



PSE&G

1984 Annual Report



PSE&G
Serving New Jersey
the High-Tech,
High-Growth State

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1984 Annual Report



PSE&G

Public Service Electric and Gas Company

80 Park Plaza, Newark, New Jersey 07101
(201) 430-7000

Stockholder Information — Toll Free

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

Annual Meeting

Please note that the Annual Meeting of Stockholders of the Company will be held in Newark Symphony Hall, 1020 Broad Street, Newark, New Jersey, Tuesday, April 16, 1985, at 2:00 p.m. A summary of the meeting will be sent to all stockholders of record at a later date.

PSE&G Profile

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

Additional Reports Available Form 10-K

Stockholders or other interested persons wishing to obtain a copy of the Company's 1984 Annual Report to the Securities and Exchange Commission, filed on Form 10-K, may obtain one without charge by writing to the Vice President and Treasurer, Public Service Electric and Gas Company, P.O. Box 570, T6B, Newark, New Jersey 07101. The copy so provided will be without exhibits. Exhibits may be purchased for a specified fee.

Financial and Statistical Review

A comprehensive statistical supplement to this report, containing financial and operating data for the years 1974-1984 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, T6B, Newark, N.J. 07101.

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

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

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

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

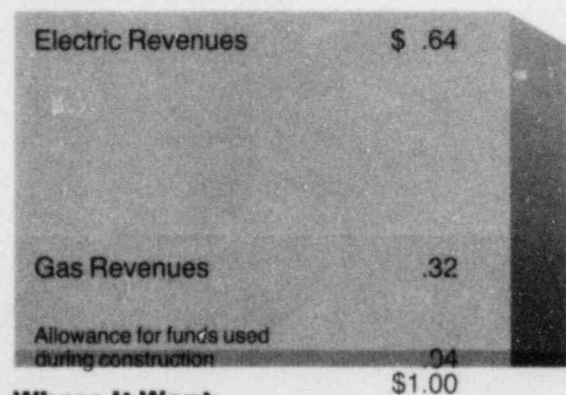
Financial Highlights

(000 omitted where applicable)	1984	1983	% Increase
Electric Sales — Kilowatthours	31,597,401	30,769,701	3
Gas Sales — Therms	2,147,315	2,055,339	4
Total Operating Revenues	\$4,196,124	\$3,962,932	6
Total Operating Expenses	\$3,597,986	\$3,468,982	4
Earnings Available for Common Stock	\$ 429,808	\$ 331,545	30
Shares of Common Stock			
Average	108,913	97,467	12
Year-end	112,563	102,858	9
Earnings per Average Share of Common Stock	\$3.95	\$3.40	16
Dividends Paid per Share of Common Stock	\$2.70	\$2.62	3
Common Stockholders — Year-end	234,156	230,098	2
Coverage Ratios			
Fixed Charges	3.61	3.33	
Fixed Charges and Preferred Dividends	2.76	2.49	
Return on Average Common Equity	14.43%	12.66%	
Book Value	\$27.17	\$26.36	3
Year-end Market Price	26¾	22¾	18
Gross Additions to Utility Plant	\$ 967,365	\$ 893,809*	8
Total Utility Plant	\$9,870,429	\$9,017,951*	9

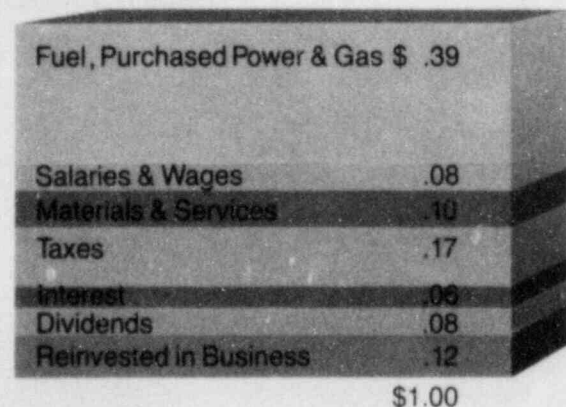
*Restated to reflect capital leases. See Note 8 of Notes to Financial Statements.

The 1984 Income Dollar

Where It Came From



Where It Went



PSE&G Territory



Message to Shareholders

Adapting and contributing to a swiftly changing and improving economic environment, the Company made excellent progress in 1984. As the New Jersey economy moved from recovery to expansion, the commercial sector continued as the bellwether, reflecting the state's advantageous location as a site for service-oriented business.

Earnings per share of Common Stock rose to \$3.95 per share from \$3.40 in 1983, a 16.2 per cent increase. In the second quarter, the dividend on Common Stock was increased to 68 cents per share from 66 cents. This was the ninth consecutive year in which the dividend was increased and raised the annual rate to \$2.72.

Nowhere was the state's commercial attractiveness more evident than in the burgeoning redevelopment of the Hudson River waterfront and in the rapid growth in central New Jersey along what has become widely known as the Princeton-Route 1 corridor.

While commercial activity heightened, New Jersey's commitment to high-technology industry was accentuated with the approval by voters of a \$90-million bond issue for the enhancement of the state's already well-established scientific and research community. The funds will finance modernization of technical facilities in educational institutions as well as the establishment of high technology centers that will be supported by government, industry and academia.

The resurgence of the economy once again pointed up the importance of electricity and natural gas as fuels vital to growth. As New Jersey's largest utility, serving approximately three-quarters of the state's population, PSE&G not only is helping facilitate the economic expansion, but bolstering it through aggressive area development and marketing activities that encourage business and industry to locate and expand in the state.

Buoyed by the rising economic tide and benefiting from an increase in base rates, the Company's financial results improved significantly in 1984. Sales of electricity and gas showed modest gains over 1983, and projections of sales growth in the near term were increased. The latest forecast indicates a compound annual growth rate for the period through 1986 of 2.1 per cent for electric sales and 3.5 per cent for gas sales.

A stringent cost control program was continued during the year and produced substantial savings throughout the Company that contributed measurably to the financial improvement.

The Company was granted a \$286.4 million rate increase on an annual basis, effective March 23, by the New Jersey Board of Public Utilities. The increase, composed of \$246.7 million in electric revenues and \$39.7 million in gas revenues, resulted from a petition filed by the Company on July 1, 1983.

Although the summer was cooler than in 1983, hot, humid weather in June brought record demand for electricity for air conditioning. On June 11, system records were set for a day's output and peak load.

Natural gas supplies were more than ample to meet the higher demand resulting from the upswing in the economy and colder weather in the heating season. During the year, the average cost of gas the Company purchased decreased for the first time since 1968. The decrease resulted from a stabilization in prices paid to pipeline suppliers and the purchase of substantial quantities of lower-priced gas on the spot market. These cost reductions were reflected in credits on customer bills.

Efforts to obtain required Federal Energy Regulatory Commission authorization to operate two liquefied natural gas storage tanks on Staten Island, New York, were discontinued in December and the project was abandoned. A timely operational date could not be achieved because of inordinate delays in the licensing process.

Substantial progress was realized during the year on Hope Creek Generating Station, the Company's only major construction project. At year end Hope Creek was more than 92 per cent complete and the transition from a construction project to an operating plant was proceeding smoothly.

Once Hope Creek is completed, the Company's financial burden should be lightened, and it is expected that the major portion of future construction work will be financed with internally-generated funds.

A disappointment in 1984 was the performance of nuclear generating units. Although nuclear output was greater than in 1983, it was below that which had been projected because of lengthy outages of three of the four generating units in which the Company shares ownership. More costly replacement energy was required and resulted in an underrecovery of \$334 million in fuel costs by year end.

The two nuclear units at the Salem Generating Station were forced off line for extended periods by non-nuclear problems. In separate incidents, electrical faults in the generator of each unit caused extensive damage. One of the two nuclear units at the Peach Bottom Station in Pennsylvania, in which PSE&G shares ownership, was taken out of service in April and remained shut down for the rest of the year for replacement of piping to rectify a generic problem. The unit is not expected to return to service until the second quarter of 1985.

In December, the Company filed two court suits against Westinghouse Electric Corporation relating to failures of the Salem No. 1 reactor trip breakers in February 1983 and of the Salem No. 2 generator in October 1984.

A new organization structure established in the Nuclear Department during the year improved management effectiveness and further assured safe and efficient operations. Safety, of course, has the highest priority.

The nuclear power industry has been going through a very difficult period. Fortunately, PSE&G has not been subjected to some of the more serious financial problems that have confronted a number of other utilities. However, industry problems do have an indirect effect on Company operations and performance because of common regulatory requirements and other factors. The Company is doing everything possible to minimize the impact on its operations of these adverse industry conditions.

PSE&G is well prepared to meet future demand for electricity with generating capacity fueled by a diversified mixture of coal, nuclear, oil and natural gas. In addition, the Company's strong high-voltage transmission ties permit delivery of large amounts of power, mainly coal fueled, from other areas. Use of oil, which prior to the Mideast embargo of 1973 accounted for the major part of the Company's generation, continues to be minimized.

Although a temporary worldwide surplus of oil has developed and prices have declined, the Company must be prepared for unforeseen events, such as another embargo or international crisis. The Hope Creek station, when it begins operation in 1986, will reduce further the need of oil for electric generation.

The Company has no plans at the present time to initiate any new major generating projects. After Hope Creek is in service, construction expenditures will be targeted for improvement and replacement of electric and gas

production facilities, transmission and distribution upgrading and nuclear fuel.

As a Company, we are continuously looking toward the future, studying our opportunities and options. In September, a wholly-owned subsidiary, Community Energy Alternatives, Inc., was established to participate in the development of energy supply projects, such as cogeneration and small power production facilities.

As in the past, the dedication of employees and the loyalty of you, the shareholders, during the past year has been of inestimable value. The Company has a challenging future. We ask a continuation of your support as we look to that future with confidence and optimism.

Harold W. Sonn

Harold W. Sonn

*Chairman of the Board,
President and Chief Executive Officer*

February 14, 1985

Mr. Sonn is chairman of the New Jersey Liberty Centennial Campaign Committee. Goal for the State is \$5 million to aid in the restoration of the Statue of Liberty and Ellis Island.



Financial Picture Showed Improvement in Year

An important accomplishment in 1984 by the Company was the significant improvement realized in financial results. Total revenues passed the four billion dollar mark for the first time, rising to \$4.20 billion from \$3.96 billion in 1983.

Electric revenues increased to \$2.82 billion from \$2.57 billion, a rise of 9.6 per cent, and accounted for 67 per cent of the overall total. Gas revenues declined to \$1.38 billion from \$1.39 billion, or 0.9 per cent, and made up the other 33 per cent.

The higher revenues were attributable to the \$286.4 million rate increase in March and to an improvement in electric and gas sales. Electric sales were up 2.7 per cent and gas sales 4.5 per cent compared with 1983. The gains in sales were mainly due to the improvement in the economy.

Based on anticipated improved economic conditions, estimates for growth in electric and gas sales for the 1984-1986 period were increased in the Company's latest financial forecast. Total electric sales were forecast to increase at a compound annual growth rate of 2.1 per cent, up from 1.8 per cent. The forecast for total gas sales was increased to 3.5 per cent from 2.8 per cent.

Historically, the composition of overall revenues has reflected the diversity in PSE&G's service territory and this was true again in 1984. The diversity, providing stability and strength, meant a balance in revenue sources among residential, commercial and industrial customers.

Total operating expenses increased in 1984 by \$129 million, or 3.7 per cent, to \$3.60 billion from \$3.47 billion in 1983.

As a result of the Company's higher revenues, New Jersey gross receipts taxes increased to \$530 million from \$514 million, a rise of 3.1 per cent.

Earnings Increased

Reflecting the \$286.4 million rate increase in March, higher electric and gas sales, and stringent control on costs, earnings available for common stock increased to \$429.8 million, equal to \$3.95 per share, compared with \$331.5 million, or \$3.40 per share, in 1983. The average number of common shares outstanding rose to 108.9 million during the year from 97.5 million in 1983, an 11.7 per cent increase.

Consistent with management's objective of raising dividends on a regular basis, the quarterly dividend on Common Stock was increased to 68 cents a share in the second quarter from 66 cents paid previously. Total dividends paid for the year amounted to \$2.70 a share, up from \$2.62 in 1983.

Dividends paid in 1984 on all classes of stock are fully taxable. The taxability of dividends is governed by Internal Revenue Service rules and is based on the Company's estimated tax liability.

The rate increase decision by the New Jersey Board of Public Utilities (BPU) in March raised the amount of Construction Work in Progress on which the Company earns a cash return from \$375 million to \$550 million, strengthening cash flow.

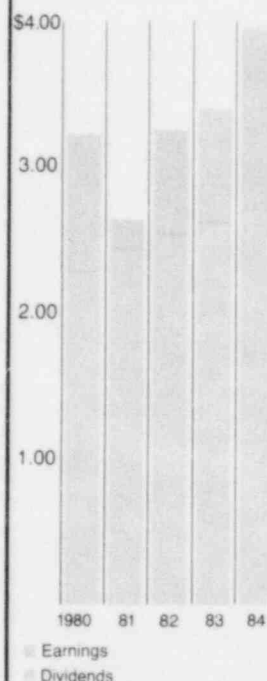
The order also specified that charges under the Company's 1983-84 electric Levelized Energy Adjustment Clause remain unchanged through June 1985. Underrecovered electric energy costs at year end were \$334 million. The amount was accumulated primarily because of the unavailability of nuclear generating units that made it necessary to use replacement power at higher costs.

On January 10, 1985, the BPU ruled that the Company could not recover through rates \$8.4 million of replacement energy costs associated with a Salem No. 1 outage following problems experienced in February 1983. As a result, net income, after related taxes, was reduced by \$4.56 million in 1984.

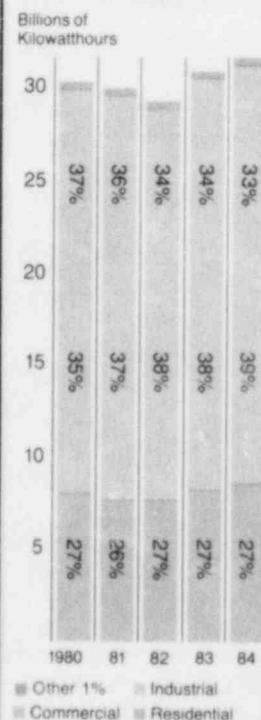
Underrecovered costs as of June 30, 1985, have been estimated at \$388 million. The Company on January 29, 1985, filed a request with the BPU for an increase in the adjustment charge of \$323 million on an annualized basis to become effective in July.

The BPU in September approved a reduction of \$45 million in bills of customers under the Company's gas levelized Raw Materials Adjustment Clause. The reduction resulted mainly from an overrecovery of costs during the prior levelized period that was attributable primarily to stabilized prices for pipeline gas and substantial purchases at lower prices in the spot market. The Company anticipates relatively stable prices to continue because of competitive pressures in a market which is becoming increasingly deregulated.

Earnings and Dividends
Per Common Share



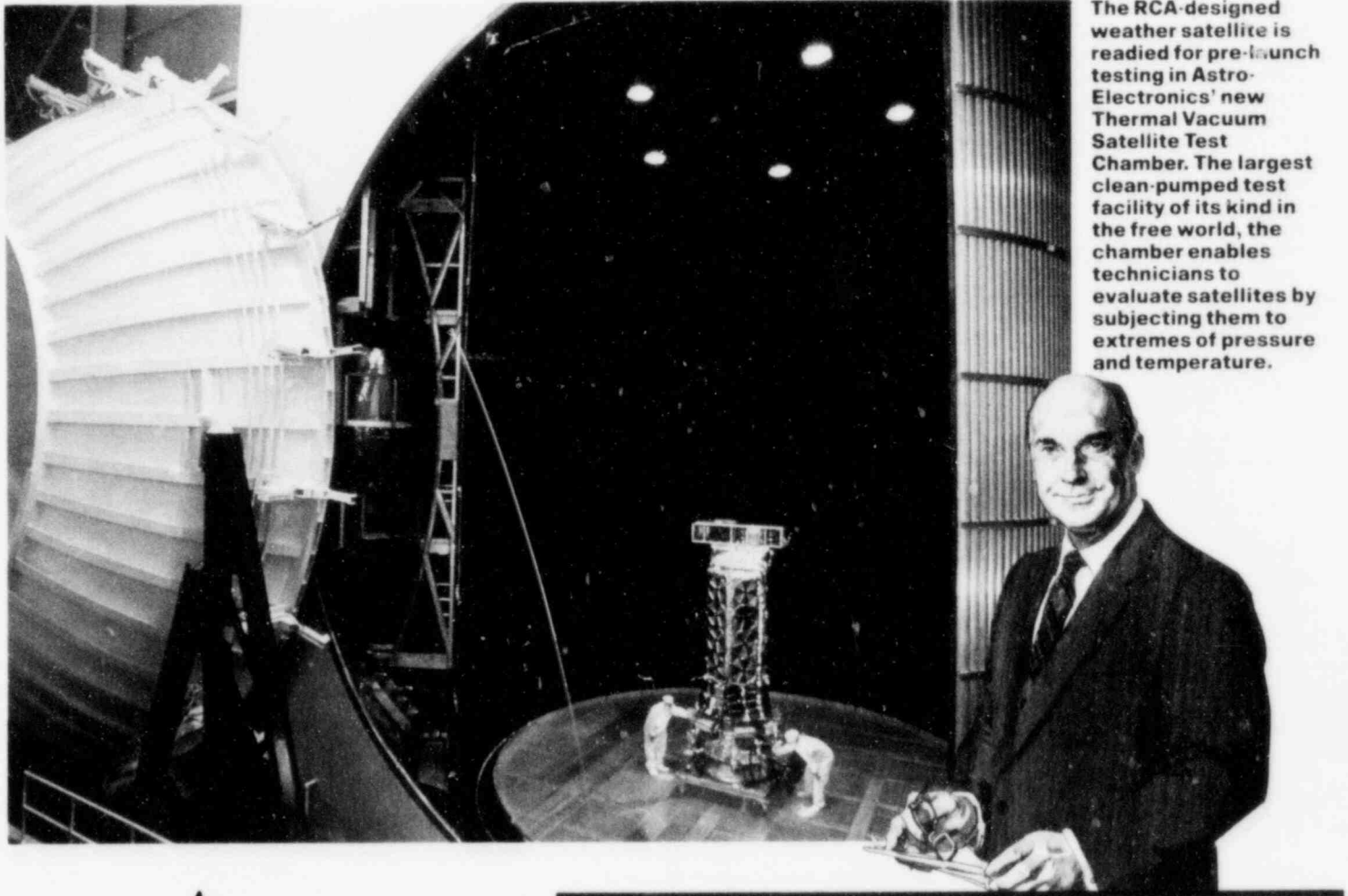
Electric Kilowatt-hour Sales



"New Jersey has a well-established scientific community that is strong in new technology. A large pool of professional specialists in all fields and the close link with academia foster productive research and development."

Robert R. Frederick

President and Chief Operating Officer
RCA



The RCA-designed weather satellite is readied for pre-launch testing in Astro-Electronics' new Thermal Vacuum Satellite Test Chamber. The largest clean-pumped test facility of its kind in the free world, the chamber enables technicians to evaluate satellites by subjecting them to extremes of pressure and temperature.

High Technology Sparks Economic Growth

The impact of the age of high technology was felt in 1984 throughout the breadth and length of PSE&G's service area — from the Hudson River in the north to the Delaware River in the south. At year end some 300,000 persons were employed in high technology and data processing operations in New Jersey, the most dynamic sector of the business community.

PSE&G has played a major role in bringing high technology industry as well as office, research, light industrial and distribution facilities of national and international corporations to the state, and particularly to its service territory. The Company continued to work closely with the New Jersey Department of Commerce and Economic Development as well as with other

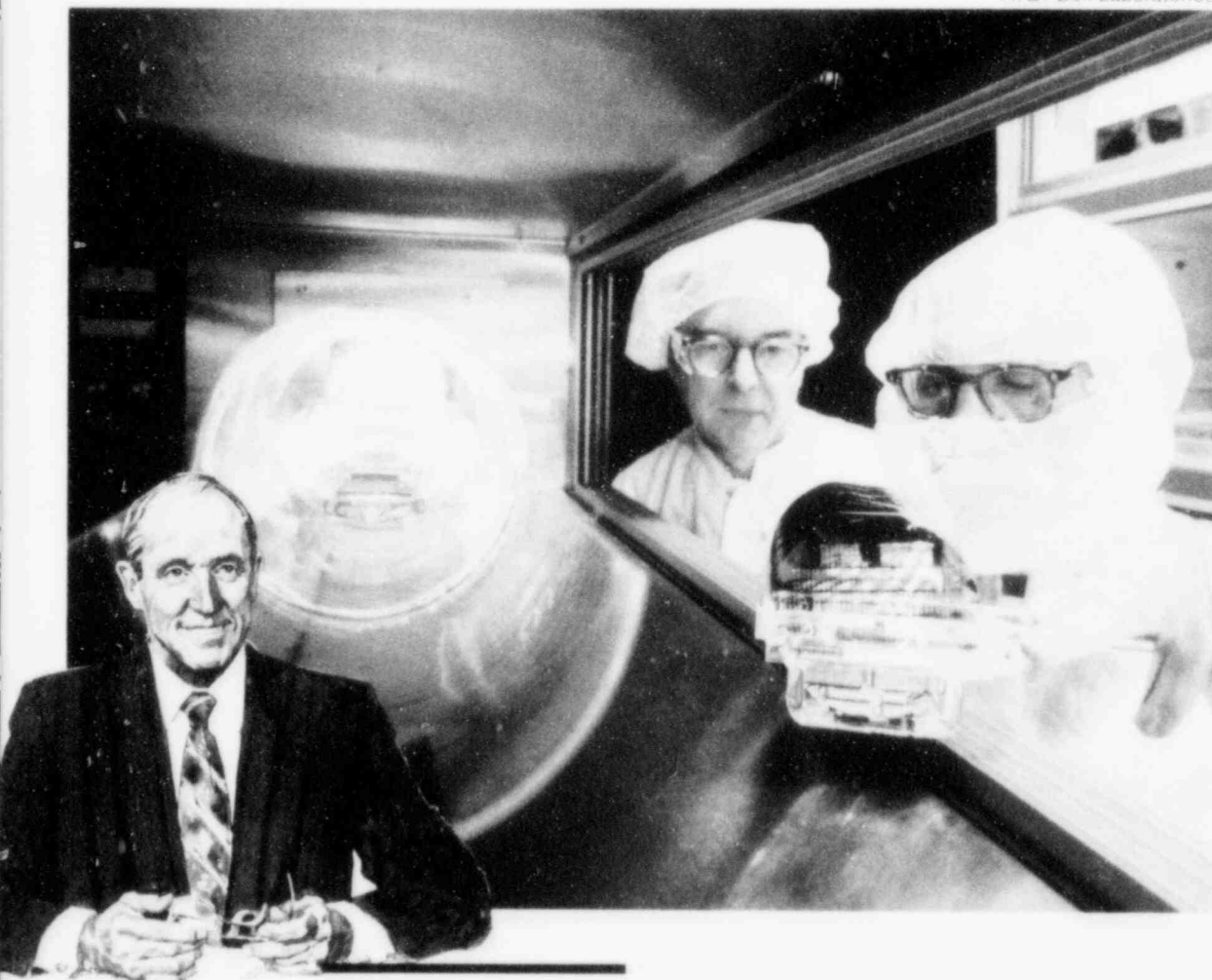
state agencies. These co-operative efforts have brought excellent results.

The Princeton-Route 1 corridor, about seven miles wide and stretching from South Brunswick to Lawrence Township, is rapidly becoming the nation's newest high technology belt. Princeton is its core and the main attraction for high technology and research and development firms. Corporate headquarters and regional offices also are being established in this attractive locale.

Overall, facilities in the corridor by 1992, according to some projections, will begin to approach those in Dallas and create more than 44,000 new jobs. Major projects completed and under construction have attracted numerous nationally-known corporations.

"AT&T Bell Laboratories people find New Jersey a great place to work and live. We like its access to excellent schools and universities, cultural and recreational facilities, and transportation services. It's this climate that has helped New Jersey become a high technology state."

Ian Ross
President
AT&T Bell Laboratories



Engineers at AT&T Bell Laboratories inspect a wafer of 256K Dynamic Random Access Memory chips (DRAMs). These memories are among the most sophisticated of their kind now in production.



AT&T's latest coup: a small but remarkable memory chip (shown on face of a dime) that can store over one million bits of information and, of vital importance, scheduled for production.

Princeton University has served as a catalyst for much of the development in the area. The proximity of Rutgers University at the northern end of the corridor also has increased the area's attractiveness. The universities are magnets for firms seeking association with educational institutions.

Princeton Forrestal Center, a pace setter in the corridor, is a prestigious 1,600-acre office and research park owned by Princeton University. The center contains 18 buildings, with four more under construction, and others planned.

In the northern part of the state, the Hudson River waterfront, once the site of bustling railroad and shipping activities but in recent years the scene of abandoned and dilapidated facilities, began to develop into what some predict will be called the "Gold Coast" of the Northeast. The development could surpass that

which has taken place in the Meadowlands, where construction continued unabated during the year. Over the next 20 years, millions of square feet of office space, tens of thousands of residential units, shopping centers, hotels and recreational facilities are expected to be completed.

The 18-mile stretch of waterfront, extending from the George Washington Bridge to Bayonne, has been targeted for development totaling more than \$5 billion.

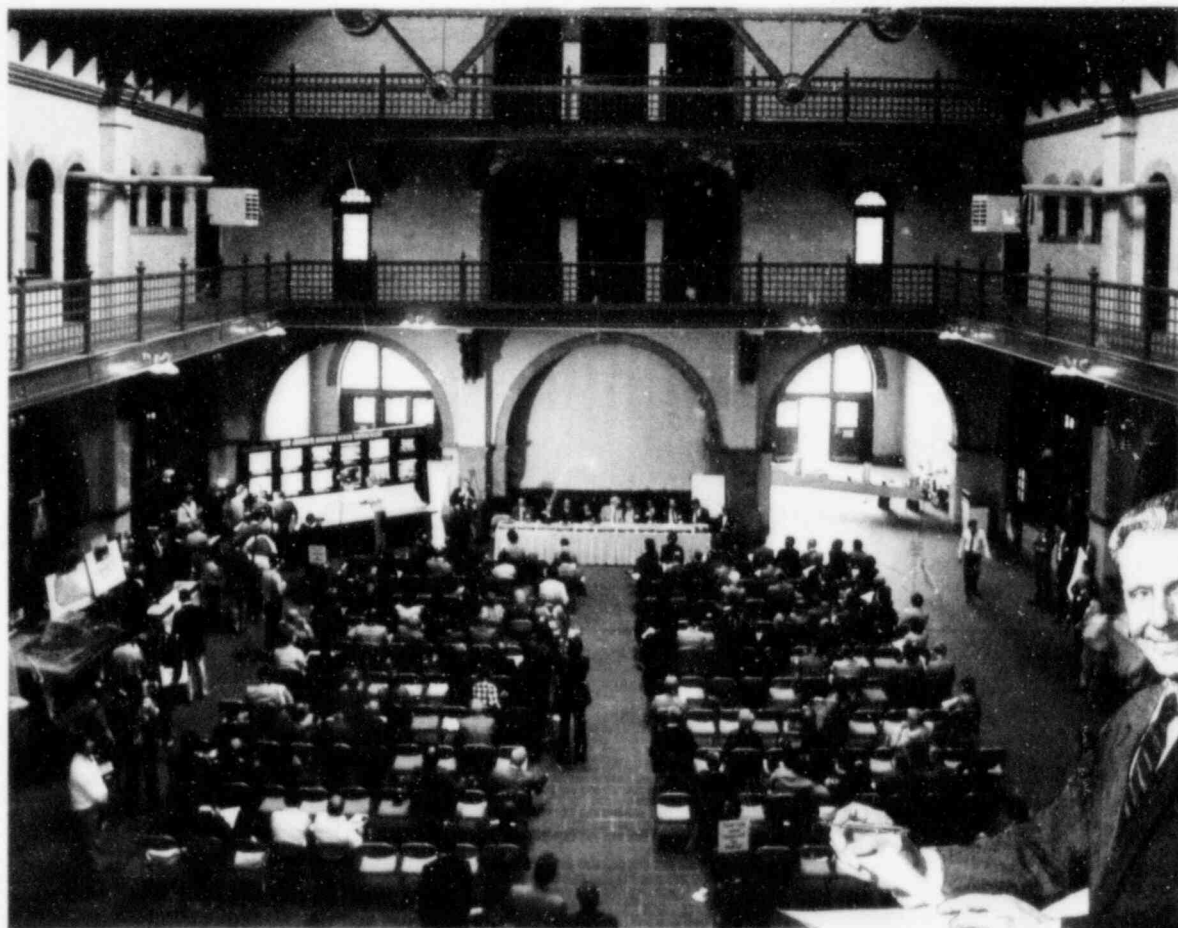
A highlight of the year was a PSE&G-sponsored media briefing held in October at Liberty State Park in Jersey City. The briefing was designed to focus attention on the waterfront's potential.

Representatives of major developments along the waterfront described their projects.

"Thirteen major developers plan to invest \$5 billion to develop New Jersey's Hudson River waterfront. Over the next 20 years, millions of square feet of office space, tens of thousands of residential units, shopping centers, hotels and recreational facilities will be completed."

Borden R. Putnam

Commissioner, New Jersey Department of
Commerce & Economic Development



PSE&G sponsored a news media conference at Liberty State Park, Jersey City, to announce plans by developers for the revitalization of an 18-mile Hudson River waterfront area facing Manhattan. It has been labeled "the most valuable real estate in the country". The conference resulted in a significant amount of favorable publicity for this growth area.

They included private developers, the Port Authority of New York and New Jersey and the city of Jersey City, all with plans for developments on the more than 2,300 acres along the waterfront.

The briefing, one of the most successful of its kind, attracted some 50 media representatives and resulted in extensive publicity about the waterfront and its future.

In southern New Jersey, there was substantial construction of new office buildings in 1984. More than one million square feet in Burlington County and 850,000 square feet in Camden County were completed or under construction. This construction represents a major addition to the existing 4.5 million square feet of office space in the area. In addition, about two million square feet of industrial and institutional space

was added or is being constructed in Burlington, Camden and Gloucester counties.

There also are plans for a \$200-million business and recreational center on the Camden waterfront. The plans are being reviewed by the Cooper's Ferry Development Association Inc., a non-profit development group.

Rebuilding of the Garden State Race Track at Cherry Hill, including a five-story grandstand and lighting for night racing, progressed in 1984. The track, closed since a fire destroyed the grandstand in 1977, is scheduled to open in 1985 and employ about 2,500 people with an annual payroll of \$20 million. In addition, concessionaires and subcontractors will employ 1,500 persons. Cost of reconstruction has been estimated at \$120 million.

"Newport City represents a \$2 billion investment in Jersey City waterfront redevelopment. Significant sitework for this exciting project was undertaken during 1984 and we look forward to its completion within the next decade."

Melvin Simon
Chairman of the Board
Melvin Simon & Associates, Inc.



Newport City calls for the construction of a one million square foot shopping mall, over four million square feet of office space, 9,000 residential units and 1,200 hotel rooms.



During the year, revitalization of urban areas also progressed. In Newark, the Gateway III office building opened, bringing total space in the complex, owned by The Prudential Insurance Company, to 2.1 million square feet.

As an incentive for urban renewal, the Company established an area development electric rate which was approved by the New Jersey Board of Public Utilities in March. The rate offers discounts to industrial and commercial customers who locate or expand in any of nine major municipalities. The Company benefits through the greater use of facilities that have become under-utilized because of plant closings and relocations. Communities benefit by increased economic activity and the creation of jobs and expanded services.

At year end 19 customers had qualified for the area development rate and 41 applications

were pending. Requests for information indicate that many more customers will take advantage of the rate in 1985.

Use of Advanced Technology Increased in Operations

In 1984 the Company continued to move forward in applying advanced technology to its operations by expanding the use of computer graphics. Applications span the Company's operating departments — including transmission and distribution, production, nuclear, corporate services and information systems. A major three-year pilot project was initiated to develop a "Distribution Facilities Management System" utilizing state-of-the-art data management systems and computer graphics for record keeping, for control of electric and gas transmission and distribution facilities, and for

automated mapping. This system will provide substantial cost savings by increasing productivity, facilitating communication of information and improving methods to identify location of plant and equipment.

In order to provide a common mapping base for the Company, a consolidated surveying and mapping function was established in real estate under the Corporate Services Department. This functional group supports various needs of the Company, from interim support of the pilot project to fulfilling complex mapping requirements for nuclear exercises and timely response to numerous governmental filings.

In addition, a centralized corporate telecommunications department was established under Information Systems. The new department embraces telephone services, communications system planning and network control. Other telecommunications responsibilities, including fiber optics, also are being phased into the new department. Centralization will improve control of future telecommunications facilities and costs while satisfying growing demands of operating departments for such services.

A state-of-the-art computer system was developed and implemented in 1984 to monitor the Company's more than 3.2 million electric and gas meters. Utilizing bar code technology, the system monitors and provides information for meter testing, repairs, inventory, productivity, regulatory requirements and billing accuracy.

Construction Expenditures to Decline in Future

Construction expenditures, including Allowance for Funds Used During Construction (AFDC), payments for nuclear fuel and advances to subsidiaries, increased to \$964 million in 1984 from \$902 million in 1983. Expenditures in 1985 are estimated to be \$927 million, including \$192 million of AFDC.

In the five years through 1989, expenditures for all construction, including Hope Creek, are estimated at \$3.4 billion, including approximately \$475 million of AFDC. Outlays for nuclear generating facilities and fuel will be approximately \$1.7 billion, or 50 per cent of the total.

Hope Creek has a targeted cost of \$3.795 billion under a cost containment agreement reached in 1982 by the Company with the Public Advocate of New Jersey and the state Department of Energy, and approved by the BPU in June 1983. The cost figure has since been re-



vised to \$3.757 billion due to a change in AFDC accrued on Construction Work in Progress.

Under the agreement, there would be a penalty in the form of reduced earnings if Hope Creek costs exceed the targeted cost, unless overruns were due to extraordinary events beyond the Company's control.

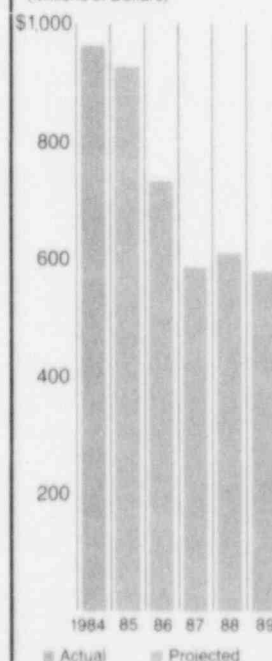
At year end the Hope Creek project was more than 92 per cent complete and construction was proceeding on a schedule which would permit nuclear fuel to be loaded about the beginning of 1986. If this can be achieved, commercial operation of the unit could begin by mid-1986, which is earlier than previously planned. While this schedule would allow the unit to be completed within budget and the targeted cost, this cannot be assured. PSE&G owns 95 per cent of Hope Creek and Atlantic City Electric Company holds the other 5 per cent.

During the next five years, the Company expects, with adequate rate increases, to generate at least half of its construction expenditures internally, excluding AFDC. The balance will be financed by the issuance of debt and equity securities. Substantially lower construction requirements, after Hope Creek is completed, should reduce the need for external financing.

Robert Dena of the Real Estate Department at one of six workstations which support the advanced mapping and surveying functions of the Company. Shown on the screen is a nuclear exercise project.

Construction Expenditures (including AFDC)

(Millions of Dollars)



Maintenance of Conservative Capital Structure Emphasized

One of the Company's main financial objectives is to maintain a conservative capital structure. At the end of 1984 the debt ratio was 45.8 per cent compared with a utility industry estimated average of about 47.4 per cent. Capitalization ratios are summarized on the accompanying chart.

More than \$648.7 million in capital funds were raised in 1984 through the sale of Mortgage Bonds and Common Stock. In January, the Company sold through a public offering four million shares of Common Stock for \$88 million.

A total of \$435 million principal amount of pollution control mortgage bonds were issued during the year to finance certain facilities at nuclear plants. These included issues of \$150 million of 10½%, 30-year bonds in July and \$150 million of 10¾%, 30-year bonds in September. In addition, \$130.4 million of 10½%, 30-year bonds, and \$4.6 million of 10¾%, 28-year bonds were issued in November.

The Company also raised \$118.3 million through the sale of 5.4 million shares of Common Stock under the Dividend Reinvestment and Stock Purchase Plan, and \$7.4 million through the issuance of 321,000 shares under various employee stock plans.

In addition, on January 17, 1985, the Company sold seven million shares of Common Stock through a public offering for \$177.8 million.

The proceeds from the sales of these securities were used largely to finance the Company's construction program.

There were 91,633 participants in the Company's Dividend Reinvestment and Stock Purchase Plan at the end of 1984. In addition to reinvestment of dividends, stockholders in the Plan may make optional cash investments at any time of up to \$20,000 a year. Common Stock dividends are reinvested at a 5 per cent discount from the market price average.

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

Under federal income tax law, individuals may defer taxes on up to \$750 of reinvested dividends and those filing joint returns may defer taxes on up to \$1,500 of reinvested divi-

dends under qualified public utility plans each year. The law that allows these benefits expires at the end of 1985.

Profiles of Stockholders Developed by Survey

A survey of individual holders of the Company's Common Stock was conducted in 1984 by the New York Stock Exchange. Telephone interviews of stockholders by Exchange representatives were made on a statistical sampling basis.

The survey developed profiles of stockholders that are useful in setting Company policies and programs as well as in dealing with the public and regulatory agencies. The overall results of the survey approximated those of a similar one in 1980. Findings of the 1984 survey included:

- The typical PSE&G stockholder is approximately 66 years old, retired, and has an annual income of about \$34,000. Most stockholders live in the Middle Atlantic region. The states with the highest concentration of shareowners are New Jersey, New York, Pennsylvania and Florida.

- Dividend income and company profitability are important factors in investment decisions of stockholders. About 97 per cent of the stockholders who responded indicated they would either increase or maintain their holdings in the Company.

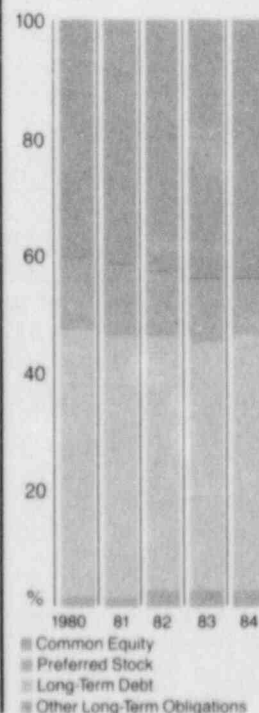
- Company management, industry leadership and social responsibility were rated as good to excellent by a majority of shareowners. Company communications were rated similarly.

Stockholders of record at the end of 1984 totaled 267,904 compared with 266,008 at the close of 1983. They included 234,156 holders of Common Stock; 10,730 holders of \$1.40 Dividend Preference Common Stock; and 12,830 holders of Preferred Stock, \$100 Par, and 10,188 holders of Preferred Stock, \$25 Par. More than 35 million shares of the Common Stock were traded on the New York Stock Exchange in 1984.

The Company maintains an investor relations program to keep stockholders and the financial community informed about developments at PSE&G.

Company executives during the year addressed various meetings of financial analysts, stockbrokers and other members of the investment community.

Capitalization Ratios (Year End)



“Use of helicopters makes possible the construction of a 500,000 volt transmission line through difficult marshland area. Scheduled for completion in April, 1985 — at a cost of \$33 million — the 43-mile project will link Hope Creek with the New Freedom-Deans line to form a new circuit 103 miles in length.”

Stephen P. Bogdan
Overhead Transmission Engineer

The 500 KV Hope Creek transmission line further expands and improves system reliability and strengthens the Pennsylvania-New Jersey-Maryland power grid.



Economic Upswing Increases Electric Output

A 2.4 per cent increase in electric output was recorded in 1984, mainly because of higher demand resulting from the upswing in the economy. Total megawatt-hours produced, purchased, and interchanged for the year amounted to 34.2 million compared with 33.4 million in 1983.

Abnormally hot, humid weather in June caused record demand for electricity. An all-time peak load of 7,422 megawatts occurred on June 11, exceeding by 2.5 per cent the previous record peak of 7,244 megawatts set on September 6, 1983. A record maximum day's output of 143,558 megawatt-hours also occurred on June 11. This was an increase of 2.1 per cent over the previous high of 140,591 megawatt-hours on July 21, 1980. The maximum day's output in 1983 was 135,775 megawatt-hours on August 8.

At the time of the system peak, the Company had an installed generating capacity of 8,999 megawatts, and an installed reserve margin of 21 per cent. At year end, the installed generating capacity remained at 8,999 megawatts.

The accompanying table shows the planning peak electric loads, installed generating capacities, and per cent reserves anticipated for the next 10 years. The only major capacity addition during the period will be the Hope Creek generating unit.

Generating Capacity Forecast

Year	Planning Peak Load	Installed Capacity	Per Cent Reserve
	(Megawatts)		
1985	7,390	8,999	22
1986	7,470	8,999	20
1987	7,540	10,013	33
1988	7,610	10,013	32
1989	7,690	10,013	30
1990	7,760	10,013	29
1991	7,810	10,013	28
1992	7,870	10,013	27
1993	7,920	10,013	26
1994	7,980	10,013	25

Use of Oil Continues To Be Minimized

The Company continued in 1984 to utilize a mix of coal, oil and natural gas for the fossil production of electricity. Substantial quantities of natural gas were used to minimize the need for oil.

During the year, 1.9 million tons of coal, and 5.7 million barrels of oil were purchased for the New Jersey electric production facilities. A total of 71.1 million therms of natural gas, equivalent to 11.7 million barrels of oil, was used at a cost savings of approximately \$45.5 million. Additional savings of about \$3.2 million were realized through spot market purchases of coal and oil.

The average delivered price of coal purchased in 1984 to generate electricity was \$55.42 per ton, 0.1 per cent lower than 1983's average price. Lower rates negotiated in railroad transportation contracts offset higher coal prices at the mine.

Oil prices increased slightly during 1984. The average price of low sulfur heavy oil purchased to generate electricity was \$30.81 per barrel, 2.2 per cent higher than in 1983. Stable prices were the result of a continued surplus in the market.

Comparative fuel costs in 1984 per million British thermal units were: Oil \$5.14; coal \$2.08; gas \$4.35; and nuclear 84 cents.

The Company's electric output by sources in 1984 reflected the diversity of PSE&G's fuel supplies. Sources in 1984 compared with 1983 are shown on the accompanying bar chart.

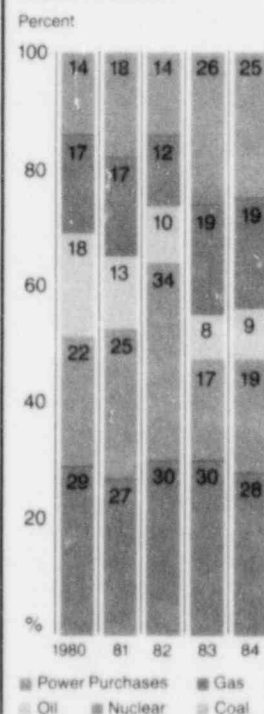
Strong Interconnections Facilitate Delivery of Energy

During 1984, 25 per cent of PSE&G's electric system output was obtained by the purchase of energy, mainly coal-fueled, from other utilities and delivered through the Company's extensive network of high-voltage interconnections. The interconnections have been strengthened to take maximum advantage of the energy available. Of the purchased energy, 48 per cent came from the Pennsylvania-New Jersey-Maryland Interconnection power pool; 48 per cent from Allegheny Power System, 2 per cent from utilities in New York state, 1 per cent from Northeast Utilities, and 1 per cent from cogeneration. These purchases resulted in estimated savings to the Company of \$90 million.

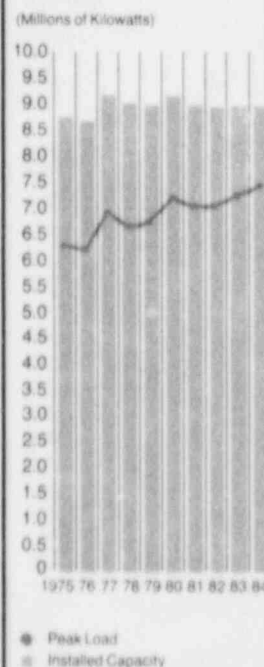
Nuclear Generation Lower Than Had Been Projected

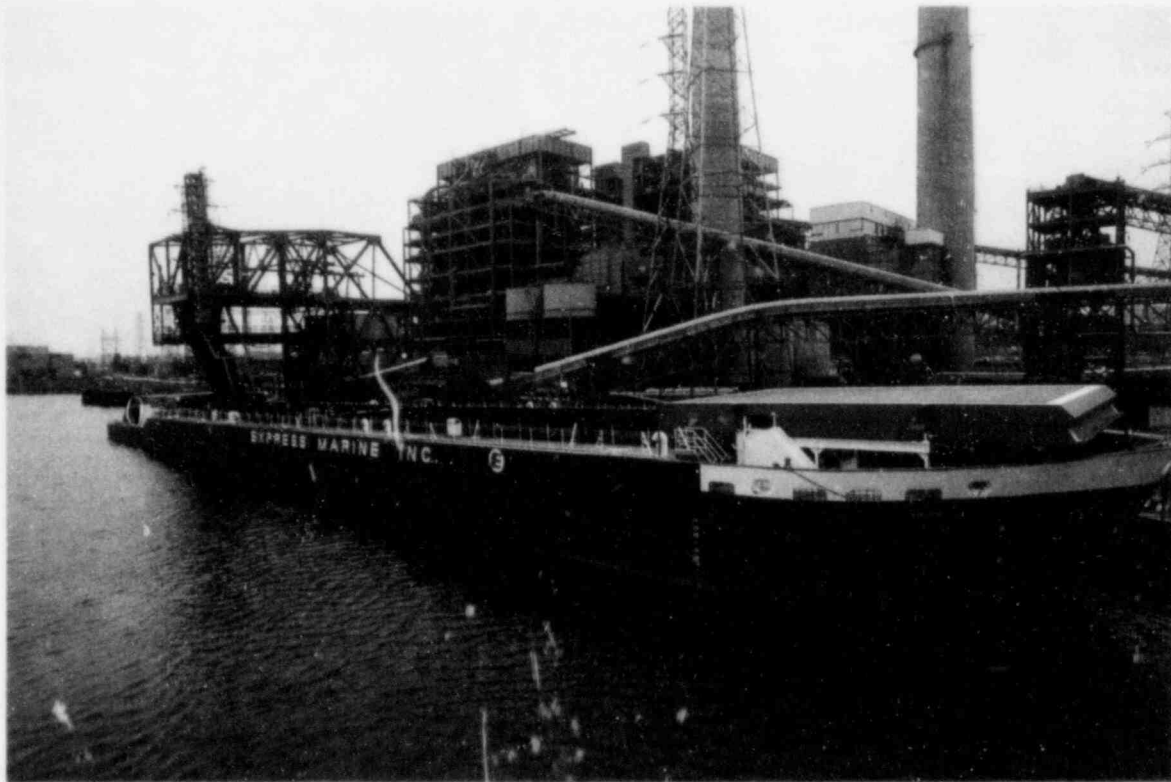
Nuclear generation in 1984 was lower than had been anticipated because of outages of units that required extensive maintenance and overhaul work. The Company shares ownership with other utilities in four operating nuclear

Electric Generation Fuel Sources



Electric Peak Load and Installed Capacity at Time of Peak





The first of two new 8,000-ton barges carries coal from Baltimore to the Hudson Generating Station, replacing six smaller vessels. Greater economy and reliability for coal use at Hudson Station was also achieved with the installation of new pulverizers.

units. Two units are at the Salem station, which the Company operates, and two are at the Peach Bottom station in Pennsylvania, operated by Philadelphia Electric Company. PSE&G has a 42.59 per cent interest in Salem and a 42.49 per cent interest in Peach Bottom.

In February, Salem No. 1 was shut down for repairs following extensive damage to the non-nuclear electric generator caused by an electrical fault. While the repairs were being made the unit was refueled to minimize outage time. After the refueling and generator repair work were completed, the unit was returned to service on October 22. Salem No. 2 was taken out of service in October because of failure of its generator which also was damaged by an electrical fault. The generator is being replaced with the one from the Hope Creek No. 2 unit which the Company cancelled in December 1981. Salem No. 2 is scheduled to return to service early in the second quarter of 1985.

Peach Bottom No. 2 was taken out of service in April for refueling and correction of cracking in piping, a generic problem. The unit is expected to return in the second quarter of 1985. Peach Bottom No. 3, the other nuclear unit at that station, was available 85.9 per cent of the time in 1984.

Despite the nuclear unit outages, the Company's cumulative share of the output of the Salem and Peach Bottom stations by year end had exceeded 6.4 billion kilowatthours. If

oil had been used to generate this electricity there would have been an additional cost to customers of more than \$2.5 billion over the period that the nuclear units have been operating.

Suits Filed Against Westinghouse

The Company and the other three co-owners of the Salem Generating Station in December filed two suits in the New Jersey Superior Court against Westinghouse Electric Corporation, the supplier of the nuclear steam supply system and turbine-generators of the station.

The suits relate to the failures of the Salem No. 1 reactor trip breakers in February 1983 and the failure of the Salem No. 2 generator in October 1984.

One suit asserts that Westinghouse failed to warn the station co-owners that the instructions it provided for the maintenance of the trip breakers were incorrect. The suit also asserts that Westinghouse learned that the instructions were incorrect after they were furnished but failed to warn the co-owners that they should be changed. Following the trip breaker failures, the No. 1 unit was shut down for more than two months.

The other suit asserts that Westinghouse improperly repaired the Salem No. 2 generator in late 1983 and early 1984, and, as a result, the generator failed in October 1984 and must be replaced.

The suits seek recovery of compensatory and other damages, the extent of which has not been determined. PSE&G and Philadelphia Electric Company each own 42.59 per cent of Salem, and Atlantic City Electric Company and Delmarva Power & Light Company each hold 7.41 per cent.

New Uranium Enrichment Contract

A new uranium enrichment services contract was signed by the Company with the U.S. Department of Energy that consolidates a number of existing agreements and provides for greater purchasing flexibility under more favorable terms, conditions and prices. The savings in enrichment costs through 1990 are estimated at approximately \$65 million.

The Company has sufficient uranium supplies under contract with domestic and Canadian producers to meet all requirements for the Salem and Hope Creek units through 1990 and over 60 per cent of estimated requirements between 1990 and 1995. The balance will be met by increasing contract quantities, spot purchases and short-term agreements.

The uranium market returned to a depressed state in 1984 as demand for uranium nationwide declined. Prices dropped from highs of \$24 a pound in mid-1983 to about \$17 a pound, which prevailed during the year. Domestic producers continued to reduce operations as additional low cost, high-grade Canadian uranium became available.

Availability of lower-cost uranium has resulted in continued deferment of deliveries under a long-term contract with Sequoyah Fuels Corporation, a wholly-owned subsidiary of Kerr-McGee Corporation. The mine supplying the uranium, under the contract, is expected to remain in standby condition until January 1986. Resumption of production after that date is at the option of the Company.

Under this contract \$40.8 million had been advanced as of December 31, 1984 to finance mining and milling facilities. The Company advanced 70 per cent of the amount and the co-owners of the Salem and Hope Creek stations advanced the balance. Of these advances, \$14.5 million, including \$4.7 million of interest, has been recovered through credits against the purchase price of uranium concentrates delivered by Kerr-McGee.

In the Company's most recent rate case, the BPU required that the Kerr-McGee investment be treated as a non-earning asset. Recoupment of unrecovered advance payments will depend

upon the sale of uranium to the Company or other buyers, or sale of the project properties by Kerr-McGee.

Under the provisions of the Nuclear Waste Policy Act of 1982 the Company, along with other operators of nuclear plants, has signed fuel disposal contracts with the U.S. Department of Energy. These contracts require the Federal government to ultimately take title and provide necessary services to transport, package and place the spent fuel in underground repositories. Utilities are required to pay a fee of one mill per kilowatthour of nuclear energy produced to fund the disposal program.

Hope Creek Construction On Schedule at Year End

Major construction work on the Hope Creek Generating Station was winding down as the year ended with the project more than 92 per cent complete. The main work remaining involves startup testing of systems and components which is being subjected to the same team effort that has proven so successful in construction.

The switching station was energized in January, permitting startup testing to begin. Among other significant events during the year were the completion of integrated testing of the station control room, the completion of the cooling tower, and the turnover of the diesel generators and the main steam system for startup. The administration building also was completed and occupied.

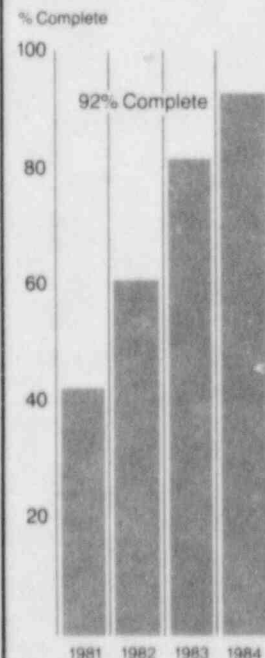
Hope Creek continued to receive close scrutiny by a number of independent outside organizations. Audits were conducted by the Nuclear Regulatory Commission; the Institute of Nuclear Power Operations, the industry monitoring group, and Theodore Barry & Associates, a nationally recognized engineering and consulting firm. All of the audits indicated that Hope Creek is a well-managed nuclear construction project that compares favorably with others presently under construction.

Improvement in Electric and Gas Distribution Systems

During the year, the Company's distribution system was expanded with the installation of six new 13,000-volt circuits. Increased load growth also has required the design and construction of three high voltage substations which are scheduled for completion in 1985 and 1986.

In addition, a five-year, \$5.5 million program was initiated to replace outdated 4,000-volt

Hope Creek Construction Progress



"PSE&G actively recruits women for non-traditional jobs and complies with all equal opportunity requirements. Numerous awards have been bestowed on the Company for its promotional materials and activities to further this effort."

Herman L. Thwaites
Division Line Engineer



Wendy Schneck, Line-woman — Grade 2, rebuilds a pole top to prepare for conversion from 4KV to 13KV. Higher voltage will provide greater load capacity in the area and increase system efficiency.

substations. Some will be replaced with modern equipment while others will be eliminated by converting the distribution system to 13,000-volt operation.

In cooperation with the Electric Power Research Institute (EPRI), the electric industry research organization, the Company installed two prototype computerized relay systems on a 500,000-volt transmission line at its Branchburg Switching Station. This was the first step in a demonstration project of an all-computerized transmission substation control system. When they become commercially available, such systems will increase reliability at lower installed cost, and will provide improved information and control.

More than 200 miles of mains and 225 miles of service lines were added to the underground gas distribution system in 1984 to serve new

customers and for conversions from oil heat to gas. This was the largest amount of gas pipe ever installed in one year to meet new business requirements.

New Production Department Training Center Opened

A training center for production department employees was opened in 1984 in Sayreville which is centrally located in the Company's service territory. A two-story, 22,000-square-foot building on a 12-acre site was purchased for the facility where training will be given in the operation of PSE&G's electric and gas production plants. About 65 employees will receive various levels of training on a daily basis. Training, including advanced instruction, will focus on efficient, reliable and safe operations. The existing building was converted to house administrative

offices and classrooms. Construction of a new 27,500 square foot building is planned for various shops and laboratories in which manual and other training will be provided.

Alternate Energy Subsidiary Formed

A new subsidiary, Community Energy Alternatives, Inc., was formed by the Company in 1984 to participate in future cogeneration projects and other small power production plants. The subsidiary was established in response to the growing activity and interest in the alternate energy supply area.

During the year, PSE&G received inquiries regarding purchase power rates, interconnection requirements, and other information from a number of potential cogenerators and small power producers.

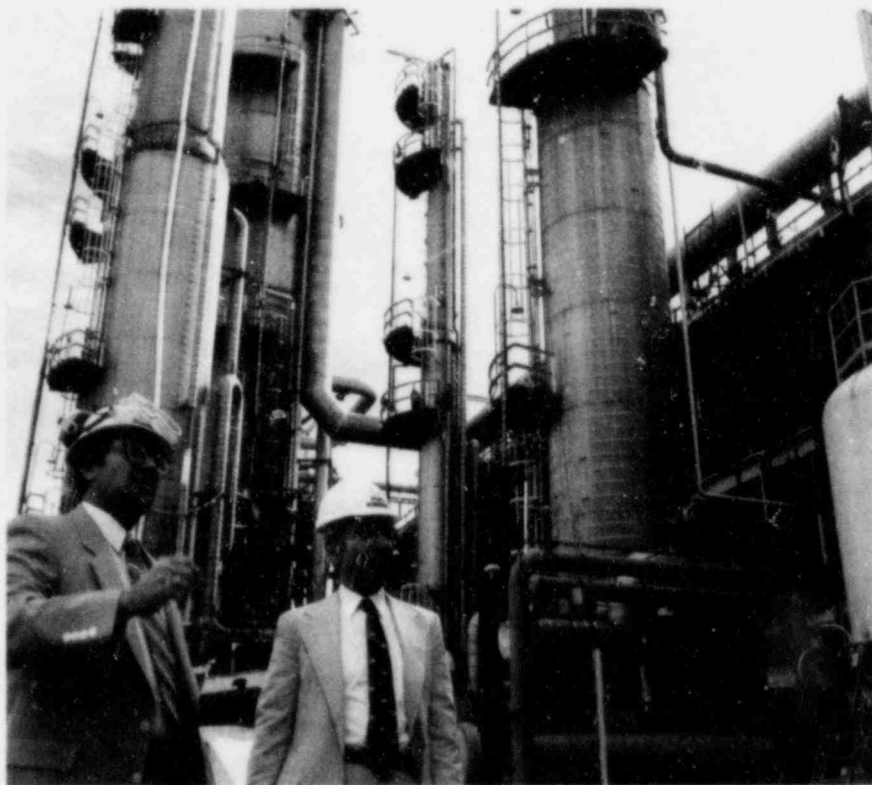
There are several resource recovery facilities planned within PSE&G's service area which will burn solid waste and at the same time generate electric power. American REF-Fuel, a joint venture of Air Products, Inc., and Browning Ferris Industries plans to build a 79,000-kilowatt facility in Newark. The Company is negotiating an agreement to purchase the net output of the plant over a 30-year period.

The Great Falls on the Passaic River at Paterson will again be harnessed to produce electricity. The Company has signed a memorandum of understanding to purchase power from the falls hydroelectric plant which will be rebuilt by Great Falls Hydro Company. The plant will have a capacity of 11,000 kilowatts.

Further down the river, American Hydro Power Corp. is planning to install a 2,300-kilowatt hydroelectric facility at the Dundee Dam in Clifton. PSE&G is discussing the purchase of the power produced by the plant.

An agreement also was signed to purchase electricity which will be produced by a turbine fueled with methane gas created by the decomposition of solid waste in a landfill at Deptford Township, N.J. The agreement is with Kinsley's Landfill, Inc., which will build the plant to extract methane from its property for fueling a 2,600-kilowatt generating unit.

The Trenton District Energy Company, a 12,000-kilowatt cogenerating facility located in downtown Trenton, delivered 74,036,000 kilowatthours of electricity for which PSE&G paid \$5.2 million in 1984.



Gas Sendout Increased in Year

The Company's total gas sendout in 1984 was 2.25 billion therms, 4.6 per cent higher than the 2.15 billion therms sent out during 1983 and reflective of the 4.5 per cent increase in gas sales.

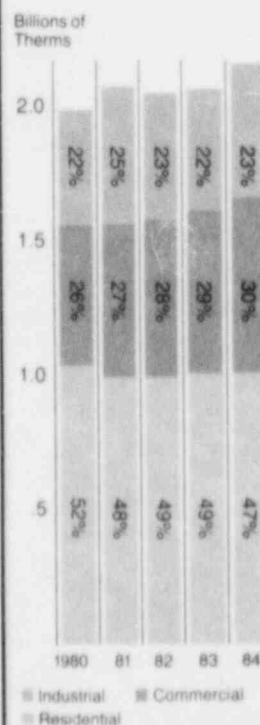
A new all-time record 24-hour sendout of 17,994,000 therms was set on January 21, 1985, when the average temperature was 4 degrees F. This was 11.1 per cent above the previous record of 16,201,000 therms set on January 17, 1982 when the average temperature was 4 degrees F below zero.

The Company's daily gas capacity increased by 727,000 therms in 1984. This increase was due to the purchase of an additional 280,000 therms of pipeline gas from two new suppliers, 147,000 therms of firm storage service, and 300,000 therms of peaking supply under a two-year contract. The purchases from new suppliers represented the first time in 14 years that the Company has been able to increase its firm long-term contract supply of natural gas. This diversification of sources also provides the Company with greater reliability of supply and purchasing flexibility.

The daily gas capacity was 19,856,000 therms as of December 31. It was composed of, in therms: Natural gas, 15,309,000; liquefied petroleum gas, 1,981,000; oil gas, 1,186,000; synthetic natural gas, 1,125,000; and refinery gas, 255,000.

Josh Weston (right), a member of the PSE&G Board of Directors and President and Chief Executive Officer of Automatic Data Processing, Inc., inspects facilities at the Company's Linden Synthetic Natural Gas Plant.

Gas Therm Sales



Supplies of Natural Gas Improved

Natural gas supplies in 1984 were obtained under long-term contracts with interstate pipelines, from wells owned by Energy Development Corporation, a Company subsidiary, and through a number of short-term arrangements with other gas companies and producers.

The amount of natural gas purchased in 1984 for distribution to customers totaled 2.15 billion therms, compared with 2.03 billion therms in 1983.

The average cost of natural gas was \$3.69 per million Btu in 1984, compared with \$3.74 per million Btu in 1983. This decrease was due to stabilized pipeline prices as a consequence of increased competition in the market place and the Company's ability to make substantial spot market purchases at prices below firm contract rates.

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

Refinery gas purchased in 1984 amounted to 87.0 million therms, compared to 104.8 million therms in 1983. The cost of this gas averaged \$4.04 per million Btu compared to \$4.18 per million Btu in 1983. The cost reduction was a result of renegotiating the Exxon contract pricing provisions.

The total production of manufactured gases amounted to 8.5 million therms in 1984 compared to 11.1 million therms in 1983.

Exploration Subsidiary Improved Results in 1984

The net income of the Company's exploration subsidiary, Energy Development Corporation (EDC), rebounded from 1983's depressed level as a result of increased natural gas sales and significantly higher oil production.

Revenues from the sales of natural gas and oil totaled \$78.8 million, an increase of 29 per cent from 1983. Net income rose 19.2 per cent to \$10.3 million.

During the year EDC drilled a total of 52 wells, an increase of 58 per cent from 1983. Of the total, 29 were onshore and 23 offshore. At year end 13 wells were still being drilled.

Onshore operations were conducted in the Gulf Coast regions of Texas, Louisiana, Mississippi, Alabama and Florida. The result of onshore drilling was 15 successful wells and 14 that were abandoned. At year end nine onshore wells were still being drilled.

Offshore activity included exploratory drilling on six untested lease blocks and development drilling to delineate prior discoveries. During the year 13 wells were classified as successful and ten were abandoned. There were four offshore wells still being drilled at year end.

Liquefied Natural Gas Facility Abandoned by Company

The Company in December ended its efforts to obtain required Federal Energy Regulatory Commission (FERC) approval to operate two liquefied natural gas (LNG) storage tanks and related facilities on Staten Island, New York. The facilities, owned by Energy Terminal Services Corporation (ETSC), a subsidiary, were abandoned. A related pipeline project of Energy Pipeline Corporation, another subsidiary, to connect the terminal to New Jersey, also was abandoned. The action had been recommended by the subsidiaries because of inordinate delays in the licensing process with the result that a timely operational date could not be achieved.

PSE&G's involvement with the facilities began in the early 1970's in conjunction with a project to import LNG for which the tanks were originally built. At that time, the Company and other utilities were experiencing serious difficulties in obtaining additional domestic supplies of natural gas to meet future customer requirements. PSE&G committed itself to partial financing of the facility in 1973 after all necessary approvals had been obtained from local, state, and federal agencies, including authorization to import the LNG by the Federal Power Commission (FPC), predecessor of FERC. However, later in 1973, despite the fact that construction was well advanced, the FPC reversed an earlier decision in which it declined to assert jurisdiction over construction and operation of the facility and required that such approval be obtained. The FPC decision was ultimately sustained by the courts over the objections of ETSC.

Gas Peak Sendout and Daily Capacity at Time of Peak





The award-winning Burlington Customer Service Center provides customer inquiry service and bill payment facilities in an atmosphere of Colonial-era charm and architecture. The Burlington office includes the latest in computerized technology to respond efficiently to customer needs.

Since 1979, ETSC had been seeking authority to store domestic natural gas in the tanks for use by PSE&G and other utilities to meet customer needs during periods of peak demand in winter. Over 100 similar LNG storage facilities are operating safely in the nation, in urban and suburban areas. The Company had continued to seek approval of the project because it represented the most cost-effective means of securing gas needed during periods of high demand.

PSE&G's investment in the facilities was approximately \$69.6 million. As a result of the abandonment, the investment, net of related tax savings, is expected to be amortized over a seven-year period, which began in 1984. The action resulted in a reduction of \$6 million in 1984 net income.

Improvement Realized in Customer and Marketing Services

As a result of the completion of the reorganization of customer and marketing services over the three prior years, improvements in efficiency and quality of service to customers were realized in 1984. An additional workload created by the expanding economy was managed by streamlining procedures.

Continued emphasis on computerized operations generated additional cost savings. Greater operating efficiencies and utilization of manpower were accomplished by the use of micro-

processors for meter reading, additional office automation applications and the establishment of a state-of-the-art training center. In November, the Company sponsored a utility conference to enhance the use of microprocessor meter reading systems.

"CAMS Towne," a customer and marketing services training facility, was opened in 1984. The facility employs the latest in technology for training meter readers and other personnel. A sophisticated office automation system for communication and controlling management information at all field and general office locations also was instituted.

The "Challenge of Caring" program begun in 1983 continued to accentuate the importance of good customer relations for employees who are in contact with customers. Three Consumer Advisory Panels, representing a cross-section of customer and consumer groups, completed their second year of activity. Consumer comments and advice have enabled the Company to open new lines of communication with customers and to improve service.

Additional emphasis was placed in 1984 on a bill collection improvement program. For the second consecutive year, timeliness of bill payments improved by nearly 10 per cent compared with the prior year. Efforts to prevent thefts of energy, employing computerized case tracking and billing systems, were intensified,



This load management panel controls major appliances in a customer's home to avoid heavy usage during hours of peak demand on the PSE&G system.

resulting in the completion of 1,414 cases producing billings of \$1,170,000.

An aggressive marketing program was carried out during the year to encourage conversion from oil to gas heat. The program emphasized gas as premium heating fuel as well as its price advantage over oil. There were 11,160 residential conversions reported during the year compared with 13,189 in 1983. New residential gas heating installations totaled 12,190 compared with 7,038 in 1983.

A campaign directed at small-to-medium sized industrial and commercial customers utilizing gas for other than heating, coupled with on-going activities, resulted in 1,731 conversions to gas.

Electric heating was promoted for new construction. A total of 747 electric heating installations were made in the industrial and commercial sector. In the residential market, heat pumps were promoted and 1,769 installations were made. Marketing efforts also resulted in the installation of 7,373 efficient high pressure sodium and vapor lights for dusk-to-dawn lighting.

An estimated \$44 million annually in additional electric and gas revenues will result from installations related to these marketing activities.

Addressing a wide range of subjects on home energy management, appliance purchases and

conservation, consumer advisers continued their efforts at a variety of forums. These included 44 radio and television programs compared with 24 in 1983. In all, a total of 2,587 programs were conducted, reaching an audience of 160,000 consumers.

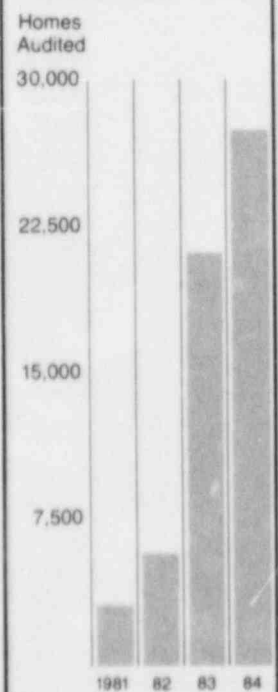
At the end of 1984, the Company had 1,734,157 electric customers and 1,343,493 gas customers.

Conservation Program Wins Awards

The Company's energy conservation program won three major awards, including a Presidential citation, in 1984. The honors were from the U.S. Department of Housing and Urban Development (HUD), the Association of Energy Engineers, and the New Jersey Community Action Program Executive Directors Association. The Company received a Presidential Recognition Award sponsored by HUD which honors individuals, groups and companies for exhibiting a "spirit of voluntarism" in their communities.

As the Company expanded its conservation efforts during 1984, it was evident that the "Seal-Up and Save" program had caught on with customers, and that more and more people were becoming conscious of the value of energy savings. In all facets of the program, activity increased markedly over that achieved during 1983, the first full year that the Conservation, Cogeneration and Load Management Plan, as

Residential Energy Conservation Audits



approved by the New Jersey Board of Public Utilities, was in effect. Highlights of the program in 1984 included:

- Home Energy Audits increased to 27,250 in 1984 from 21,000 in 1983.

- In 1984, conservation loans totaling \$3.8 million were granted to 1,400 customers, nearly three times the amounts requested in 1983.

- The Customer Conservation Seal-Up Program was utilized by more than 17,000 customers.

- In the low income program 6,000 weatherization kits were provided, free weatherization installations were made for 13,000 customers, and an additional \$250,000 was given to community action agencies in addition to the \$250,000 granted in 1983 for low-income conservation efforts.

- The Energy Conservation Center handled 130,000 telephone inquiries and 278,000 pieces of mail in 1984, up 217 per cent and 174 per cent, respectively, over 1983.

- The "Conservation on Wheels" mobile van traveled throughout PSE&G's territory and was visited by 78,800 persons as compared to 34,000 in 1983.

- In the load management phase of the plan, the promotion and customer acceptance of high efficiency heat pumps and air conditioners continued unabated, spurred on by the Company's rebate program. Over 35,000 rebates totaling approximately \$4.3 million were made to customers in 1984 compared to \$1.7 million in 1983.

The Company in September requested BPU approval to modify and expand the plan during 1985. The rebate program would be enlarged to include rebates on the purchase and installation of residential setback clock thermostats; rebates to existing residential gas customers who change the source of their domestic hot water from a heating boiler to a high efficiency automatic gas water heater; rebates to any residential customer who installs a high efficiency gas heating system, and rebates for the installation of solar water heating units.

In addition, the Company would provide workshops for low income customers to increase their knowledge of energy conservation; and would co-fund with New Jersey's seven other utilities an independent study for conducting cost-benefit analyses of energy conservation programs and research by Princeton University on the engineering and physical aspects of conservation measures.



The BPU approved the changes on January 17, 1985.

Solution to Energy Problems Sought Through Research

Total research and development expenditures in 1984 were \$20.5 million. Partially offsetting these costs were \$4.3 million obtained from sales and reimbursements. Of the balance, \$5.0 million were spent for internally-conducted activities, and \$11.2 million went to support research by industry-sponsored organizations.

The Company's research activities are coordinated by the PSE&G Research Corporation and are directed toward solving present and future energy problems. During 1984 efforts were concentrated in these major areas:

- Support of industry research organizations including the Electric Power Research Institute and the Gas Research Institute.

- Support of research programs and joint research with academic institutions, including Stevens Institute of Technology, Rutgers University, Princeton University, New Jersey Institute of Technology, Trenton State College and Massachusetts Institute of Technology.

- Increased emphasis on transferring information on technical advances to PSE&G operating departments.

- Direct contracted research programs.

A new commercial and apartment energy audit program has been initiated. Technical competence and sophisticated equipment, such as hand-held infra-red scanners and mini-computers, are used to provide accurate information and recommendations.

Testing of 40-Kilowatt Fuel Cells Set

During 1985, PSE&G will test two 40-kilowatt fuel cell powerplants, known as the GAS POWERCEL, a trademark of the American Gas Association. The fuel cells use natural gas as fuel, and produce electricity through an electrochemical process. The testing is part of a nationwide program sponsored by the Gas Research Institute and the U.S. Department of Energy. Fuel cells manufactured by United Technologies Corporation will be tested at two separate sites.

One of the fuel cells was installed late in 1984 at a building products firm in Avenel, N.J. In addition to PSE&G, three other New Jersey gas utilities are participating in the testing. The second fuel cell will be installed and tested in 1985 by PSE&G alone at Princeton University.

The field tests will provide critical data needed to evaluate fuel cell technology as an on-site energy option. The electricity produced by the fuel cells will be fed into the PSE&G electric grid. Fuel cells also produce heat which can be used to heat water or to provide other on-site thermal needs of customers. The units offer an attractive energy option for the future.

Cogeneration Unit Installed

A 60-kilowatt cogeneration unit powered by a gas-fired internal combustion engine was installed in 1984 at the Company's Springfield Gas Meter Shop for a five-year test program. This unit will produce useable heat for the Meter Shop while generating electricity. The electricity will be used either on-site or fed into the power grid.

The testing will provide information on the technical and economic characteristics of modular cogeneration systems. The data obtained, combined with the results of the 40-kilowatt fuel cell test, will provide additional information on small scale cogeneration.

Potential Robot Applications Under Review

Robotics is a promising new industrial electrification option which is improving the productivity of new and existing manufacturing facilities. Robot technology could benefit electric utilities through increased electricity sales and opportunities for industrial and commercial load management. Utilities also are using robot technology themselves.

In 1984 research and development activities included initiation of a review of potential robot applications. A Company-wide survey was conducted to identify possible uses of robots within PSE&G. Some of the most useful applications may be in nuclear power plants and in transmission and distribution operations. PSE&G will continue robotics research utilizing the talents of an academic-industrial Robotics Consortium established at the New Jersey Institute of Technology.

Battery Testing Continued During the Year

Testing continued during 1984 at the Battery Energy Storage Test (BEST) Facility.

Tests were successfully completed on a developmental version of a zinc-chloride battery. The 500-kilowatthour battery is the forerunner of a much larger commercial battery storage system of Energy Development Associates, a Gulf + Western company, called FLEXPOWER. The system will be built in the 2,000 to 6,000-kilowatthour size range.

Testing of an advanced 500-kilowatthour lead-acid battery also continued in 1984. Tests on this battery system will conclude in 1985, and the complete battery energy system will become available to commercial users. The successful development of these advanced batteries would make possible the storage of less expensive off-peak nuclear or coal generated power. This stored electricity could then be used during periods of high demand rather than generate that peak power using more expensive oil or gas fired plants.

Fuels Research Laboratory Set Up

A new Fuels Research Laboratory, which initially will specialize in coal analysis and characterization, was set up in 1984 at the Harrison Gas Plant. Coal will be examined in great detail by utilizing advanced physical and chemical techniques.

Comparative data will be established for various types of power plant coal. The data will help in the selection of coal and assist in determining the cause of boiler problems in fossil-fueled plants.

New sources of coal supply and preparation techniques will be investigated. Company costs could be lowered if data gathered shows that more economical coal can be used.

"PSE&G is an active force in the community, very involved in numerous civic and charitable causes, and is regarded as a responsible corporate citizen."

John A. Sahlman

Manager — Community Affairs



The 1,000-seat Robert I. Smith amphitheater at Corporate Headquarters in Newark is scene of fire safety demonstration for school children. PSE&G was commended in a proclamation by the mayor of Newark which reads: "Presented to PSE&G for your community participation in an effort to help save young lives."

Laboratory Monitors Quality of Company Operations

PSE&G's Research and Testing Laboratory during the year augmented and refined its testing and analysis programs. The Laboratory, a technical services group within PSE&G Research Corporation, applies the latest methods and technology to the task of monitoring and diagnosing the quality of equipment and material used by the Company in its operations. The first priority in these efforts is to evaluate and improve the efficiency and reliability of services provided to customers. Changes in regulations by government agencies, particularly the Environmental Protection Agency and the Nuclear Regulatory Commission, have also increased testing and analysis needs throughout the Company. In addition to meeting these

internal needs, the Laboratory markets technical services outside the Company.

PSE&G Working With Higher Education in New Jersey

For many years, PSE&G has worked actively with academic institutions. The work ranges from support of professional talents on staff or sabbatical leave to direct research contracts and support of academic centers of excellence. The Company has been also involved in cooperative research programs with engineering colleges in New Jersey and has broadened its involvement by instituting a new working relationship called the "Student Project Team Concept". The program builds upon existing utility-academic research contacts. Senior undergraduate or graduate students perform research

work for PSE&G which satisfy the students' senior project credit requirements. In addition, the Company co-sponsors with numerous academic institutions, various energy programs.

Involvement In Community Activities Emphasized

As a Company whose operations are affected by the understanding of the communities it serves, PSE&G historically has been involved in the activities of numerous educational, civic and cultural organizations.

Various departments of the Company have initiated and participated in many programs designed to serve a broad range of community needs. Company personnel in 1984 filled numerous voluntary positions in community organizations.

During the year community affairs representatives made about 2,000 presentations on a wide variety of energy-related topics.

More than 325 talks were given before approximately 13,640 persons by the Company's Speakers Bureau. The Second Sun, the energy information center at the Salem Generating Station, was visited by over 21,350 persons. Approximately 2,260 persons toured PSE&G generating stations.

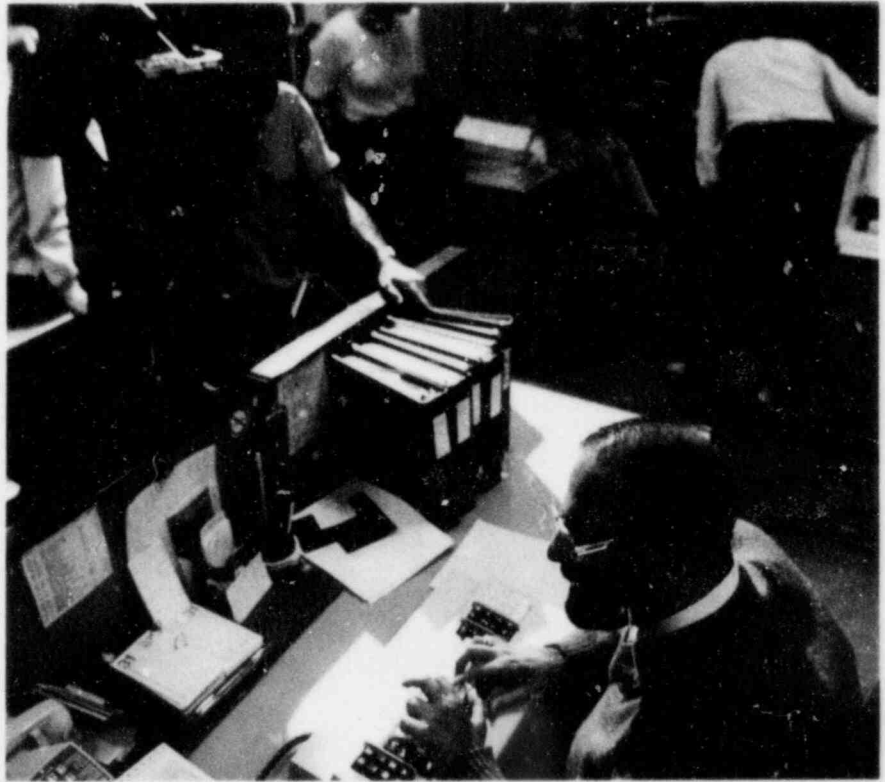
Information was provided on a regular basis about Company operations and policies to the media, the financial community, and other interested groups.

Dedication of Employees Continued in 1984

In 1984, as in the past, PSE&G's most important resource was its employees. Throughout the year their loyalty and dedication made it possible for the Company to continue to provide dependable and reliable service to customers.

For the first time in the bargaining relationship new three-year firm agreements were reached in April with six unions representing approximately 7,900 employees. The agreements, also the first concluded before prior contracts expired, span the period of the scheduled completion and startup of the Hope Creek Generating Station. Provided for are wage increases of 5.32 per cent in the first year, 5.05 per cent in the second, and 6 per cent in the third.

The cost of improvements in benefits will average an additional 0.66 per cent each year. Several significant contract modifications were achieved designed to improve productivity and reduce costs.



Keeping pace with the changing needs of employees, while still containing costs, the Company made several modifications to benefit plans in 1984. These included the expansion of health maintenance organizations (HMO's), and the provision for flexible medical plans for certain employees not previously covered. In addition, a payroll-based employee stock ownership plan was initiated.

In effort to promote a safer work environment, a Company-wide program was implemented to combat employee drug and alcohol abuse on and off the job.

Efforts to attract well-qualified individuals to meet ever-changing technical and professional needs included recruiting at 35 eastern collegiate institutions.

The employee suggestion plan continued to produce new ideas, saving money and improving operations. During 1984 the Company benefitted by more than \$500,000 from suggestions submitted by employees.

Employee services, as well as other administrative and personnel-related support to the Nuclear Department, were expanded at Salem. New facilities included a modern, fully equipped medical unit, and an employment and placement office.

The Company modified its employee pay practices to make them reflect more directly individual job performance. New elements were

Bob Clavaglia, a programming assistant in the Information Systems Department, making a television commercial urging hiring of the disabled. Clavaglia is president of DIAL, an organization dedicated to improving conditions for the disabled.

included in pre-employment tests for certain manual positions to determine whether job applicants possess necessary physical abilities.

Affirmative Action Programs in the employment of women and minorities continued to be emphasized. At the end of 1984 there were 2,074 female employees and 1,951 minority group employees.

Company employees at the end of 1984 totaled 13,706 compared with 13,283 at the close of 1983. Wages and salaries for the year were more than \$460 million, including \$14.1 million of disability benefits and workers compensation.

Changes in Organization

In accordance with the Company's retirement policy for Directors, Margery Somers Foster retired as a Director effective April 17, 1984. Josh S. Weston was elected a Director for the first time at the Company's Annual Meeting held on April 17, 1984.

The Board of Directors elected Robert S. Smith a Vice President, effective April 17, 1984.

Effective August 1, 1984, Harold W. Sonn, President and Chief Executive Officer, was also elected Chairman of the Board; William E. Scott, Executive Vice President — Finance, was elected Senior Executive Vice President; Everett L. Morris, Senior Vice President — Customer Operations, was elected Executive Vice President — Finance; Frederick W. Schneider, Senior Vice President — Corporate Planning, was elected Executive Vice President — Operations and Fredrick R. DeSanti, Vice President — Rates and Load Management, was elected Senior Vice President — Customer Operations.

Effective the same date Richard M. Eckert, Senior Vice President — Energy Supply and Engineering, was redesignated Senior Vice President — Nuclear and Engineering.

Carroll D. James, Vice President — Administrative Planning, retired October 19, 1984, after more than 44 years of service.

Effective December 17, 1984, Donald A. Anderson, Vice President — Computer Systems and Services, was redesignated Vice President — Information Systems.

Financial Statement Responsibility

The management of Public Service Electric and Gas Company is responsible for the preparation, integrity and objectivity of the financial statements of the Company. The financial statements are prepared in accordance with generally accepted accounting principles applied on a consistent basis and reflect estimates based upon the judgement of management where appropriate. Management believes that they present fairly and consistently the Company's financial position and results of operations. Information in other parts of this Annual Report is consistent with these financial statements.

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded properly. The system is designed to permit preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance recognizes that the costs of a system of internal controls should not exceed the related benefits.

Management believes the effectiveness of this system is enhanced by a program of continuous and selective training of

employees. In addition, management has communicated to all employees its Policies on Business Conduct, Company Assets and Internal Control.

The Internal Auditing Department of the Company conducts audits and appraisals of accounting and other operations and evaluates the effectiveness of cost and other controls.

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

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

Statements of Income

For the Years Ended December 31,	1984	1983	1982
Operating Revenues	(Thousands of Dollars)		
Electric	\$2,816,241	\$2,570,457	\$2,543,191
Gas	1,379,883	1,392,475	1,330,785
Total Operating Revenues	4,196,124	3,962,932	3,873,976
Operating Expenses			
Operation			
Fuel for Electric Generation and Interchanged Power — net	872,805	868,977	959,382
Gas Purchased and Materials for Gas Produced	822,583	858,018	821,479
Other	527,371	503,568	452,115
Maintenance	269,974	238,766	220,456
Depreciation and Amortization of Utility Plant	211,188	201,787	192,860
Amortization of Property Losses (note 4)	58,975	49,040	43,345
Taxes			
Federal Income Taxes (note 1)	255,304	191,033	176,639
New Jersey Gross Receipts Taxes	529,654	513,760	514,266
Other	50,132	44,033	38,975
Total Operating Expenses	3,597,986	3,468,982	3,419,517
Operating Income	598,138	493,950	454,459
Other Income			
Allowance for Funds Used During Construction — Equity	104,803	85,591	58,367
Equity in Earnings of Subsidiaries (note 2)	9,098	7,061	10,460
Miscellaneous — net	3,768	5,544	7,118
Total Other Income	117,669	98,196	75,945
Income Before Interest Charges	715,807	592,146	530,404
Interest Charges (note 8)			
Long-Term Debt	256,689	228,189	198,413
Short-Term Debt	5,428	3,480	13,978
Other	17,650	13,699	8,246
Total Interest Charges	279,767	245,368	220,637
Allowance for Funds Used During Construction — Debt	(53,989)	(43,001)	(33,060)
Net Interest Charges	225,778	202,367	187,577
Net Income	490,029	389,779	342,827
Dividends on Cumulative Preferred Stock and \$1.40 Dividend Preference Common Stock	60,221	58,234	53,865
Earnings Available for Common Stock	\$ 429,808	\$ 331,545	\$ 288,962
Shares of Common Stock Outstanding			
End of Year	112,563,068	102,857,989	94,844,596
Average for Year	108,913,276	97,467,431	89,233,028
Earnings per Average share of Common Stock	\$ 3.95	\$ 3.40	\$ 3.24
Dividends paid per share of Common Stock	\$ 2.70	\$ 2.62	\$ 2.53

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

Balance Sheets

Assets

December 31,	1984	1983
Utility Plant — Original cost	(Thousands of Dollars)	
Electric Plant	\$4,994,717	\$4,849,599
Gas Plant	1,222,468	1,152,159
Common Plant (note 8)	250,372	222,402
Nuclear Fuel	105,140	83,590
Utility Plant in Service	6,572,697	6,307,750
Less Accumulated Depreciation and Amortization (note 8)	2,320,140	2,214,135
Net Utility Plant in Service	4,252,557	4,093,615
Construction Work in Progress	3,255,914	2,689,082
Plant Held for Future Use	41,818	21,119
Net Utility Plant	7,550,289	6,803,816
Other Property and Investments		
Nonutility Property, net of accumulated depreciation — 1984, \$831; 1983, \$2,711	12,889	10,574
Investments in and Advances to Subsidiaries (note 2)	234,799	304,075
Total Other Property and Investments	247,688	314,649
Current Assets		
Cash (note 3)	4,702	7,277
Working Funds	27,481	21,668
Pollution Control Escrow Funds	127,103	13,574
Accounts Receivable, net of allowance for doubtful accounts — 1984, \$16,470; 1983, \$15,578	364,850	368,232
Unbilled Revenues	165,529	200,399
Fuel, at average cost	276,206	221,762
Materials and Supplies, at average cost	57,611	55,313
Prepayments	11,445	9,529
Total Current Assets	1,034,927	897,754
Deferred Debits (note 4)		
Property Losses		
Atlantic Project	230,292	245,352
Hope Creek Unit 2	197,206	229,468
LNG Project	59,400	
Other	5,605	3,027
Underrecovered Electric Energy and Gas		
Fuel Costs — net	307,461	96,125
Unrecovered Nuclear Fuel Disposal Costs	3,656	13,424
Unamortized Debt Expense	24,120	22,731
Total Deferred Debits	827,740	610,127
Total	\$9,660,644	\$8,626,346

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

Capitalization and Liabilities

December 31,	1984	1983
Capitalization (see statements, pages 29-31)	(Thousands of Dollars)	
Common Equity		
Common Stock	\$2,005,923	\$1,792,340
Premium on Capital Stock	557	557
Paid-In Capital	26,185	26,185
Retained Earnings	1,098,219	963,617
Total Common Equity	3,130,884	2,782,699
Preferred Stock Without Mandatory Redemption	554,994	554,994
Preferred Stock With Mandatory Redemption	137,750	139,500
Long-Term Debt	3,103,343	2,684,899
Other Long-Term Obligations (note 8)	122,947	119,815
Total Capitalization	7,049,918	6,281,907
Current Liabilities		
Preferred Stock to be redeemed within one year	1,750	1,750
Long-Term Debt and Other Obligations due within one year	3,084	53,969
Commercial Paper (note 5)	185,000	153,000
Accounts Payable	233,829	245,528
New Jersey Gross Receipts Taxes Accrued	547,341	510,590
Deferred Income Taxes on Unbilled Revenues (note 1)	76,143	92,183
Other Taxes Accrued	16,303	21,277
Interest Accrued	86,887	64,494
Gas Purchases Accrued	108,237	100,397
Other	65,007	56,631
Total Current Liabilities	1,323,581	1,299,819
Deferred Credits		
Accumulated Deferred Income Taxes (note 1)		
Depreciation and Amortization	507,605	438,480
Property Losses		
Atlantic Project	96,821	103,157
Hope Creek Unit 2	81,487	94,644
LNG Project	23,885	
Deferred Electric Energy and Gas Fuel Costs — net	141,178	44,247
Other	(14,775)	(744)
Accumulated Deferred Investment Tax Credits (note 1)	417,978	335,196
Other	32,966	29,640
Total Deferred Credits	1,287,145	1,044,620
Commitments and Contingent Liabilities (note 7)		
Total	\$9,660,644	\$8,626,346

Statements of Changes in Financial Position

For the Years Ended December 31,	1984	1983	1982
	(Thousands of Dollars)		
Funds Provided			
Net Income	\$ 490,029	\$ 389,779	\$ 342,827
Add (Deduct) Items not affecting Working Capital			
Depreciation and Amortization	299,865	294,628	305,641
Recovery (Deferral) of Electric Energy and Gas Fuel Costs — net	(211,336)	(162,797)	164,818
Provision for Deferred Income Taxes — net (note 1)			
Depreciation and Amortization	69,125	79,935	45,950
Property Losses	4,392	(19,915)	(24,507)
Deferred Electric Energy and Gas Fuel Costs	96,931	76,842	(78,214)
Other	(14,031)	6,107	(18,428)
Investment Tax Credits — net	94,457	33,718	205,261
Allowance for Funds Used During Construction (AFDC)	(158,792)	(128,592)	(91,427)
Equity in Earnings of Subsidiaries	(9,098)	(7,061)	(10,430)
Other	5,724	3,583	(963)
Total Funds from Operations	667,266	566,227	840,498
Net funds from financings			
Long-Term Debt	421,610	161,081	221,022
Preferred Stock		29,739	34,646
Common Stock	213,492	181,276	186,883
Increase in Obligations Under Capital Leases (note 8)	5,910	2,924	
Total Funds from Financings	641,012	375,020	442,551
Total Funds Provided	\$1,308,278	\$ 941,247	\$1,283,049
Funds Applied			
Additions to Utility Plant, excluding AFDC	\$ 808,573	\$ 765,217	\$ 721,948
Cash Dividends	355,276	313,989	281,459
Investments in and Advances to Subsidiaries — net	(9,061)	9,080	16,464
Reductions of Long-Term Debt and Other Obligations	7,054	58,002	52,650
LNG Project Abandonment (note 4)			
Reduction in Investments and Advances	(69,313)		
Deferral of Loss	69,313		
Miscellaneous	33,025	10,278	11,602
Total Funds Applied	1,194,867	1,156,566	1,084,123
Changes in Working Capital — Increase (Decrease)			
Short-Term Debt	(32,000)	(153,000)	207,551
Long-Term Debt and Other Obligations due within one year	50,885	(3,630)	(46,788)
Cash	(2,575)	(2,704)	4,386
Working Funds	5,813	(2,640)	13,643
Pollution Control Escrow Funds	113,529	9,466	4,108
Temporary Cash Investments		(49,900)	49,900
Accounts Receivable	(3,382)	(8,357)	(1,335)
Unbilled Revenues	(34,870)	18,112	5,339
Fuel	54,444	(40,155)	43,694
Materials and Supplies	2,298	10,654	4,588
Accounts Payable	11,699	18,385	(1,179)
New Jersey Gross Receipts Taxes Accrued	(36,751)	3,788	(38,522)
Deferred Income Taxes	16,040	(8,331)	(2,456)
Other Taxes Accrued	4,974	(337)	(4,786)
Interest Accrued	(22,393)	(6,569)	(10,175)
Gas Purchases Accrued	(7,840)	7,186	(23,942)
Other	(6,460)	(7,287)	(5,100)
Net Increase (Decrease) in Working Capital	113,411	(215,319)	198,926
Total Funds Applied and Changes in Working Capital	\$1,308,278	\$ 941,247	\$1,283,049

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

Statements of Retained Earnings

For the Years Ended December 31,	1984	1983	1982
	(Thousands of Dollars)		
Balance January 1	\$ 963,617	\$ 888,262	\$ 827,497
Add Net Income	490,029	389,779	342,827
Total	1,453,646	1,278,041	1,170,324
Deduct			
Cash Dividends			
Preferred Stock, at required rates	58,317	56,353	51,984
\$1.40 Dividend Preference Common Stock	1,881	1,881	1,881
Common Stock*	295,078	255,755	227,594
Total Cash Dividends	355,276	313,989	281,459
Capital Stock Expenses	151	435	603
Total Deductions	355,427	314,424	282,062
Balance December 31	\$1,098,219	\$ 963,617	\$ 888,262

*Restrictions on the payment of dividends are contained in the Charter, certain of the indentures supplemental to the Company's Mortgage, and certain debenture bond indentures. However, none of these restrictions presently limits the payment of dividends out of current earnings. The amount of retained earnings free of these restrictions at December 31, 1984 was \$1,088,219,000.

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

Independent Accountants' Opinion

**Deloitte
Haskins + Sells**

Certified Public Accountants
Gateway One
Newark, New Jersey 07102

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

We have examined the balance sheets and statements of capital stock and long-term debt of Public Service Electric and Gas Company as of December 31, 1984 and 1983 and the related statements of income, retained earnings, and changes in financial position for each of the three years in the period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Public Service Electric and Gas Company as of December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins + Sells

February 14, 1985

Statements of Capital Stock

December 31,	Outstanding Shares (note A)	Current Redemption Price Per Share	Certain Refundings Restricted Prior to	1984	1983
				(Thousands of Dollars)	
Nonparticipating Cumulative Preferred Stock (note B)					
With Mandatory Redemption (note C)					
\$100 par value — Series					
12.25%	245,000	\$112.00	2/1/85	\$ 24,500	\$ 26,250
13.44%	500,000	113.44	4/1/86	50,000	50,000
12.80% (350,000 shares issued in 1982)	350,000	112.80	10/1/87	35,000	35,000
11.62% (300,000 shares issued in 1983)	300,000	111.62	9/1/88	30,000	30,000
Less amount to be redeemed within one year				1,750	1,750
Preferred Stock with Mandatory Redemption				\$137,750	\$139,500
Without Mandatory Redemption (note D)					
\$25 par value-Series					
9.75%	1,600,000	\$ 26.50		\$ 40,000	\$ 40,000
8.70%	2,000,000	26.50		50,000	50,000
\$100 par value-Series					
4.08%	250,000	103.00		25,000	25,000
4.18%	249,942	103.00		24,994	24,994
4.30%	250,000	102.75		25,000	25,000
5.05%	250,000	103.00		25,000	25,000
5.28%	250,000	103.00		25,000	25,000
6.80%	250,000	102.00		25,000	25,000
9.62%	350,000	104.50		35,000	35,000
7.40%	500,000	101.00		50,000	50,000
7.52%	500,000	103.00		50,000	50,000
8.08%	150,000	103.00		15,000	15,000
7.80%	750,000	103.00		75,000	75,000
7.70%	600,000	104.64		60,000	60,000
8.16%	300,000	106.86		30,000	30,000
Preferred Stock without Mandatory Redemption (no changes in 1983 and 1982)				\$554,994	\$554,994
Dividend Preference Common Stock and Common Stock					
\$1.40 Dividend Preference Common Stock (no par) — 1,343,999 shares authorized, issued and outstanding; current redemption price \$35.00 per share (note E)				\$2,005,923	\$1,792,340
Common Stock (no par) — authorized 150,000,000 shares (note F); issued and outstanding as of December 31, 1984, 112,563,068 shares and as of December 31, 1983, 102,857,989 shares (9,705,079 shares issued for \$213,583,000 in 1984; 8,013,393 shares issued for \$181,461,000 in 1983; and 8,755,105 shares issued for \$187,140,000 in 1982)					
On January 24, 1985, 7,000,000 shares were sold for \$177,800,000.					

Notes:

A. In addition, there are 1,455,058 shares of \$100 par value and 6,400,000 shares of \$25 par value Cumulative Preferred Stock which are authorized and unissued, and which upon issuance may or may not provide for mandatory sinking fund redemption.

B. As of December 31, 1984 the annual dividend requirement and embedded dividend costs were \$17,687,000 and 12.87%, respectively, for Preferred Stock with mandatory redemption and \$40,629,000 and 7.38%, respectively, for Preferred Stock without mandatory redemption.

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

C. The Company is required to purchase or redeem a specified minimum number of shares of Cumulative Preferred Stock with mandatory redemption annually commencing on the effective dates shown below. Such redemptions are cumulative. The Company may annually redeem, at its option, an aggregate of up to twice the number of shares shown for each such series. All such redemptions are at a redemption price of \$100 per share. A redemption of shares of any series also requires payment of all accumulated and unpaid dividends to the date fixed for redemption.

Series	Minimum Shares Redeemable Annually	Effective Date of Mandatory Redemption	Aggregate Number of Shares Purchased and Redeemed During the Years		
			1984	1983	1982
12.25%	17,500	2/1/80	17,500	3,806	12,822
13.44%	25,000	3/31/87			
12.80%	17,500	9/30/88			
11.62%	15,000	9/30/89			

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

E. Each share of \$1.40 Dividend Preference Common Stock is entitled to cumulative dividends, to two votes, and, on liquidation or dissolution, to twice as much as each share of Common Stock. There were no changes in outstanding shares in 1984, 1983, or 1982.

F. Includes 7,154,990 shares of Common Stock reserved for possible issuance under the Company's Dividend Reinvestment and Stock Purchase Plan, Tax Reduction Act Employee Stock Ownership Plan, Employee Stock Purchase Plan, Thrift and Tax-Deferred Savings Plan and Payroll-Based Employee Stock Ownership Plan.

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

Statements of Long-Term Debt

December 31,		1984	1983
		(Thousands of Dollars)	
First and Refunding			
Mortgage Bonds (note A)			
Series	Maturity Date		
3¼%	May 1, 1984	\$	\$ 50,000
4¾%	November 1, 1986	50,000	50,000
47⁄8%	September 1, 1987	60,000	60,000
45⁄8%	August 1, 1988	60,000	60,000
5¼%	June 1, 1989	50,000	50,000
4¾%	September 1, 1990	50,000	50,000
4¾%	August 1, 1992	40,000	40,000
4¾%	June 1, 1993	40,000	40,000
45⁄8%	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
75⁄8%	April 1, 1999	75,000	75,000
9½%	March 1, 2000	98,000	98,000
8¾%	A May 15, 2001	69,300	69,300
75⁄8%	B November 15, 2001	80,000	80,000
7½%	C April 1, 2002	125,000	125,000
8½%	D March 1, 2004	90,000	90,000
12 %	E October 1, 2004	10,730	10,730
8¾%	F April 1, 2006	60,000	60,000
8.45%	G September 1, 2006	60,000	60,000
8¼%	H June 1, 2007	125,000	125,000
8½%	I September 1, 2007	59,900	59,900
9¾%	J November 1, 2008	100,000	100,000
9¾%	K July 1, 2009	100,000	100,000
12 %	L November 1, 2009	125,000	125,000
12½%	M June 1, 2010	100,000	100,000
157⁄8%	N August 1, 1991	100,000	100,000
14¾%	O September 1, 2012	100,000	100,000
12½%	P December 1, 2012	100,000	100,000
125⁄8%	Q August 1, 1993	100,000	100,000
8 %	June 1, 2037	7,463	7,463
5 %	July 1, 2037	7,538	7,538
Pollution Control Series			
6.30%	A October 1, 2006	14,300	14,300
6.90%	B September 1, 2009	42,620	42,620
6.90%	C September 1, 2009	2,990	2,990
12½%	D April 1, 2012	23,500	23,500
97⁄8%	E June 1, 2013	64,000	64,000
10½%	F July 1, 2014	150,000	
10¾%	G September 1, 2014	150,000	
10½%	H November 1, 2014	130,400	
10¾%	I November 1, 2012	4,600	
Total First and Refunding Mortgage Bonds		\$2,895,341	\$2,510,341

Notes:

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

B. As of December 31, 1984 the annual interest requirement on Long-Term Debt was \$280,662,000 of which \$263,276,000 was the requirement for First and Refunding Mortgage Bonds. The embedded interest cost on Long-Term Debt was 9.16%.

	1984	1983
	(Thousands of Dollars)	
Debenture Bonds unsecured		
Maturity Date		
5¾% June 1, 1991	\$ 36,778	\$ 37,907
7¼% December 1, 1993	26,449	27,432
9 % November 1, 1995	51,075	52,819
7¾% August 15, 1996	54,058	55,949
8¾% November 1, 1996	39,724	40,827
6 % July 1, 1998	18,195	18,195
Total Debenture Bonds	226,279	233,129
Total Long-Term Debt		
Principal amount out- standing (notes B and C)	3,121,620	2,743,470
Less amount due within one year (note D)	306	51,027
Long-Term Debt excluding amount due within one year	3,121,314	2,692,443
Net Unamortized Discount	(17,971)	(7,544)
Long-Term Debt less Net Unamortized Discount	\$3,103,343	\$2,684,899

C. As of December 31, 1984, the Company had unexercised commitments under a Credit Agreement with 12 domestic banks for issuance of revolving loans up to an aggregate amount of \$200,000,000 at any time to May 1, 1985. The Company may terminate the commitments, in whole or in part, without penalty or premium. Under the agreement, any borrowings outstanding at May 1, 1985 are convertible, at the Company's option, into three year term loans. The Company is required to pay a commitment fee on any unused portion. The Company has the right, with the consent of the banks, to extend the agreement on a year-to-year basis.

D. The aggregate principal amounts of requirements for sinking funds and maturities for each of the five years following December 31, 1984 are as follows:

Year	Sinking Funds	Maturities	Total
	(Thousands of Dollars)		
1985	\$ 306	\$	\$ 306
1986	5,778	50,000	55,778
1987	6,200	60,000	66,200
1988	6,200	60,000	66,200
1989	6,200	50,000	56,200
	\$24,684	\$220,000	\$244,684

For sinking fund purposes, certain First and Refunding Mortgage Bond issues require annually the retirement of \$21,900,000 principal amount of bonds or the utilization of bondable property additions at 60% of cost. The portion expected to be met by property additions has been excluded from the table above. Also, the Company may, at its option, retire additional amounts up to \$6,200,000 annually through sinking funds of certain debenture bonds. The election of any such option is included in long-term debt due within one year.

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

Summary of Significant Accounting Policies

Accounting Principles

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

Utility Plant and Related Depreciation and Amortization

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

For financial reporting purposes, depreciation is computed under the straight-line method. Depreciation is based on estimated average remaining lives of the several classes of depreciable property. Depreciation applicable to nuclear plant includes estimated costs of decommissioning. Amortization of leasehold improvements and capital lease assets is based on the term of the lease. These estimates are reviewed on a regular basis and necessary adjustments are made as approved by the BPU. Depreciation provisions stated in percentages of original cost of depreciable property are 3.53% in 1984 and 1983, and 3.52% in 1982.

Amortization of Nuclear Fuel

Nuclear energy burn-up costs are charged to fuel expense on the basis of the number of units of thermal energy produced as they relate to total thermal units expected to be produced over the life of the fuel. The rate calculated for fuel used at all of the Company's nuclear units includes a provision of one mill per kilowatthour of nuclear generation for spent fuel disposal costs.

Investments in Subsidiaries

The Company's investments in its subsidiaries (all wholly-owned), which in the aggregate are not significant as defined by the Securities and Exchange Commission, are reported in the accompanying financial statements on the equity method of accounting. The carrying value of investments in subsidiaries is reported under Other Property and Investments in the Balance Sheets, and under the equity method of accounting is adjusted for earnings or losses of such subsidiaries as reported under Other Income in the Statements of Income. The Company believes that its financial position and results of operations are best reflected without consolidation of these subsidiaries.

Revenues and Fuel Costs

Revenues are recorded based on services rendered to customers during each accounting period. The Company records unbilled revenues representing the amount customers will be billed for services rendered from the time meters were last read to the end of the respective accounting period.

The Company projects the costs of fuel for electric generation, purchased and interchanged power, gas purchased and materials for gas produced for twelve month periods.

Adjustment clauses in the Company's rate structure allow the recovery of fuel costs over those included in the Company's base rates through levelized monthly charges. Any under or over-recoveries, along with interest in the case of an overrecovery, are deferred and included in operations in the period in which they are reflected in rates.

Income Taxes

The Company and its subsidiaries file a consolidated Federal income tax return and income taxes are allocated, for reporting purposes, to the Company and its subsidiaries based on taxable income or loss of each (except for the effects of the LNG abandonment discussed in note 4).

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

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

Allowance for Funds Used During Construction

Allowance for funds used during construction (AFDC) is a cost accounting procedure whereby the cost of financing construction (interest and equity costs) is transferred from the income statement to construction work in progress (CWIP) in the balance sheet. The rate of 8½% used for calculating AFDC was within the limits set by FERC.

As a result of BPU rate orders, the Company is allowed to include a portion of CWIP in rate base on which a current return is permitted to be recovered through operating revenues. The amounts of CWIP included in rate base were \$375 million at the end of 1982 and 1983 and \$550 million at the end of 1984. No AFDC is accrued on the amounts of CWIP which are included in rate base.

Pension Plan

The Company has a non-contributory trustee pension plan covering substantially all employees completing one year of service. The Company's policy is to fund pension costs accrued. Company contributions include current service costs and amounts required to fund prior service costs over a 35 year period beginning January 1, 1967.

Notes to Financial Statements

1. Federal Income Taxes

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

	1984	1983	1982
	(Thousands of Dollars)		
Net Income	\$490,029	\$389,779	\$342,827
Federal income taxes included in:			
Operating income			
Current provision	18,384	6,015	34,762
Provision for deferred income taxes — net*	140,378	151,300	(72,743)
Investment tax credits — net	96,542	33,718	214,520
Total included in operating income	255,304	191,033	176,639
Miscellaneous other income — net	3,246	4,825	3,265
Total Federal income tax provisions	258,550	195,858	179,904
Subtotal	748,579	585,637	522,731
Net Earnings of subsidiaries	(9,098)	(7,061)	(10,460)
Pre-tax income	\$739,481	\$578,576	\$512,271
Tax expense at the statutory rate	\$340,161	\$266,145	\$235,645
Adjustments to pre-tax income, computed at statutory rate, for which deferred taxes are not provided under current rate-making policies:			
Tax depreciation under book depreciation	29,122	27,806	21,837
Allowance for funds used during construction	(73,044)	(59,152)	(42,056)
Overhead costs capitalized	(15,992)	(13,810)	(11,500)
Other	8,774	3,853	(277)
Subtotal	(51,140)	(41,303)	(31,996)
Amortization of deferred tax items	(30,471)	(28,984)	(23,745)
Subtotal	(81,611)	(70,287)	(55,741)
Total Federal income tax provisions	\$258,550	\$195,858	\$179,904
*The provision for deferred income taxes represents the tax effects of the following items:			
Current Liabilities			
Unbilled revenues	\$ (16,039)	\$ 8,331	\$ 2,456
Deferred Credits			
Atlantic Abandonment	(6,336)	(6,336)	(6,403)
Hope Creek Abandonment	(13,156)	(13,579)	(18,104)
LNG Project Abandonment	23,884		
Additional tax depreciation	59,389	61,348	48,791
Repair allowance property	6,391	17,482	(4,524)
New Jersey Gross Receipts Taxes		(5,838)	(2,912)
Deferred fuel costs — net	96,931	76,842	(78,214)
Nuclear Plant Decommissioning Costs	(5,587)	(5,408)	(4,651)
Nuclear Fuel Disposal Costs	(7,243)	20,433	(10,150)
Loss on reacquired debt	(415)	(417)	(415)
Other	2,559	(1,558)	1,383
Subtotal	156,417	142,969	(75,199)
Total	\$140,378	\$151,300	\$ (72,743)

Deferred income taxes are provided for differences between book and taxable income to the extent permitted for rate-making purposes. At December 31, 1984 the cumulative net amount of income tax timing differences for which

deferred income taxes have not been provided was \$1.3 billion. The related deferred income taxes, at the current statutory rate of 46%, would be \$600 million. The Company expects to continue to recover through rates the taxes due as such timing differences reverse.

As a result of Internal Revenue Service (IRS) audits for taxable years 1976 through 1980, the IRS has proposed an increase in taxable income which would increase the current tax liability by \$72 million. The proposed liability is primarily the result of including unbilled revenues as taxable income in the year estimated services were provided. The taxability of unbilled revenues is an industry issue. The Company has appealed the tax assessments related to unbilled revenues, and the IRS has suspended any action on the appeal pending the outcome of various court cases involving other utilities. Deferred taxes have been provided for such unbilled revenues and, if the Company is unsuccessful in its appeal, there would be little effect on earnings.

The balance of investment tax credits not utilized as of December 31, 1984, in the amount of \$52 million, is available as a carryover to future years and will expire in 1999. For the years 1984 and 1983 investment tax credits can be utilized to offset 85% of tax liability and for 1982, 90% of tax liability, before investment credit.

2. Investments in and Advances to Subsidiaries

Investments in and advances to subsidiaries are summarized as follows:

December 31,	1984	1983	1982
	(Thousands of Dollars)		
Energy Development Corporation			
Investment	\$ 56,639	\$ 46,366	\$ 37,628
Advances	173,865	183,737	172,368
	230,504	230,103	209,996
Other Subsidiaries	4,295	73,972	77,938
Total	\$234,799	\$304,075	\$287,934

Energy Development Corporation (EDC) is engaged in exploration activities to obtain supplies of natural gas. The Company purchases natural gas from EDC generally at FERC published ceiling prices. During 1984, 1983 and 1982, EDC provided approximately 6%, 3% and 6%, respectively, of the total gas received by the Company. EDC's revenues from sales of gas to the Company amounted to \$67.6 million, \$45.0 million and \$53.0 million, respectively, for those years.

Other Subsidiaries consists principally of Energy Terminal Services Corporation (ETSC). On December 18, 1984, the Company announced the abandonment of the unused liquefied natural gas terminal in Rossville, Staten Island, New York, owned by this wholly-owned subsidiary. See Note 4 — Abandonment of LNG Project.

3. Compensating Balances

Cash consists primarily of compensating balances under informal arrangements with various banks to compensate them for services and to support lines of credit of \$202.4 million and \$186.1 million at December 31, 1984 and December 31, 1983, respectively. There are no legal restrictions placed on the withdrawal or other use of these bank balances. In addition, at December 31, 1984 and December 31, 1983, the Company had lines of credit of \$35.0 million which were compensated for by fees.

4. Deferred Items

Abandonment of Atlantic Project

In December 1978, the Company cancelled the Atlantic nuclear plant project. The BPU authorized the Company to recover a portion of the costs of the project over a period of 20 years commencing in April 1980. Such costs are being recovered at the rate of \$15.1 million annually, less related taxes of \$6.3 million. No return is being earned on the unrecovered balance.

Abandonment of Hope Creek Unit No. 2

In December 1981, the Company abandoned the construction of Hope Creek Nuclear Generating Station Unit No. 2. In March 1982, the BPU authorized the transfer of \$112 million of Hope Creek 2 costs to Hope Creek 1 and the recovery of all after-tax abandonment costs for Hope Creek 2 from customers through the electric levelized energy adjustment clause. The recovery is over 15 years on an accelerated method and commenced in June 1982. During 1985, the amount to be recovered is estimated to be \$29.7 million, less related taxes of \$12.1 million. No return is being earned on the unrecovered balance.

Abandonment of LNG Project

In December 1984, the Company abandoned its investment in certain facilities for the storage of liquefied natural gas of its wholly-owned subsidiaries, Energy Terminal Services Corporation and Energy Pipeline Corporation. The abandonment had been recommended by those subsidiaries because of inordinate delays in the licensing process with the result that a timely operational date could not be achieved. As a result of this abandonment and prior to regulatory approval, PSE&G's investment of approximately \$69.3 million, less tax savings of \$27.9 million, was deferred and is being amortized over a seven-year period commencing in 1984 at a rate which will reduce net income by approximately \$6 million per year during that period. In 1984, this resulted in a reduction in earnings per share of Common Stock of approximately 5 cents.

Future regulatory action may require a change in the level of annual amortization, or could require the immediate write-off of any remaining unamortized balance existing at that time. Any amount not recovered, in the opinion of management, would not have a material effect on the financial position or results of operations of the Company. No return is being earned on the unrecovered balance.

Underrecovered Electric Energy and Gas Fuel Costs — net

Recoveries of electric energy and gas fuel costs are determined by the BPU in proceedings to establish the Company's electric Levelized Energy Adjustment Clause (LEAC) and gas Raw Materials Adjustment Clause (RMAC). The LEAC adjustment is normally set effective July 1 to run for the succeeding 12 month period. However, in its Order of March 23, 1984 establishing new base rates, the BPU directed that the Company could not change the LEAC rate until July 1, 1985. Such rate had been put into effect on March 1, 1983.

As of December 31, 1984, the cumulative underrecoveries under the LEAC are approximately \$334.2 million. This balance is net of the \$8.4 million of replacement energy costs, related to the reactor trip breaker outage of Salem 1 in 1983, determined to be nonrecoverable by the BPU in a January 1985 Order. The amount of the cumulative underrecovered balance is expected to increase by July 1, 1985.

On January 29, 1985 the Company filed with the BPU its request to increase the level of recovery under the LEAC to be effective July 2, 1985. The Company's request asks that the new rate be in effect for an eighteen month period running through December 31, 1986 and is designed to recover the LEAC underrecoveries as of June 30, 1985.

A major factor contributing to the large underrecoveries during the present LEAC period is extended outages at the nuclear facilities owned by the Company. These outages include the 1983 reactor trip breaker incident at Salem 1, electric generator failures at both Salem 1 and 2, and pipe cracking problems (Intergranular Stress Corrosion Cracking) at Peach Bottom 2 and 3, which is a generic problem with boiling water reactors.

Extensive discovery has already taken place regarding the Salem generator outages and the Peach Bottom pipe cracking outages, and further detailed review of such outages and of the Company's replacement energy costs will be held prior to setting the LEAC rate to be effective in July 1985. The Company cannot predict the outcome of this proceeding but believes that its actions have been reasonable and that all costs should be permitted to be recovered. The Company further believes that any disallowance in the proceeding would not have a material adverse effect on its financial position or results of operations. Under the LEAC presently in effect the Company is not allowed to earn a return on the investment required to finance the unrecovered balance.

On September 26, 1984, the BPU approved a reduction in charges under the RMAC for the period October 1984 through September 1985. The reduction was implemented as a one-time credit to customers' bills and reflected a \$37 million reduction in gas costs. The reduction results pri-

marily from a decline in the relatively moderate increases in projected prices of pipeline gas, additional purchases of lower-cost gas, the return of overrecovered costs for the twelve-month period ended September 1984 and refunds received from pipeline suppliers. Net overrecoveries under the RMAC amounted to \$26.7 million at December 31, 1984.

Unrecovered Nuclear Fuel Disposal Costs

The amounts in Deferred Debits represent the unrecovered balance of nuclear fuel disposal costs incurred at Peach Bottom prior to April 7, 1983. The balance at December 31, 1984 is expected to be fully recovered from customers during 1985, net of related taxes. No return is being earned on the unrecovered balance.

Unamortized Debt Expense

These costs, associated with the issuance or reacquisition of debt, are deferred and amortized over the lives of the related issues. Amounts shown in the balance sheets consist principally of costs associated with the Company's tender offer for its 12% Series E Mortgage Bonds which mature in October 2004. The Company expects to amortize \$1.5 million of these costs in 1985.

5. Bank Loans and Commercial Paper

Bank loans represent the Company's unsecured promissory notes issued under credit arrangements with various banks and have a term of eleven months or less.

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

	1984	1983	1982
	(Thousands of Dollars)		
Balance at end of year	\$185,000	\$153,000	\$ —
Maximum amount outstanding at any month end	\$185,000	\$161,900	\$216,015
Average daily outstanding	\$ 55,300	\$ 37,004	\$107,950
Weighted average annual interest rate	9.80%	9.40%	12.95%
Weighted average interest rate for commercial paper outstanding at year end	8.26%	9.87%	—

6. Pension Plan

Information on accumulated plan benefits and net assets of the Company's pension plan are as follows:

December 31,	1984	1983
	(Thousands of Dollars)	
Actuarial present value of accumulated plan benefits		
Vested	\$418,516	\$401,095
Nonvested	61,632	56,066
	\$480,148	\$457,161
Assumed rate of return	9.5%	9.0%
Market value of Plan Net Assets	\$515,000	\$459,285

Pension costs for the past three years were charged as follows:

	1984	1983	1982
	(Thousands of Dollars)		
Operating Expenses	\$55,294	\$56,360	\$50,317
Utility Plant	13,296	12,109	10,344
Total Pension Costs	\$68,590	\$68,469	\$60,661

7. Commitments and Contingent Liabilities

Construction and Fuel Supplies

The Company has substantial commitments as part of its construction program. Construction expenditures of \$3.4 billion, including about \$475 million of AFDC, are expected to be incurred during the years 1985 through 1989. In addition, the Company has commitments to obtain sufficient sources of fuel for electric generation and adequate gas supplies.

Uranium Contracts

A contract with Kerr-McGee Nuclear Corporation to supply uranium concentrates was amended in 1980 to substantially curtail open-pit mine operations. In November 1982, an agreement was reached with Kerr-McGee which calls for an extension of the curtailed operations until January 1, 1986. Effective October 1, 1983, the Company's conversion and uranium contracts are with Sequoyah Fuels Corporation, a wholly-owned subsidiary of Kerr-McGee Corporation and are guaranteed by Kerr-McGee Corporation. As of December 31, 1984, the Company and the co-owners of the Salem and Hope Creek Generating Stations had advanced \$40.8 million to Kerr-McGee against deliveries of uranium concentrates.

Credits have been received amounting to \$14.5 million, including interest of \$4.7 million. The recoupment of \$31.0 million, the balance of such advances, is dependent upon the sale of uranium concentrates by Kerr-McGee to the Company or other buyers or upon the sale by Kerr-McGee of the project properties. As of December 31, 1984 the Company's share of such advances amounted to \$21.3 million. The Company cannot presently predict the extent to which such advance payments will ultimately be recovered.

Deferred Items

See Note 4, Underrecovered Electric Energy and Gas Fuel Costs — net and Abandonment of LNG Project.

Nuclear Insurance Coverages

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

Type and Source of Coverage	Maximum Coverage	Maximum Retrospective Assessment of a single incident
(Millions of Dollars)		
Public Liability		
American Nuclear Insurers	\$ 160	\$None
Federal Government (A)	460	8.5 (B)
	\$ 620 (C)	\$ 8.5
Property Damage		
Nuclear Mutual Limited (D)	\$ 500	\$21.6
Nuclear Electric Insurance Limited (D)	475	8.3
American Nuclear Insurers	85	None
	\$1,060	\$29.9
Replacement Power		
Nuclear Electric Insurance Limited (D)	\$ 2.8 (E)	\$12.9

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

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

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

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

(E) Maximum weekly indemnity for 52 weeks which commences after the first 26 weeks of an outage. Also provides \$1.4 million weekly for an additional 52 weeks.

Certain provisions (see Notes to Nuclear Insurance Coverages (A), (B) and (C)) of the Atomic Energy Act expire on August 1, 1987, unless extended by Congress. In December 1983, the NRC submitted a report to Congress with respect to the continuation of the Price-Anderson provisions which recommends that the \$620 million limit on liability be eliminated and that the present limits on retrospective assessments against owners of nuclear units be replaced by an annual limit of no more than \$10 million per year for each licensed nuclear reactor. The Company cannot predict whether the Price-Anderson provisions will be extended or what provisions will be enacted if it is extended. On January 11, 1984, in a case to which the Company was not a party, the United States Supreme Court held that the Atomic Energy Act, the Price-Anderson limitation of liability provisions thereunder and the extensive regulation of nuclear safety by the NRC do not pre-empt claims under State law for personal, property, or punitive damages related to radiation hazards.

Environmental Controls

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 and certain similar State statutes authorize various governmental authorities to seek court orders compelling responsible parties to take clean-up action at disposal sites determined to present an imminent and substantial danger to the public and to the environment because of an actual or threatened release of hazardous substances. Because of the nature of the Company's business, various by-products and substances are produced or handled which are classified as hazardous under these laws. The Company generally provides for the disposal of such substances through licensed individual contractors but these statutory provisions generally im-

pose potential joint and several responsibility on the generators of the wastes for clean-up costs. The Company has been notified with respect to a number of such sites, and the clean-up of hazardous wastes is receiving increasing attention from the governmental agencies involved. This trend is expected to continue. The Company cannot estimate the costs which may result from these matters, but such costs could be substantial.

8. Other Long-Term Obligations

The amount of other long-term obligations consists of the following:

	1984	1983
(Thousands of Dollars)		
Nuclear Fuel Disposal Cost Liability	\$61,844	\$61,844
Obligations under Capital Leases	61,103	57,971
Total	\$122,947	\$119,815

Nuclear Fuel Disposal Cost Liability

In conformity with the Nuclear Waste Policy Act of 1982 (the Act), the Company entered into contracts with the Department of Energy (DOE) on June 13, 1983 for the disposal of spent nuclear fuel from the Salem and Hope Creek nuclear generating stations. Similarly, Philadelphia Electric Company contracted with the DOE in connection with the Peach Bottom nuclear generating station. Under these contracts, DOE will take title to the spent fuel at the site, then transport and provide for its permanent disposal. The Company is presently studying three options permitted by the Act for the payment of such costs incurred prior to April 7, 1983. One of the options calls for the payment of the obligation in full by June 1985 with no interest requirement. Pending a decision on the payment option to be selected interest expense of approximately \$9.9 million has been recorded in connection with the liability for such costs and is accumulating in Deferred Credits — Other. The latest available payment date is 1998. Under the Act, fees for nuclear fuel disposal costs incurred after April 6, 1983 are paid quarterly.

Lease Commitments

Effective December 1984, the Company changed its method of accounting for leases that meet the criteria for capitalization in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation", and FERC accounting requirements. The Balance Sheets and Statements of Changes in Financial Position for periods prior to December 1984 have been restated to reflect the retroactive capitalization of leases. Accordingly, the Balance Sheets include assets and related obligations applicable to capital leases. Since the total amortization of the leased assets and interest on the lease obligations equals the net minimum lease payments included in rent expense for capital leases, retroactive adoption had no effect on prior years' Statements of Income or Statements of Retained Earnings.

Capital leases relate primarily to the Company's corporate headquarters and computer equipment. Certain of the leases contain renewal and purchase options and also contain escalation clauses.

Utility plant includes the following amounts for capital leases at December 31:

	1984	1983
	(Thousands of Dollars)	
Common Plant	\$71,534	\$67,475
Less Accumulated Amortization	7,653	6,562
Net Assets under Capital Leases	\$63,881	\$60,913

Future minimum lease payments for noncancelable capital and operating leases at December 31, 1984 are:

	Capital Leases	Operating Leases
	(Thousands of Dollars)	
1985	\$ 17,172	\$ 2,461
1986	16,630	2,348
1987	15,580	1,687
1988	14,491	1,613
1989	13,703	1,533
Later Years	352,524	4,722
Minimum lease payments	430,100	\$14,364
Less: Amount representing estimated executory costs, together with any profit thereon, included in minimum lease payments	214,117	
Net minimum lease payments	215,983	
Less: Amount representing interest	152,102	
Present value of net minimum lease payments (1)	\$ 63,881	

(1) Reflected in the balance sheet in Other Long-Term Obligations of \$61,103,000 and in Long-Term Debt and Other Obligations due within one year of \$2,778,000, respectively.

The following schedule shows the composition of rent expense included in Operating Expenses:

For the Years Ended Dec. 31,	1984	1983	1982
	(Thousands of Dollars)		
Interest on Obligations under Capital Leases	\$ 7,533	\$ 7,004	\$ 6,887
Amortization of Utility Plant under Capital Leases	2,942	2,096	1,322
Net minimum lease payments relating to Capital Leases	10,475	9,100	8,209
Other Lease payments	16,514	19,397	20,982
Total Rent Expense	\$26,989	\$28,497	\$29,191

9. Supplementary Information Concerning the Effects of Changing Prices (Unaudited)

The Company's financial statements are prepared in accordance with generally accepted accounting principles and are stated on the basis of historical costs, namely, the prices that were in effect when the underlying transactions occurred. The following supplementary financial information, prepared in accordance with Financial Accounting Standards Board Statement No. 33 (FAS 33), as amended by FAS 82, is an estimate of the effects on the Company of changes in specific prices (Current Cost) and General Inflation.

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

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

General Inflation amounts were determined by adjusting historical costs of certain items into dollars of the same general purchasing power by using the Consumer Price Index for All Urban Consumers (CPI-U).

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

FAS 33 requires the disclosure of the adjustment needed to reflect Net Utility Plant at its Net Recoverable Cost if that cost differs from the inflation adjusted amounts. Also required under Current Cost is the disclosure of the increase in Current Cost of Net Utility Plant held during the year and the related effect of general inflation. The amounts shown in the following table illustrate that during 1984 the increase in general inflation was less than the increase in the Current Cost of Net Utility Plant after adjustment to Net Recoverable Cost. The Adjustment of Net Utility Plant to Net Recoverable Cost is an adjustment of Utility Plant to Historical Cost in average 1984 dollars. Historical Cost is the amount permitted to be recovered under the rate regulatory process for utilities in New Jersey.

During inflationary periods, holders of monetary assets, such as cash and receivables, suffer losses of general purchasing power while holders of monetary liabilities experience gains. In 1984 the Company's monetary liabilities, primarily long-term debt, exceeded its monetary assets resulting in a gain. Since this gain is primarily attributable to long-term debt which has been used to finance Utility Plant, it is added to the Amount by which the increase in general inflation was lower than the increase in Current Cost of Net Utility Plant after adjustment to Net Recoverable Cost in the following table.

Supplementary Financial Data Adjusted for the Effects of Changing Prices
for the Year Ended December 31, 1984 (Unaudited)

	Historical Cost (Condensed from the Financial Statements)	Current Cost (Average 1984 Dollars)
	(Millions of Dollars)	
Operating Revenues	\$4,196	\$4,196
Operating Expenses		
Electric Fuel, Interchanged Power and Gas	1,695	1,695
Other Operation and Maintenance	857	857
Depreciation and Amortization of Utility Plant	211	547
Taxes	835	835
Total Operating Expenses	3,598	3,934
Operating Income	598	262
Other (including Interest Expenses)	(108)	(108)
Income from Continuing Operations (excluding Adjustment of Net Utility Plant to Net Recoverable Cost)	\$ 490	\$ 154
Increase in Current Cost of Net Utility Plant held during the year*		\$ 246
Adjustment of Net Utility Plant to Net Recoverable Cost		252
Effect of the increase in General Inflation		(437)
Amount by which increase in general inflation was lower than increase in Current Cost of Net Utility Plant after adjustment to Net Recoverable Cost		61
Gain from decline in purchasing power of Net Monetary Liabilities		141
Net		\$ 202

*At December 31, 1984, the Current Cost of Net Utility Plant was \$11.637 billion, while historical (net recoverable) cost was \$7.550 billion.

**Supplementary Five-Year Comparison of Selected Financial Data
Adjusted for Effects of Changing Prices (Unaudited)**

(Millions of Dollars where applicable and all adjusted figures are in average 1984 dollars)

For the Years Ended December 31,	1984	1983	1982	1981	1980
Operating Revenues					
Historical	\$4,196	\$3,963	\$3,874	\$3,472	\$2,994
Adjusted for General Inflation	\$4,196	\$4,132	\$4,169	\$3,965	\$3,774
Income (Loss) from Continuing Operations (excluding Adjustment of Net Utility Plant to Net Recoverable Cost)					
Historical	\$ 490	\$ 390	\$ 343	\$ 264	\$ 275
Adjusted for Current Cost	\$ 154	\$ 70	\$ 32	\$ (15)	\$ 43
Income (Loss) from Continuing Operations per Average Common Share (excluding Adjustment of Net Utility Plant to Net Recoverable Cost)*					
Historical	\$ 3.95	\$ 3.40	\$ 3.24	\$ 2.63	\$ 3.13
Adjusted for Current Cost	\$.86	\$.09	\$ (.29)	\$ (.91)	\$ (.22)
Amount by which increase in general inflation was (higher) lower than increase in Current Cost of Net Utility Plant after adjustment to Net Recoverable Cost	\$ 61	\$ 87	\$ 103	\$ (211)	\$ (431)
Gain from decline in purchasing power of Net Monetary Liabilities	\$ 141	\$ 126	\$ 115	\$ 259	\$ 360
Net Assets at Year End**					
Historical	\$3,686	\$3,338	\$3,081	\$2,833	\$2,647
Adjusted for Current Cost	\$3,634	\$3,421	\$3,278	\$3,131	\$3,187
Cash Dividends Declared per Common Share					
Historical	\$ 2.70	\$ 2.62	\$ 2.53	\$ 2.44	\$ 2.29
Adjusted for General Inflation	\$ 2.70	\$ 2.73	\$ 2.72	\$ 2.79	\$ 2.89
Market Price per Common Share at Year End					
Historical	\$26.75	\$22.75	\$23.25	\$18.00	\$17.00
Adjusted for General Inflation***	\$26.75	\$23.65	\$25.09	\$20.17	\$20.76
Consumer Price Index (1967 = 100)					
Average	311.1	298.4	289.1	272.4	246.8
Year End	315.5	303.5	292.4	281.5	258.4

*After deducting Cumulative Preferred Stock and \$1.40 Dividend Preference Common Stock dividends on a historical basis in 1984 and in Average 1984 Dollars for prior years.

**Equals Common Equity and Preferred Stock without mandatory redemption.

***Year-end 1984 Dollars.

Prices have been increasing over the last five years. The average CPI-U increased from 246.8 in 1980 to 311.1 in 1984, an average annual increase of 6.0%. The increase from 1982 to 1983 was 3.2% and from 1983 to 1984 was 4.3%, an indication that the rate of inflation is continuing at a slower pace.

Revenues for the five-year period increased from \$2.994 billion in 1980 to \$4.196 billion in 1984, an average annual increase of 8.8%. Restated in average 1984 dollars, revenues for the same period would have increased from \$3.774 billion to \$4.196 billion, an average annual increase of only 2.7%.

Cash dividends declared per common share increased from \$2.29 in 1980 to \$2.70 in 1984 or an average annual increase of 4.2%. However, such dividends would have decreased at an average annual rate of 1.7% or from \$2.89 in 1980 to \$2.70 in 1984 when restated in average 1984 dollars.

Market price per common share at year end from 1980 to 1984 had an average annual increase of 12.0% or from \$17.00 to \$26.75. Restated in year-end 1984 dollars the 1980 market price would have been \$20.76 instead of \$17.00 resulting in an average annual increase of 6.5% from 1980 to 1984.

Lack of adequate recognition of inflation in rate-making in addition to delayed rate relief accelerates attrition, thereby contributing to poorer cash flow.

10. Jointly-Owned Facilities

The Company has an ownership interest and is responsible for providing its share of the necessary financing for the following jointly-owned facilities. All amounts reflect

the Company's share of each jointly-owned project and the corresponding direct expenses are included in the Statements of Income as an operating expense.

Plant	Ownership Interest	Amount of Utility Plant In Service	Accumulated Provision for Depreciation	Amount of Plant Under Construction
(Thousands of Dollars)				
Coal Generating				
Conemaugh	22.50%	\$ 68,470	\$ 19,714	
Keystone	22.84%	64,401	18,924	
Nuclear Generating				
Peach Bottom	42.49%	448,846	142,241	
Salem	42.59%	753,593	149,370	
Hope Creek	95.00%			\$2,935,887
Nuclear Support Facilities	Various	38,102	2,110	18,504
Pumped Storage Generating				
Yards Creek	50.00%	18,187	4,271	
Transmission Facilities	Various	88,172	12,737	15,442
Merrill Creek Reservoir	13.906%			4,998
Linden Synthetic Natural Gas	90.00%	66,334	43,710	

11. Financial Information by Business Segments

	Electric			Gas			Total		
For the Years Ended December 31,	1984	1983	1982	1984	1983	1982	1984	1983	1982
(Thousands of Dollars)									
Operating									
Revenues	\$2,816,241	\$2,570,457	\$2,543,191	\$1,379,883	\$1,392,475	\$1,330,785	\$4,196,124	\$3,962,932	\$3,873,976
Depreciation and Amortization	159,388	152,874	146,643	51,800	48,913	46,217	211,188	201,787	192,860
Operating Income Before Income Taxes	753,225	584,508	533,855	101,275	101,052	99,108	854,500	685,560	632,963
Gross Additions to Utility Plant	879,458	815,919	735,997	87,907	77,890	77,378	967,365	893,809	813,375
December 31,									
Net Utility Plant	\$6,797,809	\$6,089,825	\$5,435,595	\$ 752,480	\$ 713,991	\$ 683,163	\$7,550,289	\$6,803,816	\$6,118,758
Gas Exploration Subsidiary and LNG Project				234,601	304,052	287,911	234,601	304,052	287,911
Other Corporate Assets	1,410,751	1,122,418	1,126,566	465,003	396,060	435,626	1,875,754	1,518,478	1,562,192
Total Assets	\$8,208,560	\$7,212,243	\$6,562,161	\$1,452,084	\$1,414,103	\$1,406,700	\$9,660,644	\$8,626,346	\$7,968,861

12. Selected Quarterly Data (Unaudited)

The information shown below in the opinion of the Company includes all adjustments, consisting only of normal recurring accruals, necessary to a fair presentation of such amounts.

Due to the seasonal nature of the business, quarterly amounts vary significantly during the year.

Calendar Quarter Ended	March 31,		June 30,		September 30,		December 31,	
	1984	1983	1984	1983	1984	1983	1984	1983
(Thousands where applicable)								
Operating Revenues	\$1,198,151	\$1,150,076	\$969,474	\$860,584	\$1,009,999	\$935,156	\$1,018,500	\$1,017,116
Operating Income	142,878	126,388	146,717	100,098	181,979	147,728	126,564	119,736
Net Income	119,924	101,772	121,483	75,377	151,576	119,899	97,046	92,731
Earnings Available for Common Stock	\$ 104,874	\$ 87,540	\$106,412	\$ 61,146	\$ 136,527	\$105,231	\$ 81,995	\$ 77,628
Earnings per Share of Common Stock	\$.99	\$.92	\$.98	\$.64	\$ 1.24	\$ 1.08	\$.74	\$.76
Average Shares of Common Stock Outstanding	105,652	94,948	108,491	96,136	110,051	97,570	111,419	101,146

Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company's financial condition and results of operations are affected by numerous factors, including the timing and amount of rate relief, the extent of sales growth, the levels of operating costs and carrying costs of both utility plant construction and underrecovered electric energy costs. Effective March 23, 1984 the Board of Public Utilities of the State of New Jersey (BPU) authorized an increase in the Company's base rates designed to produce additional annual revenues of \$286.4 million (Electric — \$246.7 million and Gas — \$39.7 million). The rate Order allows a cash return through current operating revenues on a total of \$550 million of construction work in progress to provide additional cash flow for the Company's construction program, the majority of which is for the completion of Hope Creek Generating Station, a 1,067 megawatt nuclear unit owned 95% by the Company. The Company's share of the cost of the project is estimated at approximately \$3.56 billion including approximately \$840 million of allowance for funds used during construction (AFDC), which is within the cost cap established under a cost containment incentive agreement approved by the BPU in July 1983. As of December 31, 1984, the unit was over 92% complete with Company expenditures of \$2.936 billion, including \$553 million of AFDC. Construction is proceeding on a schedule which would permit nuclear fuel to be loaded near the beginning of 1986. With a fuel load in early 1986, commercial operation could begin by mid-1986 which is earlier than previously scheduled. While this fuel load and commercial operation schedule would allow the plant to be completed within budget and the cost cap, no assurances of such can be given. Successful completion of the project is of significant importance to the Company.

As a result of the construction of Hope Creek, certain problems experienced by other utilities which are constructing nuclear generating units could have an indirect effect on the Company's operations and financial condition, because of common regulatory requirements, such as those of the Nuclear Regulatory Commission, and because industry events in some cases may affect the price of the Company's securities in the capital markets, where the Company must compete for investors' funds.

Earnings and Dividends

Earnings per share of Common Stock were \$3.95 for 1984, an increase of 55¢ or 16% from 1983. The increase is primarily attributable to a \$286.4 million annual base rate increase which went into effect on March 23, 1984, higher total kilowatthour and therm sales explained below, and greater AFDC, principally due to the continuing construction of Hope Creek Generating Station. Partially offsetting these increases were greater operating expenses (excluding fuel costs), principally higher taxes, labor costs and maintenance expenses, as well as the increased carrying costs of both utility plant construction and underrecovered electric energy costs. Also, earnings were reduced approximately 10¢ per share of Common Stock for charges associated with replacement energy costs disallowed by the BPU relating to a 1983 Salem 1 outage (approximately 5¢ per share) and the first year's amortization of the abandonment of Energy Terminal Services Corporation's LNG

Project and the related pipeline project of Energy Pipeline Corporation (approximately 5¢ per share). (See Energy Costs below and Note 4 of Notes to Financial Statements.)

Earnings per share were \$3.40 for 1983, an increase of 16¢ or 5% from 1982. Increased revenues reflecting the February 1982 rate increase and greater sales explained below, outpaced the rise in operating costs.

Dividends paid to the holders of Common Stock have increased for the last three years, rising to \$2.70 in 1984 from \$2.62 in 1983 and \$2.53 in 1982. Such amounts resulted in payout ratios of 68%, 77% and 78%, respectively. Total Common Stock dividend payments in 1984 increased 15% and 30% over 1983 and 1982, respectively, due to the increase in shares of Common Stock outstanding as well as the higher dividend rate.

Revenues and Sales

Electric revenues increased in 1984 due to the higher rates and improved sales. The slight decline in gas revenues was mainly attributable to the one-time refund to customers of \$42.9 million ordered by the BPU during the last quarter of 1984, which was partially offset by higher sales. The refund resulted mainly from an overrecovery of gas costs during the prior leveled period that was attributable primarily to stabilized prices for pipeline gas and substantial purchases at lower prices on the spot market. In 1983 the increases in Electric and Gas revenues were principally due to improved sales. Electric energy and gas fuel costs follow amounts recovered through revenues, as permitted by rate orders, and therefore have no effect on earnings.

Electric revenues increased 9.6% in 1984 and 1.1% in 1983. The components of these changes are highlighted in the table below:

	Increase or (Decrease)	
	1984 vs. 1983	1983 vs. 1982
	(Millions of Dollars)	
Changes in base rates	\$210	\$ 41
Recoveries of energy costs	(25)	(177)
Kilowatthour sales	62	148
Other operating revenues	(1)	15
	\$246	\$ 27

1984 — Electric kilowatthour sales increased 2.7%. Residential sales declined slightly, primarily the result of the cooler weather experienced during the summer of 1984 compared to 1983, while the improved economy during 1984 helped to increase sales in both the Commercial and Industrial categories. Although the overall summer weather was cooler when compared to 1983, on June 11, 1984 records were set for a 60 minute net peak load of 7,422 megawatts and the maximum day's output of 143,558 megawatthours. A monthly record output of 3.452 million megawatthours was attained in August.

1983 — Electric kilowatthour sales increased 5.6%. Residential, Commercial and Industrial sales increased 9.3%, 5.7%, and 2.7%, respectively. The warmer and more humid weather and the revival of the economy were the main reasons for the improvement in sales. A record

monthly output of 3,401 million megawatthours was attained in August, and on September 6th a record 60-minute net peak load of 7,244 megawatts was reached.

Gas revenues declined .9% in 1984 and rose 4.6% in 1983. The principal factors are shown below:

	Increase or (Decrease)	
	1984 vs. 1983	1983 vs. 1982
	(Millions of Dollars)	
Changes in base rates	\$ 26	\$12
Recoveries of gas costs	(63)*	31
Therm sales	21	17
Other operating revenues	3	2
	\$(13)	\$62

*Includes the effect of the \$42.9 million refund to customers.

1984 — Gas therm sales increased by 4.5%. Therm sales improved over last year in all major customer categories. The general improvement in the economy during the year and the colder weather early in 1984 favorably impacted all categories.

1983 — Gas therm sales increased by .5%. Residential sales remained relatively unchanged, increasing .1%, the result of the moderate weather conditions experienced earlier in the year. Commercial sales increased 2.6%, reflecting an increase in customers. Industrial sales fell 1.1%, primarily the result of greater competition from oil causing fuel switching by customers with dual-fuel capability.

Energy Costs

Electric energy costs and gas fuel costs are adjusted to match amounts recovered through revenues and have no effect on earnings. However, the carrying of underrecovered energy costs ultimately increases financing costs.

A record total of 34,179 million megawatthours was generated, purchased and interchanged, a 2% increase over 1983, reflecting an increase in customer demand. Higher generation, mainly due to the better performance of Peach Bottom station, accounted for most of the increase.

On January 10, 1985, the BPU determined that approximately \$8.4 million of replacement energy costs associated with the extension of a refueling outage of Salem 1 from January 1983 through May 1983 should not be recovered from customers (see table below and Note 4 of Notes to Financial Statements).

As a member of the Pennsylvania-New Jersey-Maryland Interconnection and as a party to several agreements which provide for the purchase of available power from neighboring utilities, the Company is able to optimize its mix of internal and external sources using the lowest cost energy available at any given time.

Total electric energy costs turned slightly higher in 1984 after a 9% decrease in 1983, as described below:

	Increase or (Decrease)	
	1984 vs. 1983	1983 vs. 1982
	(Millions of Dollars)	
Change in prices paid for fuel supplies and power purchases	\$(16)	\$ 176
Kilowatthour output	25	48
Adjustment of actual costs to match recoveries through revenues*	(13)	(314)
Replacement energy costs in 1984 for which recovery was disallowed by the BPU	8	
	\$ 4	\$ (90)

*Reflects over (under) recovered energy costs, which in the years 1984, 1983 and 1982 amounted to \$(198) million, \$(190) million and \$12 million, respectively, as well as amortization of prior period unrecovered costs of \$1 million in 1984, \$11 million in 1983 and \$132 million in 1982.

Gas costs were 4% lower in 1984 compared to a 4% increase in 1983. Contributing factors are shown below:

	Increase or (Decrease)	
	1984 vs. 1983	1983 vs. 1982
	(Millions of Dollars)	
Change in prices paid for gas supplies	\$(47)	\$ 39
Refunds from pipeline suppliers	12	14
Therm sendout	40	1
Adjustment of actual costs to match recoveries through revenues*	(40)	(17)
	\$(35)	\$ 37

*Reflects over (under) recovered gas costs which in the years 1984, 1983 and 1982 amounted to \$(24) million, \$16 million and \$33 million, respectively. The underrecovery of \$24 million in 1984 reflects the gas fuel cost portion of the one-time refund to customers in the amount of \$37 million.

Liquidity and Capital Resources

The Company's liquidity is affected principally by the construction program, financing costs associated with underrecovered electric energy costs and, to a lesser degree, by other capital requirements such as maturing debt and sinking fund requirements. The capital resources available to meet these requirements are funds from internal generation and external financing. Internally generated funds depend upon economic conditions and the adequacy of timely rate relief. Access to the long-term and short-term capital and credit markets is necessary for obtaining funds externally. The Company expects to generate approximately half of its capital requirements for 1985 from operations.

Construction Program

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

Construction expenditures of \$964 million in 1984 and \$902 million in 1983 include AFDC of \$159 million and \$129 million, respectively. Construction expenditures are esti-

mated at \$3.4 billion for the five years ending in 1989 and include AFDC of about \$475 million. Approximately \$625 million of this amount, including about \$285 million of AFDC, is required for the completion of Hope Creek.

These estimates are based on certain expected completion dates and include anticipated escalation due to inflation of approximately 7%. Therefore, construction delays or inordinate inflation levels could cause significant increases in these amounts. The Company expects that, with adequate rate relief, as to which no assurance can be given, it will generate internally more than 50% of its construction expenditure requirements, excluding AFDC, during the next five years. The balance will be provided by financing through the sale of securities as well as term bank loans.

Long-Term Financing

During 1984 and early 1985 the Company raised more than \$813 million through the sale in 1984 of \$435 million of Pollution Control Mortgage Bonds and \$213 million of Common Stock, and the sale early in 1985 of \$178 million of Common Stock. As a result, the Company's interest and dividend requirements have continued to increase.

At December 31, 1984 book value per share amounted to \$27.17 compared to \$26.36 at December 31, 1983. The market value of common shares expressed as a percentage of book value was 98.5% and 86.3% at year-end 1984 and 1983, respectively.

In addition to periodic sinking fund redemption requirements, four mortgage bond issues aggregating \$220 million will mature by the end of 1989.

Under the terms of the Company's Mortgage and Restated Certificate of Incorporation, at December 31, 1984 the Company could issue an additional \$1.643 billion principal amount of Mortgage Bonds at a rate of 12.75% or \$1.343 billion of Preferred Stock at a rate of 11.75%. Present plans for the remainder of 1985 call for the issuance of debt and equity securities.

In March 1984, the Company renewed its Credit Agreement with 12 domestic banks to May 1, 1985 for the issuance of revolving loans up to an aggregate of \$200 million to be outstanding at any time. The agreement permits the Company to convert the outstanding balance at the end of the period to three-year term loans. Also, the Company has the right, with the consent of the banks, to extend the agreement on a year-to-year basis.

In addition to the domestic capital markets described above, the Company lists its Common Stock on the London Exchange, London, England.

Short-Term Financing

For interim financing, the Company is authorized by the BPU to have up to a total of \$300 million of short-term obligations outstanding at any given time. The availability of short-term financing provides the Company flexibility in the issuance of long-term securities. The Company's average daily short-term debt during 1984 was \$55 million — \$18 million above last year's average. At year end the Company had \$185 million of short-term debt outstanding.

As mentioned above, the Company has a Credit Agreement with a group of domestic banks for the issuance of revolving loans. Under the agreement, any borrowings outstanding at May 1, 1985 are convertible, at the Company's option, into three-year term loans. The Company has the right, with the consent of the banks, to extend the agreement on a year-to-year basis. The Company also has a \$75 million revolving credit agreement with a group of international banks, under which the Banks have agreed to make revolving loans for one month, three months or six months at a rate based upon the London Interbank Offered Rate for deposits in United States Dollars. These agreements provide the Company with an intermediate-term source of funds.

Cash Position

The Company's cash position increased \$84.8 million since year-end 1983 as indicated by a higher level of pollution control escrow funds and cash and working funds offset by the increase in commercial paper outstanding. The 1984 balance of Pollution Control Escrow Funds is to be used for the construction of pollution control facilities.

Customer Accounts Receivable

At the end of 1984, customer accounts receivable approximated \$330 million (excluding unbilled revenues of \$166 million). Although this is \$10 million lower than last year, the Company is continuing to finance large receivables from its customers. Net write-off of uncollectible accounts in 1984 was \$40 million, unchanged from 1983. The average write-off rate per \$100 of revenues improved in 1984 reflecting intensified collection procedures developed by the Company and an improvement in the economy. These matters are affected by the level of the Company's rates and a requirement of the BPU prohibiting the termination of electric and gas service in winter months with respect to certain customers with financial need.

Effects of Inflation

The effect of inflation on the Company was severe during the period 1979 through 1981 when the Average Consumer Price Index (CPI-U) reflected increases of over 10%. Since 1981, the inflation rate has slowed down. The increases in the CPI-U in 1982, 1983 and 1984 were 6.1%, 3.2%, and 4.3%, respectively. Even though the rate of inflation has dropped below double digit rates, the cost of capital has remained relatively high during a time when substantial amounts must be raised in the capital markets to finance construction.

For additional information on the effects of changing prices see Note 9 of Notes Financial Statements.

Operating Statistics

% Annual Inc. (Dec.) —
1984 compared with

(000 omitted where applicable)

	1984	1983	1983	1974
Electric				
Revenues from Sales of Electricity				
Residential	\$ 883,652	\$ 829,967	6.47	9.25
Commercial	1,111,175	984,499	12.87	11.41
Industrial	749,725	686,880	9.15	8.35
Public Street Lighting	42,164	38,672	9.03	7.49
Total Revenues from Sales to Customers	2,786,716	2,540,018	9.71	9.76
Interdepartmental	1,810	1,863	(2.84)	4.34
Total Revenues from Sales of Electricity	2,788,526	2,541,881	9.70	9.75
Other Electric Revenues	27,715	28,576	(3.01)	36.87
Total Operating Revenues	\$2,816,241	\$2,570,457	9.56	9.85
Sales of Electricity — kilowatthours				
Residential	8,373,471	8,402,397	(.34)	1.09
Commercial	12,452,020	11,753,667	5.94	3.67
Industrial	10,444,412	10,283,784	1.56	(.74)
Public Street Lighting	301,702	302,053	(.12)	1.76
Total Sales to Customers	31,571,605	30,741,901	2.70	1.32
Interdepartmental	25,796	27,800	(7.21)	(1.84)
Total Sales of Electricity	31,597,401	30,769,701	2.69	1.31
Kilowatthours Produced, Purchased and Interchanged — net	34,178,862	33,391,011	2.36	1.40
Load Factor	52.4%	52.6%		
Capacity Factor	32.6%	31.6%		
Heat Rate — Btu of fuel per net kwh generated	10,616	10,717	(.94)	(.15)
Net Installed Generating Capacity at December 31 — kilowatts	8,999	8,999		.12
Net Peak Load — kilowatts (60-minute integrated)	7,422	7,244	2.46	1.63
Temperature Humidity Index Hours	16,677	17,262	(3.39)	2.40
Average Annual Use per Residential Customer — kwh	5,543	5,602	(1.05)	.43
Meters in Service at December 31	1,769	1,757	.68	.50
Gas				
Revenues from Sales of Gas				
Residential	\$ 717,286	\$ 746,200	(3.87)	12.53
Commercial	393,197	396,159	(.75)	16.35
Industrial	263,080	246,408	6.77	18.80
Street Lighting	369	358	3.07	14.65
Total Revenues from Sales to Customers	1,373,932	1,389,125	(1.09)	14.53
Interdepartmental	1,682	1,011	66.37	13.34
Total Revenues from Sales of Gas	1,375,614	1,390,136	(1.04)	14.53
Other Gas Revenues	4,269	2,339	82.51	23.08
Total Operating Revenues	\$1,379,883	\$1,392,475	(.90)	14.51
Sales of Gas — therms				
Residential	1,019,025	995,686	2.34	.41
Commercial	628,855	596,868	5.36	3.20
Industrial	495,719	460,601	7.62	1.97
Street Lighting	339	327	3.67	(2.30)
Total Sales to Customers	2,143,938	2,053,482	4.41	1.51
Interdepartmental	3,377	1,857	81.85	.90
Total Sales of Gas	2,147,315	2,055,339	4.47	1.51
Gas Produced and Purchased — therms	2,249,352	2,151,417	4.55	1.63
Effective Daily Capacity at December 31 — therms	19,856	19,129	3.80	.27
Maximum 24-hour Gas Sendout — therms	14,927	15,612	(4.39)	2.41
Heating Degree Days	4,743	4,677	1.41	.24
Average Annual Use per Residential Customer — therms	863	850	1.53	(.10)
Meters in Service at December 31	1,404	1,392	.86	.38

1982	1981	1980	1979	1974
\$ 791,279	\$ 728,642	\$ 684,343	\$ 545,049	\$ 364,674
981,795	871,377	765,356	625,596	377,184
716,662	684,976	598,716	484,037	336,250
37,809	33,249	32,693	31,437	20,473
2,527,545	2,318,244	2,081,108	1,686,119	1,098,581
1,709	1,612	1,720	1,559	1,183
2,529,254	2,319,856	2,082,828	1,687,678	1,099,764
13,937	2,186	1,072	2,179	1,201
\$2,543,191	\$2,322,042	\$2,083,900	\$1,689,857	\$1,100,965
7,686,548	7,795,988	8,129,198	7,777,369	7,514,365
11,114,655	10,940,609	10,726,086	10,336,445	8,687,964
10,017,613	10,923,042	11,049,642	11,185,952	11,244,117
301,603	275,489	265,126	260,915	253,395
29,120,419	29,935,128	30,170,052	29,560,681	27,699,841
25,154	25,567	27,684	26,629	31,072
29,145,573	29,960,695	30,197,736	29,587,310	27,730,913
31,563,231	32,204,191	32,703,504	32,021,737	29,730,774
51.2%	52.3%	52.0%	54.3%	53.7%
34.7%	33.2%	35.6%	31.8%	36.4%
10,677	10,725	10,713	10,566	10,779
8,995	9,101	9,242	9,023	8,892
7,042	7,034	7,159	6,736	6,316
12,155	15,494	16,526	14,545	13,154
5,156	5,261	5,443	5,233	5,312
1,746	1,739	1,732	1,724	1,683
\$ 716,308	\$ 604,521	\$ 515,013	\$ 415,157	\$ 220,364
371,027	302,281	228,577	179,970	86,463
241,437	240,711	164,762	129,665	46,971
350	290	282	274	94
1,329,122	1,147,803	908,634	725,066	353,892
1,068	1,075	925	790	481
1,330,190	1,148,878	909,559	725,856	354,373
595	732	595	994	535
\$1,330,785	\$1,149,610	\$ 910,154	\$ 726,850	\$ 354,908
994,647	993,527	1,023,027	970,462	977,994
581,739	555,806	506,550	456,902	459,074
465,835	514,136	447,474	410,605	407,840
331	334	335	350	428
2,042,552	2,063,803	1,977,386	1,838,319	1,845,336
2,090	2,430	2,322	2,328	3,088
2,044,642	2,066,233	1,979,708	1,840,647	1,848,424
2,148,839	2,145,325	2,077,653	1,931,549	1,913,826
19,139	19,010	18,439	18,639	19,324
16,201	14,812	14,444	13,349	11,763
4,820	5,082	5,256	4,677	4,629
853	857	875	833	872
1,384	1,378	1,370	1,357	1,352

Financial Statistics

(000 omitted where applicable)

	1984		1983	
Condensed Statements of Income (a)	Amount	%	Amount	%
Operating Revenues				
Electric	\$2,816,241	67	\$2,570,457	65
Gas	1,379,883	33	1,392,475	35
Total Operating Revenues	4,196,124	100	3,962,932	100
Operating Expenses				
Operation				
Fuel for Electric Generation and Interchanged Power — net	872,805	21	868,977	22
Gas Purchased and Materials for Gas Produced	822,583	20	858,018	22
Other	527,371	13	503,568	13
Maintenance	269,974	6	238,766	6
Depreciation and Amortization of Utility Plant	211,188	5	201,787	5
Amortization of Property Losses	58,975	1	49,040	1
Taxes				
Federal Income Taxes	255,304	6	191,033	5
New Jersey Gross Receipts Taxes	529,654	13	513,760	13
Other	50,132	1	44,033	1
Total Operating Expenses	3,597,986	86	3,468,982	88
Operating Income				
Electric	527,625	12	421,364	10
Gas	70,513	2	72,586	2
Total Operating Income	598,138	14	493,950	12
Allowance for Funds Used During Construction (Debt and Equity)	158,792	4	128,592	3
Other Income — net	12,866		12,605	1
Interest Charges	(279,767)	(6)	(245,368)	(6)
Income before Extraordinary Items	490,029	12	389,779	10
Extraordinary Items, net of income tax:				
Unrecoverable costs of Atlantic Project				
Gain on sale of Transport of New Jersey				
Net Extraordinary Items				
Net Income	490,029	12	389,779	10
Preferred and Preference Stock Dividends	60,221	2	58,234	2
Earnings Available for Common Stock	\$ 429,808	10	\$ 331,545	8
Shares of Common Stock Outstanding				
End of Year	112,563		102,858	
Average for Year	108,913		97,467	
Earnings per average share of Common Stock	\$3.95		\$3.40	
Dividends Paid per Share	\$2.70		\$2.62	
Payout Ratio	68%		77%	
Rate of Return on Average Common Equity (c)	14.43%		12.66%	
Ratio of Earnings to Fixed Charges Before Income Taxes (d)	3.61		3.33	
Book Value per Common Share (e)	\$27.17		\$26.36	
Utility Plant (f)	\$9,870,429		\$9,017,951	
Accumulated Depreciation and Amortization (f)	\$2,320,140		\$2,214,135	
Total Assets (f)	\$9,660,644		\$8,626,346	
Capitalization				
Mortgage Bonds	\$2,877,518	41	\$2,452,954	39
Debenture Bonds	225,825	3	231,945	4
Other Long-Term Debt				
Total Long-Term Debt	3,103,343	44	2,684,899	43
Other Long-Term Obligations (f)	122,947	2	119,815	2
Preferred Stock with Mandatory Redemption	137,750	2	139,500	2
Preferred Stock without Mandatory Redemption	554,994	8	554,994	9
\$1.40 Dividend Preference Common Stock and Common Stock	2,005,923	28	1,792,340	29
Premium on Capital Stock	557		557	
Paid-In Capital	26,185		26,185	
Retained Earnings	1,098,219	16	963,617	15
Total Common Equity	3,130,884	44	2,782,699	44
Total Capitalization	\$7,049,918	100	\$6,281,907	100

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

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

share.

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

1982		1981		1980		1979		1974	
Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
\$2,543,191	66	\$2,322,042	67	\$2,083,900	70	\$1,689,857	70	\$1,100,965	76
1,330,785	34	1,149,610	33	910,154	30	726,850	30	354,908	24
3,873,976	100	3,471,652	100	2,994,054	100	2,416,707	100	1,455,873	100
959,382	25	1,059,539	31	866,802	29	620,546	26	458,572	32
821,479	21	692,319	20	513,988	17	384,759	16	144,020	10
452,115	12	385,149	11	322,220	11	287,086	12	189,199	13
220,456	6	192,768	6	169,813	6	149,027	6	91,467	6
192,860	5	178,532	5	169,987	6	162,989	7	107,220	8
43,345	1	15,362	1	11,024		303		299	
176,639	4	118,737	3	131,178	4	123,965	5	21,061	1
514,266	13	462,095	13	400,040	13	322,013	13	193,896	13
38,975	1	12,884		31,850	1	42,398	2	19,680	1
3,419,517	88	3,117,385	90	2,616,902	87	2,093,086	87	1,225,414	84
383,213	10	288,087	8	307,372	10	269,443	11	187,593	13
71,246	2	66,180	2	69,780	3	54,178	2	42,866	3
454,459	12	354,267	10	377,152	13	323,621	13	230,459	16
91,427	2	95,679	3	77,552	2	56,593	3	56,027	4
17,578	1	15,780		10,259		6,263		(2,037)	
(220,637)	(6)	(201,589)	(6)	(189,562)	(6)	(153,148)	(6)	(130,609)	(9)
342,827	9	264,137	7	275,401	9	233,329	10	153,840	11
				(13,219)					
				19,535					
				6,316					
342,827	9	264,137	7	281,717	9	233,329	10	153,840	11
53,865	2	51,538	1	46,341	1	46,799	2	31,813	3
\$ 288,962	7	\$ 212,599	6	\$ 235,376	8	\$ 186,530	8	\$ 122,027	8
94,845		86,089		76,615		68,914		52,531	
89,233		80,962		73,069		65,409		51,918	
\$3.24		\$2.63		\$3.13 (b)		\$2.85		\$2.35	
\$2.53		\$2.44		\$2.29		\$2.20		\$1.72	
78%		93%		73% (b)		77%		73%	
12.22%		9.79%		11.63%		10.46%		9.68%	
3.32		2.87		3.14		3.36		2.33	
\$25.90		\$25.66		\$26.38		\$26.26		\$24.25	
\$8,165,130		\$7,385,315		\$6,945,426		\$6,325,033		\$4,636,344	
\$2,046,372		\$1,877,815		\$1,705,912		\$1,589,049		\$ 965,160	
\$7,968,861		\$7,338,496		\$6,787,125		\$6,088,766		\$4,331,261	
\$2,341,142	40	\$2,140,835	40	\$2,041,556	41	\$1,940,513	41	\$1,422,525	38
238,640	4	269,268	5	276,590	5	314,726	7	389,640	10
		720		1,200		1,680		153,600	4
2,579,782	44	2,410,823	45	2,319,346	46	2,256,919	48	1,965,765	52
118,419	2	60,086	1	61,073	1				
111,250	2	77,913	2	29,750	1	31,500			
554,994	9	554,994	10	554,994	11	554,994	12	434,994	12
1,610,879	27	1,423,739	26	1,252,103	25	1,106,824	23	797,386	21
557		557		557		557		550	
26,185	1	26,143	1	26,093		26,065	1	26,065	1
888,262	15	827,497	15	813,181	16	747,076	16	515,267	14
2,525,883	43	2,277,936	42	2,091,934	41	1,880,522	40	1,339,268	36
\$5,890,328	100	\$5,381,752	100	\$5,057,097	100	\$4,723,935	100	\$3,740,027	100

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

(e) Total Common Equity divided by year-end Common Stock shares plus double the \$1.40 Dividend Preference Common Stock shares.
(f) Years 1980-1983 restated to conform to current classification.

Officers

Harold W. Sonn

Chairman of the Board, President and Chief Executive Officer

William E. Scott

Senior Executive Vice President

Everett L. Morris

Executive Vice President — Finance

Frederick W. Schneider

Executive Vice President — Operations

Stephen A. Mallard

Senior Vice President — Planning and Research and President of PSE&G Research Corporation

James B. Randel, Jr.

Senior Vice President of the Company and President of Energy Development Corporation

Fredrick R. DeSanti

Senior Vice President — Customer Operations

Richard M. Eckert

Senior Vice President — Nuclear and Engineering

Robert W. Lockwood

Senior Vice President — Administration and President of Mulberry Street Urban Renewal Corporation

Donald A. Anderson

Vice President — Information Systems

Lawrence R. Codey

Vice President and Corporate Rate Counsel

Robert M. Crockett

Vice President — Fuel Supply and President of Energy Pipeline Corporation and Energy Terminal Services Corporation

Robert H. Franklin

Vice President — Public Relations

Frank P. Librizzi

Vice President — Production

Charles E. Maginn, Jr.

Vice President — Human Resources

Wallace A. Maginn

Vice President and Treasurer

Winthrop E. Mange, Jr.

Vice President — Corporate Services

Thomas J. Martin

Vice President — Engineering and Construction

Parker C. Peterman

Vice President and Comptroller

Louis L. Rizzi

Vice President — Customer and Marketing Services

William Saller

Vice President — Governmental Affairs

Robert J. Selbach

Vice President — Transmission and Distribution

R. Edwin Selover

Vice President and General Counsel

Robert S. Smith

Vice President and Secretary

Rudolph D. Stys

Vice President — System Planning

Richard A. Uderitz

Vice President — Nuclear



The Management Council assists and advises the Chief Executive Officer in the development and implementation of corporate objectives, strategies and policies. Members of the Council are (seated, from left to right) Everett L. Morris, Stephen A. Mallard, Harold W. Sonn, Frederick W. Schneider and William E. Scott. Standing, from left to right, are Richard M. Eckert, Fredrick R. DeSanti, and Robert W. Lockwood. James B. Randel, Jr., also a Council member, is not in photograph.

Directors

James R. Cowan, M.D.

President and Chief Executive Officer, United Hospitals Medical Center, Newark, New Jersey.

Member of Finance Committee and Nominating Committee.

T.J. Dermot Dunphy

President, Chief Executive Officer and director, Sealed Air Corporation (manufactures protective packaging products and systems), Saddle Brook, New Jersey.

Member of Nominating Committee and Organization and Compensation Committee.

Robert R. Ferguson, Jr.

President and Chief Executive Officer and director, First National State Bancorporation, Chairman of the Board and director, First Fidelity Bank, National Association, New Jersey, both of Newark, New Jersey.

Member of Finance Committee and Organization and Compensation Committee.

Irwin Lerner

President, Chief Executive Officer and director, Hoffmann-La Roche Inc. (manufactures pharmaceuticals and fine chemicals and provides diagnostic products and services), Nutley, New Jersey.

Member of Executive Committee and Organization and Compensation Committee.

William E. Marfuggi

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

Member of Audit Committee and Finance Committee.

Marilyn M. Pfaltz

Partner of P and R Associates (public relations and publicity specialists), Summit, New Jersey.

Member of Audit Committee and Nominating Committee.

James C. Pitney

Partner in the law firm of Pitney, Hardin, Kipp & Szuch, Newark and Morristown, New Jersey.

Chairman of Audit Committee and member of Organization and Compensation Committee.

Kenneth C. Rogers

President, Stevens Institute of Technology, Hoboken, New Jersey.

Chairman of Nominating Committee and member of Organization and Compensation Committee.

Verdell L. Roundtree

Vice President, National Programs, United Negro College Fund, New York, New York.

Member of Audit Committee and Nominating Committee.

William E. Scott

Senior Executive Vice President of the Company.

Chairman of Finance Committee and member of Executive Committee.

Robert I. Smith

Former Chairman of the Board of the Company.

Member of Executive Committee and Finance Committee.

Harold W. Sonn

Chairman of the Board, President and Chief Executive Officer of the Company.

Chairman of Executive Committee and member of Finance Committee.

Robert V. Van Fossan

Chairman of the Board, Chief Executive Officer and director, The Mutual Benefit Life Insurance Company, Newark, New Jersey.

Chairman of Organization and Compensation Committee and member of Executive Committee and Finance Committee.

Josh S. Weston

President, Automatic Data Processing, Roseland, New Jersey.

Member of Audit Committee and Organization and Compensation Committee.

Stock Symbol: PEG

The Company's Common Stock and \$1.40 Dividend Preference Common Stock are traded on the New York Stock Exchange and the Philadelphia Stock Exchange. The Company's Common Stock was listed and trading began February 3, 1984 on the London Stock Exchange.

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

Common Stock

	1984	1983
Dividend	68¢*	66¢**
Price		
First Quarter	24½-20⅞	24⅝-22⅜
Second Quarter	23 -20⅜	24¾-21⅝
Third Quarter	25⅜-21⅞	24 -21¼
Fourth Quarter	27⅞-24½	26½-22

*66¢ First Quarter only.

**64¢ First Quarter only.

\$1.40 Dividend Preference Common Stock

	1984	1983
Dividend	35¢	35¢
Price		
First Quarter	12 -11¼	12⅞-11½
Second Quarter	11¾-10⅞	13 -11⅝
Third Quarter	11¼-10⅞	12¼-11¼
Fourth Quarter	13¼-10½	13 -11⅞



PSEG

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