company has agreed to work with the Hackensack Meadowlands Commission in testing the use of another refuse-derived fuel as a supplement to coal at its Hudson Generating Station. We are also embarking on a project to recover methane gas from a sanitary landfill in Cinnaminson, New Jersey. The project is expected to recover one million cubic feet of gas per day generated by decomposing garbage. This gas will be supplied to an adjacent industrial customer.

Solar Research Launched

PSE&G has started a $447,000 demonstration project to install and operate solar energy facilities in 14 customers' homes to determine the practicality of solar energy as a substitute or supplement to conventional heating systems. The project, which will take three years to complete, is part of the Company's solar energy research program. The program includes the installation of a weather station monitoring network within PSE&G's service area. Collected data will document weather conditions in the vicinity of each of the homes where solar energy facilities will be in use. The information will provide a more accurate indication of performance of the equipment under varying conditions.

Commercial and Marketing

The Company has continued to emphasize effective communications with customers and the importance of responding promptly to their areas of concern.

Employees in customer contact activities have received special training to improve communication techniques employed in face-to-face contact or by telephone. The training has proved especially timely because of the large increase in the number of customer inquiries concerning billing or service.

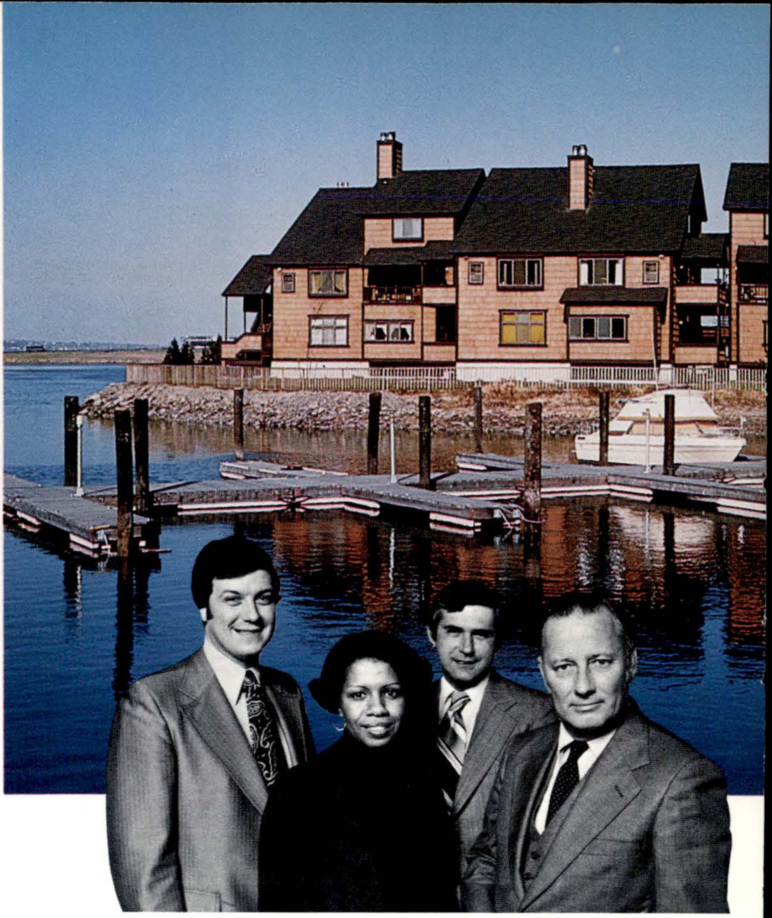
The Company has also expanded its customer communications program by converting its post card billing system to envelope billing allowing for enclosures of messages on conservation or other subjects of special interest to users of electric or gas service. This system also provides the customer with a return envelope for payment convenience.

PSE&G has continued to emphasize the importance of conservation measures in its marketing program. The Company is also evaluating the effectiveness of heat pumps, solar heating, cogeneration of electricity and time-of-day pricing for their potential contributions to more economical and more efficient uses of energy.

Kilowatthour sales to customers increased by 4% in 1976 in contrast to a decline of 3% in 1975 from the prior year. The increase reflected a modest improvement in the general health of the economy within the Company's service territory and was the first increase in electric sales since 1973.

Installations of electric space heating systems showed an improvement over 1975. In the residential market, 1,948 installations were made. The total number of residential installations on the Company's lines was 26,865 at year-end.

The New York Times modern satellite printing plant in Carlstadt, established at a capital investment of $35 million, is designed to improve both production and distribution of the newspaper.



Harmon Cove, a condominium housing development along the Hackensack River in Secaucus will eventually provide 4,000 luxury dwelling units and associated amenities. The developer is Hartz Mountain Industries, Inc.

In the industrial and commercial market 491 installations were made totaling 61,295 kilowatts. The total electric space heating added during the year will produce estimated additional revenues of $3,845,000 at current rates in 1977.

Therm sales of gas rose 3% from 1975 levels, the first increase in gas sales since 1972. Record cold weather in the last three months of the year was principally responsible for the gain.

At year end, the Company was supplying electricity to 1,654,505 customers and gas to 1,304,762 customers. A new municipal customer, the Borough of Park Ridge, was signed during the year. Transfer of its electric load will produce an estimated $800,000 in annual electric revenues, starting in 1977.

Interruptible Service

The number of gas customers served under interruptible contracts was 76 at the end of 1976 compared to 83 a year earlier. Interruptions during 1976 totaled 175 calendar days compared with 108 days in 1975. Revenues from interruptible customers declined as therm sales for the year decreased 34% from 1975 levels.

The Company has received permission to establish an interruptible electric rate as an additional means of load management. It is anticipated that significant load relief will be realized at times of system peak through this medium.

Area Development

Industrial and commercial development in the Company's service territory increased substantially over 1975's recession-depressed levels.

A total of 474 major companies with about 20,700 employees initiated or expanded operations within PSE&G territory while 106 companies with about 9,700 employees departed, leaving a net gain of 11,000 jobs.

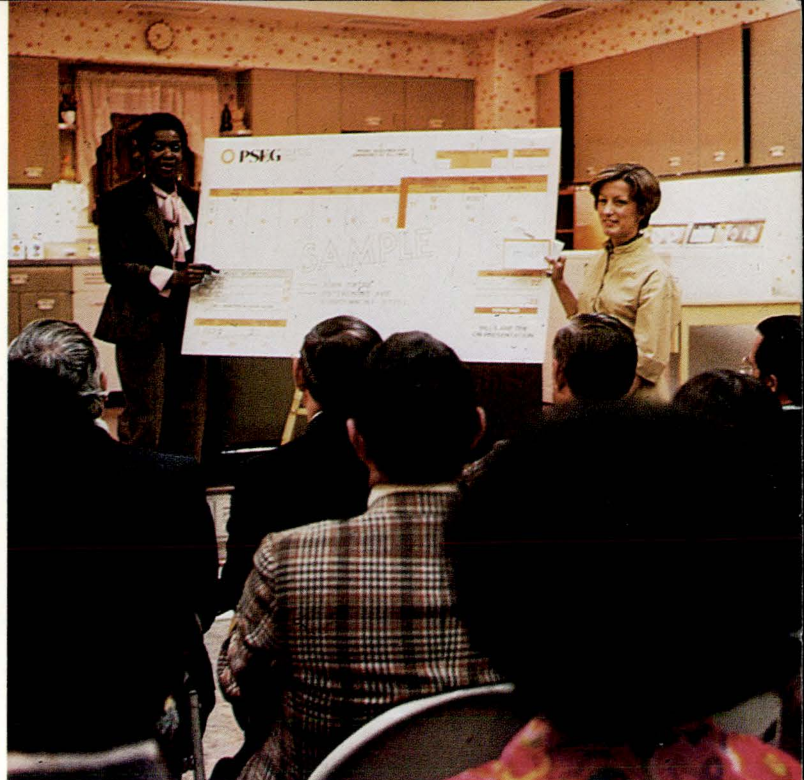
Demand for office facilities was active. American Telephone and Telegraph Company's new headquarters building in Basking Ridge, with 2.7 million square feet, will be occupied by 2,900 employees. Other companies with new or planned major facilities in PSE&G territory include Prudential, Thomas and Betts, Becton-Dickinson, General Electric, IBM, and American Broadcasting Company.

Opening of the Meadowlands Sports Complex, a $300 million project featuring a year-round racetrack and a 78,000-seat football stadium, has stimulated plans for other facilities on the 588-acre site. These include an aquarium, an indoor arena, and a theme park of major proportions.

Commercial development of the meadowlands area, where nearly $200 million of industrial, commercial and residential development has already taken place, continues to accelerate. A total of 1.6 million square feet of space was occupied or put under contract last year by industrial companies new to the area. Major projects planned include a 14-story Hilton hotel and convention center and a 560,000 square foot office and distribution building for Abraham & Straus.

Industrial development in PSE&G territory during the year involved construction or leasing of more than one million square feet of space for manufacturing or service operations. Companies included were Eastman Kodak, Mattell, Inc., Essex Chemical Corporation, Colgate-Palmolive,

Restoration of the abandoned Keuffel & Esser factory building in Hoboken into 173 dwelling units is a unique accomplishment and has been recorded on film by PSE&G to help give direction to other urban areas.



Consumer Advisers held meetings throughout Company territory with numerous groups explaining the details and advantages to customers of the Company's "new look" billing.

Baxter Laboratories, Coca Cola Bottling Company of New York, Inc., and Emerson Radio.

One of the largest industrial projects is the plan by Co-Steel International Ltd. to build a $95 million steel plant in Perth Amboy. The plant, with a capacity of 500,000 tons a year, is expected to employ over 1,000 workers when it becomes fully operational in 1979. Its 74-megawatt electric furnaces and rolling mill are expected to generate about $10 million in annual revenues for PSE&G.

The New Jersey Economic Development Authority helped create new jobs by lending $156 million in 1976 to private industry for 131 new business projects with total investments of $226 million. An estimated 7,900 permanent new jobs and 2,600 construction jobs have been or will be created as a direct result of this financing.

Community Involvement

The Company cooperates in many ways with numerous civic, educational and cultural organizations within its service territory.

Personnel from the Consumer Affairs, Urban Affairs and Community Relations Departments are serving all spectrums of the community, with special programs designed for minorities and economically-disadvantaged persons. Overall assistance ranges from extending financial support to advisory roles to planned programs. For instance, Urban Affairs personnel are actively engaged in programs designed to create jobs. Last year this included close working relationships with local, state and regional governmental units to help develop industrial park projects in Newark, Jersey City and Elizabeth. When complete, these projects will offer greater employment opportunities to disadvantaged and minority groups.

Other programs have been designed to stimulate career motivation and development, provide summer film programs for center city children, conduct solar energy competition for 11th grade students and make presentations on conservation and wise use of energy. Our Consumer Advisers alone in 1976 made 1400 presentations and answered 15,000 telephone calls from customers seeking information on nutrition, safety, and energy costs.

Environmental Affairs

The Company has increased its efforts to communicate with government environmental agencies and with private organizations as part of its continuing program to achieve a more satisfactory environment.

The Environmental Affairs Department, which represents PSE&G at public hearings on matters related to the environment, has also been instrumental in establishing greater contact with the public. An expanded speakers bureau has stressed such subjects as the energy outlook, nuclear energy, solar energy, the proposed offshore power stations, and other publicly significant issues.

PSE&G expenditures to preserve and improve the quality of environmental influences due to its operations were $121 million in 1976, including the $66 million incremental cost of low sulfur fuels.

Communications

Communications activities have played key roles in implementing the Company's public information programs directed at employees, customers, students, social and civic groups, and other members of the general public.

In 1976, the Community Relations Department reached over 225,000 persons in our service area. Films, slides, lec-

There were over 400 entries in the Bicentennial Employee Art Contest held in April. It was enjoyed by all who visited and all who entered with trophies and awards being made at a special closing ceremony.

Executive Vice Presidents William E. Scott and John F. Betz discuss Company's Affirmative Action Program with Michael R. Tuosto (left) Manager-Equal Opportunity Activities.

tures, and printed materials were used to provide information on nuclear energy and subjects of broad interest.

The Company also communicated with the general public by providing continuous information to the press and electronic news media and by an all-encompassing advertising program which produced more than a third of a million requests for energy information.

Also of great importance in 1976 was the appearance of Company personnel on radio and television stations either as guest speakers, panelists or as spokesmen answering media or audience questions.

The Company's floating energy information center, which features exhibits about nuclear energy, attracted 51,000 visitors in 1976.

Employees

There were 13,342 Company employees at the end of 1976, or 6 fewer than at the end of 1975. A substantial number of employees who had been laid off in 1975 in departments where the work load had decreased because of economic conditions were rehired during 1976, a year when the hiring level was the highest since 1973.

Wages and salaries totaled $237,521,252 in 1976, including $8,837,719 for disability benefits and workmen's compensation. Union-represented employees received a 7.98% wage increase on May 1 as part of a two-year increase negotiated in 1975. The Company's contributions to the trusteed pension fund for employees was $33,973,008 in 1976. At year-end the number of retired employees and beneficiaries under the pension plan had increased to 4,508.

The Company's continuing program to help employees improve their supervisory and managerial practices through personnel development classroom courses again elicited much interest at all organizational levels. A new corporate performance evaluation system was adopted on a Company-wide basis during the year. Job related courses at nearby colleges were attended by 536 employees under the Company's tuition aid program.

PSE&G has continued to emphasize its Affirmative Action program in respect to the hiring of women and members of minority groups. In 1976, 29% of all persons hired were women and 23% were from minorities. At year end, 1,731 employees were female and 1,497 were members of minority groups. As part of Company personnel policy, there was an appreciable increase in the number of professional and managerial positions filled by women and by minority persons.

A report analyzing the results of an employee attitude survey was submitted to the Company during 1976. The survey report, made by Opinion Research Corporation of Princeton, New Jersey, was based on answers to an opinion research questionnaire by 2,920 representative employees. In response, many actions have been taken to make PSE&G a better place to work.

TNJ is the State's largest mass transit carrier and last year provided service for 118 million passengers. In 1976, TNJ received 416 new buses under a program sponsored by the State Department of Transportation.

Transport of New Jersey

In 1976 Transport of New Jersey (TNJ) and its subsidiaries recorded a net loss of $504,000 after receiving State subsidies of $20,976,000. This compares to a net loss of $1,755,000 in 1975 when the State subsidies were $17,143,000.

Fare Increase

The Interstate Commerce Commission (ICC) in March 1976 authorized TNJ to increase the rates of all interstate fares by 10%, from all points on its routes in New Jersey to points in New York and Pennsylvania.

Bus-Buy-Out Program

Under the Bus-Buy-Out Program of 1975, the Department of Transportation acquired 514 used buses from TNJ. The buses were then leased back to TNJ at a nominal cost. As part of the transaction, $5,339,000 or 40% of the approximately $13 million price was returned to the Department of Transportation for use, together with Federal financial assistance, to purchase in 1976, 195 new transit-type buses and 221 new commuter-type buses which are now leased at no cost to TNJ.

These new buses are air conditioned and equipped with the latest ecological device to limit air pollution. With the addition of these new buses, the average age of TNJ's operating fleet was reduced from 11.64 years to 7.84 years.

Subsidies Necessary

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

Officers

John J. Gilhooley
Chairman of the Board and President

S. A. Caria
Executive Vice President

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

Richard Fryling
Vice President for Law and Secretary

George K. Klein
Treasurer and Assistant Secretary

Jesse J. Cooper
Comptroller and Assistant Treasurer

Summary of Significant Accounting Policies

System of Accounts

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

Investments in Subsidiaries

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

Revenues

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

Fuel Costs – Electric

The Company's electric rates include energy adjustment clauses which permit recovery of increases in electric fuel and interchanged power costs over base period costs approximately two months subsequent to their incurrence. In accordance with regulatory approval, the Company is charging operations for increases in electric fuel costs in the period of recovery.

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

Fuel Costs – Gas

Effective January 2, 1976, in accordance with a PUC order received in late 1975, the Company is allowed to recover the projected cost of purchased gas and materials used to manufacture gas over a twelve month period. The adjustment clause for gas costs is set at a fixed rate for such period. Recoveries that vary from actual costs are being deferred and included in the following period's cost for determining the adjustment factor for gas rates. The Company is charging operations principally on the basis of the average twelve month period cost of gas delivered to its customers.

Prior to January 2, 1976 increases in purchased gas and materials used to produce gas were recovered in months subsequent to their incurrence and were charged to operations principally as they were incurred.

Gross Receipts Tax

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

Depreciation and Utility Plant

Depreciation, for financial reporting purposes, is computed under the straight-line method and is based on estimated average remaining lives of the several classes of depreciable property. These estimates are reviewed continuously and adjustments, as approved by the PUC, are made as required. Depreciation provisions for the years 1976 and 1975 stated in percentages of original cost of depreciable property are 3.39% and 3.20%, respectively.

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

Income Taxes

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

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

Investment tax credits are deferred and amortized over the average life of the related plant.

Allowance for Funds Used During Construction

Allowance for funds used during construction (AFDC) is a cost accounting procedure whereby the approximate net composite interest and equity costs of capital funds used to finance construction are transferred from the income statement to construction work in progress (CWIP) in the balance sheet. This procedure is intended to remove the effect of the cost of financing construction activity from the income statement, and results in treating such cost in the same manner as construction labor and material costs. The rate used for calculating AFDC was 8% in 1976 and 1975.

The PUC issued rate orders in 1975 allowing the Company to recover the financing cost on $250,000,000 of CWIP through current operating revenues. As a result of these orders no AFDC has been accrued on $125,000,000 of CWIP since June 1975, and none has been accrued on an additional $125,000,000 of CWIP since November 1975.

On February 2, 1977 the FPC issued an order revising the Uniform Systems of Accounts, effective January 1, 1977, which provides a formula for determining the maximum allowable AFDC rate, and for segregating AFDC into two component parts, borrowed funds and other funds. The borrowed funds component will be included in the Interest Charges section of the Statement of Income and the other funds component will remain as part of Other Income. The Company does not expect any material change in its AFDC rate or adverse effects on the results of operations as a result of this statement. However, there may be an effect on earnings available for coverage tests under the provisions in the Company's Mortgage and Restated Certificate of Incorporation which in turn may affect the amount of mortgage bonds and preferred stock that can be issued, but this will not affect the Company's financing in the immediate future.

Pension Plan

Pension costs are accounted for on the basis of an acceptable actuarial method and are charged to operating expenses, utility plant and other accounts. The Company's policy is to fund pension costs accrued. In January 1977 the Company increased its annual payment to the fund for prior service costs, thereby reducing the funding period, which began January 1, 1967, from 40 to 35 years.

Extraordinary Property Losses

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

Statement of Income

For the Years Ended December 31,	1976	1975
	(Thousands of Dollars)	
Operating Revenues		
Electric	$1,316,077	$1,213,488
Gas	553,458	417,037
Total Operating Revenues	1,869,535	1,630,525
Operating Expenses		
Operation		
Fuel for Electric Generation	362,257	339,296
Interchanged Power—net	121,917	139,016
Gas Purchased and Materials for Gas Produced	261,190	198,653
Other Operation Expenses	227,395	201,865
Maintenance	99,617	83,494
Depreciation	133,087	122,634
Taxes Other than Federal Income Taxes	275,254	240,967
Federal Income Taxes (note 1):		
Current	6,033	1,202
Deferred	94,347	53,166
Total Operating Expenses	1,581,097	1,380,293
Operating Income	288,438	250,232
Other Income		
Allowance for Funds Used During Construction	43,547	43,325
Miscellaneous Other Income—net	1,928	2,913
Earnings (Losses) of Subsidiaries—net (note 2)	726	(1,155)
Total Other Income	46,201	45,083
Income Before Interest Charges	334,639	295,315
Interest Charges		
Long-Term Debt	127,643	134,411
Short-Term Debt	359	1,551
Other	2,613	747
Total Interest Charges	130,615	136,709
Net Income	204,024	158,606
Dividends on Cumulative Preferred Stock and $1.40 Dividend Preference Common Stock	41,257	36,008
Balance Available for Common Stock	$ 162,767	$ 122,598
Shares of Common Stock Outstanding		
End of Year	58,975,747	56,523,160
Average for Year	58,307,947	54,512,838
Earnings per average share of Common Stock	$2.79	$2.25
Dividends paid per share of Common Stock	$1.78	$1.72

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

Balance Sheet

December 31,

Assets

	1976	1975
	(Thousands of Dollars)	
Utility Plant—original cost		
Electric Plant	$3,219,349	$3,175,218
Gas Plant	843,315	820,171
Common Plant	41,948	35,463
Utility Plant in Service	4,104,612	4,030,852
Less Accumulated Depreciation	1,194,444	1,078,121
Net Utility Plant in Service	2,910,168	2,952,731
Construction Work in Progress, including nuclear fuel, 1976, $72,352; 1975, $47,044	1,129,504	869,261
Plant Held for Future Use, net of accumulated depreciation	21,147	20,652
Net Utility Plant	4,060,819	3,842,644
Other Property and Investments		
Nonutility Property, net of accumulated depreciation, 1976, $380; 1975, $465	6,511	6,874
Investments in and Advances to Subsidiaries (note 2)	117,354	23,349
Other Security Investments, at cost or less (note 2)	24	64,728
Total Other Property and Investments	123,889	94,951
Current Assets		
Cash (note 3)	26,728	24,528
Accounts Receivable, net of accumulated provision for doubtful accounts, 1976, $4,039; 1975, $2,860	266,702	224,582
Refundable Federal Income Taxes	1,015	1,015
Fuel, at average cost	102,570	106,197
Unbilled Electric Fuel Costs	43,492	45,422
Materials and Supplies, principally at average cost	15,801	16,084
Prepayments	2,367	2,133
Total Current Assets	458,675	419,961
Deferred Debits		
Gross Receipts Tax	96,397	105,580
Extraordinary Property Losses	6,761	7,708
Other, principally debt expense	2,241	2,629
Total Deferred Debits	105,399	115,917
Total	$4,748,782	$4,473,473

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

Liabilities

	1976	1975
	(Thousands of Dollars)	
Capitalization		
Common Equity		
Common Stock (see statement, page 25)	$ 900,384	$ 855,874
Premium on Capital Stock	550	550
Paid-In Capital	26,065	26,065
Retained Earnings Reinvested in Business (note 4)	596,745	540,041
Total Common Equity	1,523,744	1,422,530
Preferred Stock (see statement, page 25)	559,994	509,994
Total Stockholders' Equity	2,083,738	1,932,524
Long-Term Debt (see statement, page 26)	1,894,210	1,953,073
Total Capitalization	3,977,948	3,885,597
Current Liabilities		
Long-Term Debt due within one year (see statement, page 26)	37,136	5,133
Commercial Paper	4,700	10,000
Accounts Payable	66,457	56,613
Taxes Accrued, including gross receipts tax, 1976, $257,498; 1975, $226,090	276,410	241,375
Deferred Income Taxes (note 1)	70,666	69,859
Interest Accrued	33,183	31,383
Gas Purchased	27,202	24,752
Other	47,230	34,832
Total Current Liabilities	562,984	473,947
Deferred Credits		
Accumulated Deferred Income Taxes (note 1)	116,455	72,881
Accumulated Deferred Investment Tax Credits (note 1)	83,735	34,379
Other	7,660	6,669
Total Deferred Credits	207,850	113,929
Commitments and Contingent Liabilities (note 6)		
Total	$4,748,782	$4,473,473

Statement of Retained Earnings Reinvested in Business

For the Years Ended December 31,	1976	1975
	(Thousands of Dollars)	
Balance January 1,	$540,041	$515,267
Add Net Income	204,024	158,606
Total	744,065	673,873
Deduct		
Cash Dividends		
Preferred Stock at required annual rates	39,462	34,041
$1.40 Dividend Preference Common Stock	1,881	1,881
Common Stock	103,609	93,692
Total Cash Dividends	144,952	129,614
Capital stock expenses	2,368	4,218
Total Deductions	147,320	133,832
Balance December 31 (note 4)	$596,745	$540,041

Statement of Changes in Financial Position

For the Years Ended December 31,	1976	1975
	(Thousands of Dollars)	
Source of Funds:		
Net Income	$204,024	$158,606
Non-cash Items:		
Depreciation	135,833	125,427
Amortization of Gross Receipts Tax	9,182	8,016
Provision for Deferred Income Taxes—net	43,574	21,669
Investment Tax Credit Adjustments—net	49,966	7,829
Allowance for Funds Used During Construction	(43,547)	(43,325)
Equity in Net (Earnings) Losses of Subsidiaries	(434)	1,262
Other	801	(1,442)
Total from operations	399,399	278,042
Proceeds from sales of:		
Long-Term Debt	132,526	
Preferred Stock	48,163	72,415
Common Stock	44,086	56,855
Total Security Sales	224,775	129,270
Proceeds from the sale of nonutility equipment		40,027
Miscellaneous	1,001	3,592
Total Funds Provided	$625,175	$450,931
Application of Funds:		
Additions to Utility Plant, excluding allowance for funds used during construction	$307,029	$254,093
Investments in and Advances to Subsidiaries	28,877	7,289
Reductions of Long-Term Debt	190,504	10,548
Dividends	144,952	129,614
Miscellaneous	4,136	2,635
Total Funds Applied	675,498	404,179
Changes in Working Capital:		
Short-Term Debt—(Increase) Decrease	5,300	89,422
Other (net)—Increase (Decrease)	(55,623)	(42,670)
Net Increase (Decrease) in Working Capital	(50,323)	46,752
Total Funds Applied and Changes in Working Capital	$625,175	$450,931

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

Statement of Capital Stock

December 31,	Outstanding Shares	1976	1975	Current Redemption Price Per Share	Refunding Restricted Prior to (note A)
		(Thousands of Dollars)			
Cumulative Preferred Stock					
$100 par value—authorized 7,500,000 shares					
Series issued:					
4.08%	250,000	$ 25,000	$ 25,000	$103.00	
4.18%	249,942	24,994	24,994	103.00	
4.30%	250,000	25,000	25,000	102.75	
5.05%	250,000	25,000	25,000	103.00	
5.28%	250,000	25,000	25,000	103.00	
6.80%	250,000	25,000	25,000	106.00	
9.62%	350,000	35,000	35,000	109.50	July 1, 1980
7.40%	500,000	50,000	50,000	106.00	
7.52%	500,000	50,000	50,000	108.00	April 1, 1977
8.08%	150,000	15,000	15,000	108.00	May 1, 1977
7.80%	750,000	75,000	75,000	108.00	November 1, 1977
7.70%	600,000	60,000	60,000	108.49	April 1, 1978
12.25% issued in 1975 (note B)	350,000	35,000	35,000	112.00	February 1, 1985
Unissued—2,800,058 shares					
$25 par value—authorized 10,000,000 shares					
9.75% Series issued in 1975	1,600,000	40,000	40,000	27.50	January 1, 1981
8.70% Series issued in 1976	2,000,000	50,000		27.00	October 1, 1981
Unissued—6,400,000 shares					
Total Cumulative Preferred Stock (note C)		$559,994	$509,994		
Dividend Preference Common Stock and Common Stock					
$1.40 Dividend Preference Common Stock (no par)—1,343,999 shares authorized, issued and outstanding; current redemption price $35.00 per share (note D) Common Stock (no par)—authorized 100,000,000 shares (note E); issued and outstanding as of December 31, 1976, 58,975,747 shares (2,452,587 shares issued for $44,510 in 1976 and 3,992,157 shares issued for $58,488 in 1975)		$900,384	$855,874		

Notes:

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

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

C—As of December 31, 1976 the annual dividend requirement on Preferred Stock was $42,469,000. The embedded dividend cost was 7.67%.

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

E—Includes 1,892,311 shares of Common Stock reserved for possible issuance under the Automatic Dividend Reinvestment Plan.

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

Statement of Long-Term Debt

December 31,	1976	1975
	(Thousands of Dollars)	
First and Refunding Mortgage Bonds Series (note A)		
2⅞% June 1, 1979	$ 54,740	$ 54,990
2¾% May 1, 1980	19,060	19,160
3¼% October 1, 1983	22,833	22,976
3¼% May 1, 1984	50,000	50,000
4⅜% November 1, 1986	50,000	50,000
4⅞% September 1, 1987	60,000	60,000
4⅝% August 1, 1988	60,000	60,000
5⅛% June 1, 1989	50,000	50,000
4¾% September 1, 1990	50,000	50,000
4⅜% August 1, 1992	40,000	40,000
4⅜% June 1, 1993	40,000	40,000
4⅝% September 1, 1994	60,000	60,000
4¾% September 1, 1995	60,000	60,000
6¼% June 1, 1997	75,000	75,000
7 % June 1, 1998	75,000	75,000
7⅝% April 1, 1999	75,000	75,000
9⅛% March 1, 2000	98,000	98,000
8⅜% A May 15, 2001	69,300	69,300
7⅝% B November 15, 2001	80,000	80,000
7½% C April 1, 2002	125,000	125,000
8½% D March 1, 2004	90,000	90,000
12 % E October 1, 2004	98,000	99,000
8¾% F April 1, 2006	60,000	
8.45% G September 1, 2006	60,000	
6.30% Pollution Control A October 1, 2006	14,300	
8 % June 1, 2037	7,463	7,463
5 % July 1, 2037	7,538	7,538
Total First and Refunding Mortgage Bonds	1,551,234	1,418,427

Notes:

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

B—The Five-Year Term Notes were prepaid with proceeds from Common Stock issued March 11, 1976, First and Refunding Mortgage Bonds, 8¾% Series F due 2006 issued on April 7, 1976 and cash from internal sources.

C—As of December 31, 1976 the annual interest requirement on Long-Term Debt was $130,320,000 of which $103,897,000 was the requirement for First and Refunding Mortgage Bonds. The embedded interest cost on Long-Term Debt was 6.78%.

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

	1976	1975
	(Thousands of Dollars)	
Debenture Bonds unsecured		
4⅝% March 1, 1977	31,000	31,000
4¾% October 1, 1981	34,080	35,761
4⅝% October 1, 1983	28,818	29,645
5¾% June 1, 1991	46,752	48,306
7¼% December 1, 1993	32,931	34,298
9 % November 1, 1995	65,935	66,784
7¾% August 15, 1996	67,078	67,876
8¾% November 1, 1996	51,461	52,523
6 % July 1, 1998	18,195	18,195
Total Debenture Bonds	376,250	384,388
Other Long-Term Debt		
Five-Year Term Notes due November 26, 1979 (note B)		150,000
6½% Note due serially from May 15, 1977 to November 15, 1983	3,600	3,600
Total Other Long-Term Debt	3,600	153,600
Total Long-Term Debt principal amount outstanding (note C)	1,931,084	1,956,415
Less amount due within one year (note D)	37,136	5,133
Long-Term Debt excluding amount due within one year (note D)	1,893,948	1,951,282
Add Net Unamortized Premium	262	1,791
Long-Term Debt and Net Unamortized Premium	$1,894,210	$1,953,073

D—The aggregate principal amount of requirements for sinking funds and maturities for each of the five years following December 31, 1976 is as follows:

Year	Sinking Funds	Maturities	Total
		(Thousands of Dollars)	
1977	$ 5,656	$ 31,480	$ 37,136
1978	10,262	480	10,742
1979	9,560	53,730	63,290
1980	9,300	18,940	28,240
1981	8,300	31,480	39,780
	$43,078	$136,110	$179,188

For sinking fund purposes, certain First and Refunding Mortgage Bond issues require annually the retirement of $14,300,000 principal amount of bonds or the utilization of bondable property additions at 60% of cost and the portion expected to be met by property additions has been excluded from the table above. Also, the Company may, at its option, retire additional amounts up to $6,200,000 annually through sinking funds of certain debenture bonds.

Notes to Financial Statements

1. Federal Income Taxes

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

	1976	1975
	(Thousands of Dollars)	
Net Income	$204,024	$158,606
Federal income taxes included in:		
Operating income:		
Current provision	6,033	1,202
*Provision for deferred income taxes – net	44,381	45,337
Investment tax credit adjustments – net	49,966	7,829
Total deferred	94,347	53,166
Total included in operating income	100,380	54,368
Miscellaneous other income – net	232	154
Total Federal income tax provisions	100,612	54,522
Total	304,636	213,128
(Earnings) Losses of subsidiaries – net	(726)	1,155
Pre-tax income	$303,910	$214,283
Tax expense at 48% of pre-tax income	$145,877	$102,856
Adjustments to pre-tax income, computed at 48%, for which deferred taxes are not provided under current rate-making policies:		
Tax depreciation in excess of book depreciation	(6,126)	(13,956)
Allowance for funds used during construction	(20,902)	(20,796)
Overhead costs capitalized	(4,652)	(4,408)
Other	(600)	(1,484)
Total	(32,280)	(40,644)
Amortization of deferred tax items	(12,985)	(7,690)
Total	(45,265)	(48,334)
Total Federal income tax provisions	$100,612	$ 54,522

*Represents the tax effects of the following items:		
Additional tax depreciation	$ 28,002	$ 20,685
Unbilled revenues	7,662	7,514
Unbilled fuel costs	(8,508)	1,818
Gross receipts taxes	1,653	14,336
Repair allowance property	18,239	3,836
Other	(2,667)	(2,852)
Total	$ 44,381	$ 45,337

The balance of investment tax credits not utilized in 1976 in the amount of $21,000,000 is available as a carryover to future years. The Tax Reduction Act of 1975 provides that, for years 1975 and 1976, investment tax credits can be utilized to offset 100% of tax liability before investment credit.

2. Investments in and Advances to Subsidiaries

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

December 31,	1976	1975
	(Thousands of Dollars)	
Transport of New Jersey		
Investment	$ 10,019	$ 10,523
Energy Terminal Services Corporation (formerly DONY)		
Investment	3,097	
Advances (A)	69,598	64,695
Energy Pipeline Corporation (formerly Distrigas Pipeline Corporation)		
Investment	1,000	
Advances	400	
Energy Development Corporation		
Investment	2,879	1,941
Advances	30,356	10,880
Eascogas LNG, Inc.		
Investment	5	5
Total	$117,354	$88,044(A)

(A) In 1975 the advances to DONY were included in "Other Security Investments".

The Company, to assist in the construction of a liquefied natural gas terminal on Staten Island, from 1972 through 1975 purchased $60,000,000 principal amount of interest bearing first mortgage notes of Distrigas of New York Corporation (DONY), a wholly-owned subsidiary of Cabot Corporation, a non-affiliated company. These notes were in addition to $35,000,000 of equity funds provided by Cabot. The terminal facilities are intended to be the primary port of entry for the Company's share of LNG supplies being negotiated from foreign sources.

In recognition of the serious problems being encountered by DONY in obtaining sufficient quantities of LNG with related regulatory approvals and authorizations and permits for the economical operation of the terminal facilities, the Company has not recognized interest income on these notes.

Early in 1975 Cabot announced that it would not invest any additional funds in this project. In order to protect its interest and investment in the terminal facilities, the Company, on August 13, 1976, purchased the capital stock of DONY and its affiliate, Distrigas Pipeline Corporation, and certain real estate interests for a consideration of $6,000,000.

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

3. Compensating Balances

Cash at December 31, 1976 and December 31, 1975 consisted primarily of compensating balances under informal arrangements with various banks to compensate them for services and to support lines of credit of $189,250,000 and $187,200,000, respectively.

4. Retained Earnings and Dividend Restrictions

Certain indentures supplemental to the First and Refunding Mortgage, certain of the Debenture Bond indentures and the Restated Certificate of Incorporation, as amended, contain, among other things, provisions relating to the payment of dividends on both Common Stock and $1.40 Dividend Preference Common Stock and provisions relating to the use of retained earnings. The amount of retained earnings available for the payment of dividends as of December 31, 1976 was $586,745,000.

5. Pension Plan

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

	1976	1975
	(Thousands of Dollars)	
Operating Expenses	$27,398	$24,456
Utility Plant and Other Accounts	8,606	7,978
Total Pension Costs	$36,004	$32,434

As of December 31, 1976, the unfunded prior service cost was approximately $271,500,000 and vested benefits exceeded the cost of fund assets by approximately $170,600,000.

Amendments to conform the Company's Pension Plan with the requirements of the Employee Retirement Income Security Act of 1974 were adopted effective January 1, 1976. Additional pension costs resulting from the amendments are not material.

6. Commitments and Contingent Liabilities

The Company has substantial commitments as part of its construction program as well as commitments to obtain sufficient sources of fuel for electric generation and adequate gas supplies. Construction expenditures, excluding AFDC, of $3.4 billion are expected to be incurred during the years 1977 through 1981. For detailed information, see Construction Expenditures – page 6, Nuclear Generating Facilities – page 8, Nuclear Fuel – page 9, and Imported LNG – page 11.

The Company is a member of Nuclear Mutual Limited (NML) which provides insurance coverages, up to $150 million, for property damage to nuclear generating facilities of member companies. In the event of losses at any plant covered by NML, the Company would be subject to a maximum assessment of fourteen times its annual premium, which currently would not be material for a single assessment.

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

Philadelphia Electric Company has consummated arrangements for the supply of all nuclear fuel for Peach Bottom 2 and 3 which are jointly owned with the Company and other utilities. The Company's proportionate share (42.49%) of the commitment as of December 31, 1976 was $45,373,000. Nuclear energy costs, calculated at a zero net salvage value, are charged to fuel expense on the basis of the number of units of thermal energy produced as they relate to total thermal units to be produced over the life of the fuel.

7. Replacement Cost (Unaudited)

The impact of the rate of inflation experienced in recent years has resulted in replacement cost of productive capacity which is greater than the historical cost of such assets as reported in the Company's financial statements. It is anticipated that the actual cost of replacing productive capacity, when incurred, will be recovered through depreciation recognized, together with a return on the unrecovered investment therein, in future rates allowed by regulatory bodies in the same manner that historic costs and returns on investments are being recovered in current rates. In compliance with reporting requirements of the Securities and Exchange Commission, estimated replacement cost information is disclosed in the Company's annual report to the SEC on Form 10-K.

8. Other Matters

Information regarding rate relief appears on page 5 and information describing financing during the year 1976 and subsequent to December 31, 1976 appears on page 6.

9. Selected Quarterly Data

A summary of quarterly results of operations is shown in the table below. Due to the seasonal nature of the utility business, quarterly amounts vary significantly during the year.

Quarter Ended	Operating Revenues	Net Income	Balance Available for Common Stock	Average Shares of Common Stock Outstanding	Earnings Per Average Share of Common Stock
(Thousands)					
March 31, 1976	$515,138	$52,147	$42,147	56,986	$.74
June 30, 1976	426,634	42,158	32,158	58,626	.55
September 30, 1976	427,676	49,392	39,222	58,743	.66
December 31, 1976	500,087	60,327	49,240	58,866	.84

Independent Accountants' Opinion

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

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

We have examined the balance sheet and statements of capital stock and long-term debt of Public Service Electric and Gas Company as of December 31, 1976 and 1975 and the related statements of income, retained earnings reinvested in business, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Public Service Electric and Gas Company as of December 31, 1976 and 1975 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

February 10, 1977

Operating Statistics

(000 omitted where applicable)	1976	1975	% Annual Increase—1976 compared with 1975	1966
Electric				
Revenues from Sales of Electricity (a)				
Residential	$ 443,531	$ 413,005	7.39	13.18
Commercial	474,791	429,428	10.56	14.93
Industrial	367,470	341,749	7.53	12.93
Public Street Lighting	25,863	23,375	10.64	9.33
Total Revenues from Sales to Customers	1,311,655	1,207,557	8.62	13.61
Interdepartmental	1,585	1,573	.76	13.24
Total Revenues from Sales of Electricity	1,313,240	1,209,130	8.61	13.61
Other Electric Revenues	2,837	4,358	(34.90)	23.45
Total Operating Revenues	$1,316,077	$1,213,488	8.45	13.62
Energy Adjustment Revenues (included above)	$ 307,530	$ 419,154	(26.63)	33.94
Sales of Electricity—kilowatthours (a)				
Residential	7,711,953	7,598,964	1.49	4.88
Commercial	9,514,574	8,994,855	5.78	6.78
Industrial	10,472,054	10,144,917	3.22	1.11
Public Street Lighting	259,151	256,755	.93	1.80
Total Sales to Customers	27,957,732	26,995,491	3.56	3.76
Interdepartmental	34,996	39,910	(12.31)	2.75
Total Sales of Electricity	27,992,728	27,035,401	3.54	3.76
Kilowatthours Produced, Purchased, and Interchanged—net	30,376,187	29,255,628	3.83	3.80
Load Factor	55.9%	53.3%		
Heat Rate—Btu of fuel per net kwh generated	10,593	10,582	.10	
Net Installed Generating Capacity at December 31—kilowatts	8,741	8,829	(1.00)	6.61
Net Peak Load—kilowatts (60-minute integrated)	6,190	6,270	(1.28)	4.21
Cooling Degree Hours	6,513	6,543	(.46)	(3.99)
Average Annual Use per Residential Customer—kwh	5,395	5,348	.88	4.09
Meters in Service at December 31	1,697	1,689	.47	.60
Gas				
Revenues from Sales of Gas (a)				
Residential	$ 342,524	$ 259,095	32.20	9.85
Commercial	140,809	102,656	37.17	13.89
Industrial	68,341	54,369	25.70	12.06
Street Lighting	159	116	37.07	7.80
Total Revenues from Sales to Customers	551,833	416,236	32.58	11.01
Interdepartmental	476	647	(26.43)	9.06
Total Revenues from Sales of Gas	552,309	416,883	32.49	11.01
Other Gas Revenues	1,149	154	646.10	21.64
Total Operating Revenues	$ 553,458	$ 417,037	32.71	11.02
Raw Materials Adjustment Revenues (included above)	$ 154,526	$ 106,795	44.69	28.82
Sales of Gas—therms (a)				
Residential	1,045,627	968,487	7.97	2.37
Commercial	468,761	447,600	4.73	5.89
Industrial	307,949	344,987	(10.74)	1.17
Street Lighting	389	404	(3.71)	(1.51)
Total Sales to Customers	1,822,726	1,761,478	3.48	2.92
Interdepartmental	1,764	3,204	(44.94)	(.58)
Total Sales of Gas	1,824,490	1,764,682	3.39	2.92
Gas Produced and Purchased—therms	1,895,041	1,823,191	3.94	2.68
Effective Daily Capacity at December 31—therms	19,449	19,575	(.64)	5.49
Maximum 24-hour Gas Sendout—therms	12,803	11,077	15.58	3.31
Heating Degree Days (a)	5,349	4,653	14.96	.57
Average Annual Use per Residential Customer—therms	924	862	7.19	1.97
Meters in Service at December 31	1,354	1,355	(.07)	.46

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

1974	1973	1972	1971	1966
$ 364,674	$274,974	$238,025	$219,614	$128,550
377,184	264,450	230,176	205,318	118,112
336,250	216,543	188,667	172,902	108,892
20,473	17,086	15,773	14,947	10,600
1,098,581	773,053	672,641	612,781	366,154
1,183	750	646	605	457
1,099,764	773,803	673,287	613,386	366,611
1,201	1,305	1,546	1,251	345
$1,100,965	$775,108	$674,833	$614,637	$366,956
$ 414,798	$141,081	$107,582	$111,506	$ 16,550
7,514,365	8,008,127	7,399,963	7,183,821	4,789,093
8,687,964	8,916,829	8,289,066	7,633,053	4,938,065
11,244,117	11,830,307	11,375,579	11,091,985	9,381,885
253,395	249,837	246,496	241,449	216,814
27,699,841	29,005,100	27,311,104	26,150,308	19,325,857
31,072	29,160	25,807	25,500	26,671
27,730,913	29,034,260	27,336,911	26,175,808	19,352,528
29,730,774	31,164,926	29,509,136	28,055,190	20,919,448
53.7%	52.2%	54.2%	54.0%	58.2%
10,779	10,695	10,685	10,642	10,363
8,892	8,306	7,836	7,483	4,610
6,316	6,816	6,201	5,925	4,100
7,501	10,911	7,287	8,717	9,788
5,312	5,703	5,307	5,184	3,614
1,683	1,672	1,656	1,643	1,598
$ 220,364	$186,325	$183,953	$170,380	$133,824
86,463	71,533	70,953	63,164	38,346
46,971	42,624	40,381	36,831	21,883
94	89	88	85	75
353,892	300,571	295,375	270,460	194,128
481	464	552	333	200
354,373	301,035	295,927	270,793	194,328
535	117	143	76	162
$ 354,908	$301,152	$296,070	$270,869	$194,490
$ 62,448	$ 39,124	$ 34,913	$ 27,636	$ 12,283
977,994	977,468	1,042,793	1,014,887	827,642
459,074	457,955	485,358	454,237	264,435
407,840	494,320	494,454	486,685	274,237
428	444	449	444	453
1,845,336	1,930,187	2,023,054	1,956,253	1,366,767
3,088	3,472	4,463	2,999	1,870
1,848,424	1,933,659	2,027,517	1,959,252	1,368,637
1,913,826	2,002,206	2,112,844	2,004,791	1,454,256
19,324	17,668	16,999	16,372	11,389
11,763	12,341	12,125	12,872	9,242
4,629	4,245	4,879	4,833	5,051
872	873	932	908	760
1,352	1,347	1,338	1,330	1,293

Financial Statistics

(000 omitted where applicable)	1976		1975	
Statement of Income (a)	Amount	%	Amount	%
Operating Revenues				
Electric	$1,316,077	70	$1,213,488	74
Gas	553,458	30	417,037	26
Total Operating Revenues	1,869,535	100	1,630,525	100
Operating Expenses				
Fuel for Electric Generation	362,257	20	339,296	21
Interchanged Power–net	121,917	7	139,016	9
Gas Purchased and Materials for Gas Produced	261,190	14	198,653	12
Other Operation Expenses	227,395	12	201,865	12
Maintenance	99,617	5	83,494	5
Depreciation	133,087	7	122,634	8
Taxes Other than Federal Income Taxes	275,254	15	240,967	15
Federal Income Taxes:				
Current	6,033		1,202	
Deferred	94,347	5	53,166	3
Total Operating Expenses	1,581,097	85	1,380,293	85
Operating Income				
Electric	236,359	12	217,429	13
Gas	52,079	3	32,803	2
Total Operating Income	288,438	15	250,232	15
Other Income				
Allowance for Funds Used During Construction	43,547	3	43,325	3
Miscellaneous Other Income–net	1,928		2,913	
Earnings (Losses) of Subsidiaries–net	726		(1,155)	
Total Other Income	46,201	3	45,083	3
Income Before Interest Charges	334,639	18	295,315	18
Interest Charges				
Long-Term Debt	127,643	7	134,411	8
Short-Term Debt	359		1,551	
Other	2,613		747	
Total Interest Charges	130,615	7	136,709	8
Income before cumulative effect of a change in accounting method	204,024	11	158,606	10
Cumulative effect to January 1, 1973 of accruing estimated unbilled revenues of $41,488, net of related taxes				
Net Income	204,024	11	158,606	10
Preferred Stock Dividends	39,376	2	34,127	2
Balance	164,648	9	124,479	8
$1.40 Dividend Preference Common Stock Dividends	1,881		1,881	
Balance Available for Common Stock	$ 162,767	9	$ 122,598	8
Shares of Common Stock Outstanding				
End of Year	58,976		56,523	
Average for Year	58,308		54,513	
Earnings per average share of Common Stock	$2.79		$2.25	
Dividends Paid per Share	$1.78		$1.72	
Payout Ratio	64%		76%	
Ratio of Earnings to Fixed Charges Before Income Taxes (c)	3.34		2.56	
Book Value per Common Share (d)	$24.71		$24.02	
Utility Plant	$5,255,286		$4,920,768	
Accumulated Depreciation and Amortization	$1,194,467		$1,078,124	
Capitalization				
Mortgage Bonds	$1,549,579	39	$1,418,854	36
Debenture Bonds	341,511	9	380,619	10
Other Long-Term Debt	3,120		153,600	4
Total Long-Term Debt	1,894,210	48	1,953,073	50
Preferred Stock	559,994	14	509,994	13
$1.40 Dividend Preference Common Stock and Common Stock	900,384	22	855,874	22
Premium on Capital Stock	550		550	
Paid-In Capital	26,065	1	26,065	1
Retained Earnings	596,745	15	540,041	14
Total Common Equity	1,523,744	38	1,422,530	37
Total Capitalization	$3,977,948	100	$3,885,597	100

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

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

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

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

1974		1973		1972		1971		1966	
Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
$1,100,965	76	$ 775,108	72	$ 674,833	70	$ 614,637	69	$ 366,956	65
354,908	24	301,152	28	296,070	30	270,869	31	194,490	35
1,455,873	100	1,076,260	100	970,903	100	885,506	100	561,446	100
374,519	26	221,724	21	171,638	18	170,849	19	67,374	12
81,920	6	19,376	2	31,737	3	831		(5,619)	(1)
144,020	10	119,828	11	117,910	12	100,296	11	63,583	11
192,168	13	174,108	16	168,138	17	153,009	17	98,654	18
91,467	6	88,257	8	80,215	8	66,789	8	45,378	8
106,683	7	98,239	9	91,037	10	84,474	10	56,409	10
213,576	15	167,545	16	132,827	14	112,576	13	77,919	14
(10,263)	(1)	(7,983)	(1)	(15,433)	(2)	16,682	2	39,320	7
31,324	2	11,235	1	14,442	2	1,484		760	
1,225,414	84	892,329	83	792,511	82	706,990	80	443,778	79
187,593	13	152,492	14	141,181	14	142,585	16	88,092	16
42,866	3	31,439	3	37,211	4	35,931	4	29,576	5
230,459	16	183,931	17	178,392	18	178,516	20	117,668	21
56,027	4	56,529	5	45,011	5	33,465	4	2,755	1
(180)		2,566		913		1,226		1,474	
(1,857)		(1,863)		(6,079)	(1)	(2,504)		771	
53,990	4	57,232	5	39,845	4	32,187	4	5,000	1
284,449	20	241,163	22	218,237	22	210,703	24	122,668	22
114,267	8	104,322	10	101,413	10	84,199	10	39,388	7
16,059	1	5,092		505		2,768		389	
283		266		116		237		153	
130,609	9	109,680	10	102,034	10	87,204	10	39,930	7
153,840	11	131,483	12	116,203	12	123,499	14	82,738	15
		18,540	2						
153,840	11	150,023	14	116,203	12	123,499	14	82,738	15
29,932	3	28,880	3	19,236	2	13,564	2	5,722	1
123,908	8	121,143	11	96,967	10	109,935	12	77,016	14
1,881		1,881		1,881		1,881		1,881	1
$ 122,027	8	$ 119,262	11	$ 95,086	10	$ 108,054	12	$ 75,135	13
52,531		47,861		43,861		39,475		31,004	
51,918		45,680		41,541		36,876		31,004	
$2.35		$2.20 (b)		$2.29		$2.93		$2.42	
$1.72		$1.72		$1.70		$1.64		$1.48	
73%		78%		74%		56%		61%	
2.33		2.22		2.08		2.60		4.08	
$24.25		$24.14		$23.48		$23.14		$18.23	
$4,636,344		$4,369,141		$3,999,474		$3,577,248		$2,185,246	
$ 965,160		$ 916,346		$ 831,673		$ 765,642		$ 494,529	
$1,422,525	38	$1,236,364	36	$1,239,602	39	$1,116,127	40	$ 687,786	41
389,640	10	420,387	12	430,857	14	440,028	16	252,904	15
153,600	4	103,600	3						
1,965,765	52	1,760,351	51	1,670,459	53	1,556,155	56	940,690	56
434,994	12	434,994	13	374,994	12	234,994	9	124,994	7
797,386	21	710,078	21	622,878	20	528,577	19	333,398	20
550		550		539		252		138	
26,065	1	26,065	1	26,065	1	26,065	1	26,065	2
515,267	14	483,543	14	443,443	14	420,919	15	254,501	15
1,339,268	36	1,220,236	36	1,092,925	35	975,813	35	614,102	37
$3,740,027	100	$3,415,581	100	$3,138,378	100	$2,766,962	100	$1,679,786	100

Management's Discussion and Analysis of the Statement of Income

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

Electric

Operating Revenues

The increase in electric operating revenues in 1974 was primarily attributable to rate increases and the recovery of increased energy costs through the adjustment clauses contained in the Company's rates. The increases in 1975 and 1976 are primarily due to increases in the basic rates. Kilowatthour sales decreased 4% in 1974 and 3% in 1975 due to cooler summers, customer conservation efforts and the economic slowdown. However, kilowatthour sales increased 4% in 1976 due to improved economic conditions.

Gas

Operating Revenues

Increases in gas operating revenues in the years 1974 through 1976 are primarily attributable to rate increases and greater recovery of increased raw material costs through the adjustment clauses contained in the Company's rates. Therm sales, however, decreased 4% in 1974 and 5% in 1975, as a result of warmer than usual heating seasons, curtailments to interruptible customers, customer conservation efforts and the economic slowdown. In 1976 therm sales showed a 3% increase due to the extremely cold weather during the last three months of the year.

Fuel for Electric Generation

In 1974 total fuel cost increased significantly due to increases in the unit cost of coal and oil. In spite of continuing increases in the unit cost of coal and oil, total fuel cost decreased in 1975 due to the greater use of lower-cost nuclear generating facilities and the increased purchase of interchanged power. In 1976 total fuel cost again increased, mainly due to lesser availability of interchanged power.

Interchanged Power-net

Interchanged power purchased from the Pennsylvania-New Jersey-Maryland Interconnection increased in 1974 and 1975, because it was more economical to purchase than produce the electricity with low sulphur fuels. In 1976 net kilowatthours interchanged declined 5%, while costs fell 12% reflecting greater use of nuclear power.

Gas Purchased and Materials for Gas Produced

Although gas therm sales to the Company's customers decreased by 4% in 1974 and 5% in 1975, the cost of gas purchased and materials for gas produced increased during these years due to higher prices and, in addition, in 1975 due to the increased use of naphtha for the manufacture of synthetic natural gas. The cost of gas purchased and materials for gas produced increased in 1976 due to higher prices and the greater sales volume.

Other Operation Expenses

Increases since 1973 are due to higher costs of labor, services, and materials and supplies.

Maintenance

The decrease in 1975 is primarily attributable to reduced maintenance of gas turbine units due to a decline in their usage caused by the availability of less expensive nuclear energy and purchased power. The increase in 1976 was principally due to maintenance at certain of the Company's conventional steam generating stations and at Peach Bottom nuclear generating station.

Depreciation

The increase in 1975 is due to the increase in depreciable utility plant principally as the result of Peach Bottom nuclear generating station and related transmission facilities and the Linden SNG plant being placed in service during 1974. In accordance with rate orders effective November 1975 and October 1976, the Company raised its depreciation rates, resulting in an increase of $7,600,000 in 1976.

Taxes Other than Federal Income Taxes

The increases are due to the higher levels of gross receipts tax resulting from greater revenues.

Federal Income Taxes

Current

The provision for Federal Income Taxes – Current increased $11,465,000 in 1975 primarily due to the increase in pre-tax income and the decrease in the current deduction of fuel costs, substantially offset by the increased utilization of gross receipts tax previously deferred for tax purposes and increased allowable investment tax credits. The provision increased $4,831,000 in 1976 primarily due to the increase in pre-tax income and decreases in the current deduction of fuel costs and utilization of the gross receipts tax deduction, substantially offset by increases in the repair allowance deduction and allowable investment tax credits.

Deferred

The greater Federal Income Taxes – Deferred subsequent to 1973 are due to increases in differences between book and taxable income and in addition, starting in 1975, due to increases in allowable investment tax credits.

Allowance for Funds Used During Construction (AFDC)

The increases in AFDC through 1973 are attributable to increased construction work in progress upon which AFDC is computed. The decreases in 1974 and 1975 are primarily due to Peach Bottom and related transmission facilities and the Linden SNG plant being placed in service during 1974 and the discontinuance in the last half of 1975 of the accrual of AFDC on a portion of Construction Work in Progress in accordance with regulatory approval.

Total Interest Charges

The increases in 1974 and 1975 are principally due to issuance of additional debt and to higher interest rates on such debt. The decrease in 1976 is due to lower rates and the prepayment of long-term debt.

Net Income

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

Form 10-K Available

The Company is required by Securities and Exchange Commission (SEC) regulations to file with that agency a Form 10-K annual report containing certain detailed financial and other data. There are no accounting differences between the financial statements presented in this Annual Report to Stockholders and those in the Form 10-K report, but the Form 10-K report does provide other information as required by SEC regulations. Stockholders or other interested persons who wish to have a copy of the Company's Form 10-K report may obtain one without charge after March 31, 1977 by writing to the Vice President and Treasurer, Public Service Electric and Gas Company, 80 Park Place, Newark, New Jersey 07101. The copy so obtained will be without exhibits, which will be available for a specified fee.

The Management Council of Public Service Electric and Gas Company meets weekly – or more often if need dictates – to decide on important policy matters and make major decisions concerning every phase of Company operations. Members of the Council shown above are Messrs. Smith, Betz, Scott and, standing, from left to right, Messrs. Sonn, Randel, Morris, Outlaw and McDonald.

Changes In Organization

Donald B. Kipp and Edwin H. Snyder retired from the Board of Directors in 1976. Mr. Kipp, an attorney, was elected to the Board on May 21, 1957 and served until April 19, 1976. Mr. Snyder, former Chairman of the Board, was elected a director January 19, 1965 and retired from the Board on April 18, 1976.

John F. Betz, Executive Vice President, was elected a member of the Board of Directors on April 19, 1976.

Stewart G. Pollock, an attorney, was elected to the Board on November 16. He is a partner in the Morristown, New Jersey firm of Schenck, Price, Smith & King, Counsellors-at-law.

John F. McDonald, Vice President – Governmental Affairs, was elected Senior Vice President – Governmental Affairs, effective August 1, 1976.

PSE&G Service Territory

Board of Directors

John F. Betz
Executive Vice President of the Company
Member of Executive and Finance Committees

Reynold E. Burch, M.D.
Private Practice of Medicine in the specialty of gynecology, East Orange, New Jersey. Clinical Associate Professor of Obstetrics and Gynecology, New Jersey Medical School; and former Trustee of the College of Medicine and Dentistry of New Jersey, Newark, New Jersey
Member of Audit Committee

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

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

Edward R. Eberle
Former Chairman of the Board of the Company
Member of Finance and Nominating Committees

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

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

Stewart G. Pollock
Partner of the firm Schenck, Price, Smith & King, Counsellors-at-Law, Morristown, New Jersey
Member of Audit Committee

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

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

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

Robert I. Smith
President and Chief Executive Officer of the Company
Chairman of Executive Committee and member of Finance Committee

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

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

Officers

Robert I. Smith
President and Chief Executive Officer

John F. Betz
Executive Vice President

William E. Scott
Executive Vice President

John F. McDonald
Senior Vice President – Governmental Affairs

Everett L. Morris
Senior Vice President – Corporate Development

Edward G. Outlaw
Senior Vice President – Operations

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

Harold W. Sonn
Senior Vice President – Administration

Frederick M. Broadfoot
Vice President – Law

Malcolm Carrington, Jr.
Vice President and Secretary

John A. Casazza
Vice President – Planning and Research

Robert M. Crockett
Vice President – Fuel Supply

Richard M. Eckert
Vice President – Engineering and Construction

Robert W. Hodge
Vice President – Commercial and Marketing

Charles H. Hoffman
Vice President – Energy Pooling

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

Edward J. Lenihan
Vice President – Public and Employee Relations

Robert W. Lockwood
Vice President – Corporate Services

Robert C. Lydecker
Vice President and Assistant to the President

Wallace A. Maginn
Vice President and Treasurer

Parker C. Peterman
Vice President and Comptroller

Frederick W. Schneider
Vice President – Production

Robert J. Selbach
Vice President – Transmission and Distribution

PSE&G

Public Service
Electric and Gas
Company
Newark, New Jersey 07101

U.S. Postage
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Bulk Rate
Public Service
Electric and Gas
Company