State of New Jersey

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November 21, 2007

Via Hand Delivery
Honorable Kristi Izzo, Secretary
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Re: In the Matter of the Petition of Public Service Electric and Gas Company – Long Term Debt Securities Not More Than $800,000,000 BPU Docket No. EF07080621

Dear Secretary Izzo:

Please accept for filing an original and ten copies of these comments filed on behalf of the Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel") concerning the above-referenced matter. Enclosed is one additional copy. Please date stamp the copy as "filed" and return it to the courier. Thank you for your consideration in this matter.

Background

On August 14, 2007, Public Service Electric and Gas Company ("PSE&G" or "Company") filed a Petition and supporting documents with the State of New Jersey Board of Public Utilities ("BPU" or "Board"), requesting its authority to:

(1) Purchase through tender offer, open market or negotiated transactions, redeem at a premium or defease any or all of (a) its Outstanding Long-Term Debt Securities which are eligible to be redeemed at their previously approved redemption prices, including any premium plus interest thereon to the date of redemption and (b) Outstanding Preferred Stock , which, at the time of the Company's filing was 795,234 shares of its Preferred Stock with a then current outstanding value of $79,523,400 (par value $100 per share)"), provided the transactions can be achieved on a cost savings basis;[1]

(2) Issue and sell New Long-Term Debt Securities in an aggregate principal amount not to exceed $800,000,000, in one or more series, at any time through December 31, 2009. New Long-Term Debt Securities may include Mortgage Bonds, and/or Medium-Term Notes ("MTNs"), and/or Debenture Bonds, and/or Notes, and/or other debt instruments or evidences of indebtedness, secured or unsecured, and/or certificates issued in connection with an offering of Asset-Backed Securities. The New Long-Term Debt Securities will be issued as necessary to cover principal, premiums and expenses incurred to refinance Outstanding Long-Term Debt Securities and Outstanding Preferred Stock acquired, as described in (1) above; [2] and

(3) Execute and deliver one or more indentures or supplemental indentures and related instruments in connection therewith.

All debt authorized pursuant to the Company's Petition would be used either for: a) investment in utility assets, or b) refunding of debt used for utility investment.[3]

PSE&G is a regulated electric and gas transmission and distribution utility that provides electric service to 2.1 million electric customers and gas service to 1.7 million gas customers within its service territory in New Jersey.[4] PSE&G is a wholly owned subsidiary of Public Service Enterprise Group ("PSEG" or "Parent").[5]

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[1] Petition, paras. 3 and 6.
[2] Id., para. 5 and last para.
[3] Response to RC-20. Note that the Petition also permits the refinancing of Outstanding Preferred Stock.
[4] www.pseg.com.
[5] Id.

Analysis

Following is a description of the Company's Outstanding Long-Term Debt Securities as of June 30, 2007 totaling $3,357,230,700 and consisting of aggregate principal amounts of $477,730,700 of Mortgage Bonds, $672,000,000 of Pollution Control Bonds and $2,207,500,000 of secured MTNs:[6]

Coupon	Series	Maturity Date	Principal Amount	Eligible for Redemption	Redemption Premium Rate	Redemption Premium Cost
6.750%	Series VV	1/1/2016	$171,245,000	Make Whole	-	-
9.250%	Series CC	6/1/2021	$134,380,000	No	-	-
6.375%	Series YY	5/1/2023	$157,105,000	Make Whole	-	-
8.000%	Series	6/1/2037	$7,462,900	No	-	-
5.000%	Series	7/1/2037	$7,537,800	No	-	-
	Total Mortgage Bonds		**$477,730,700**			

Coupon	Series[7]	Maturity Date	Principal Amount	Eligible For Redemption	Redemption Premium Rate	Redemption Premium Cost
6.450%	Series T	10/1/2019	$4,600,000	Yes	100.00	$0
5.200%	Series M	3/1/2025	$23,000,000	Yes	100.00	$0
Variable*	Series Y	5/1/2028	$64,000,000	Yes	100.00	$0
Variable*	Series AE	10/1/2029	$92,955,000	Yes	100.00	$0
Variable*	Series AD	8/1/2030	$87,880,000	Yes	100.00	$0
Variable*	Series AC	6/1/2031	$104,365,000	Yes	100.00	$0
5.450%	Series O	2/1/2032	$50,000,000	Yes	100.00	$0
6.400%	Series P	5/1/2032	$100,000,000	Yes	100.00	$0
Variable*	Series Z	11/1/2033	$50,000,000	Yes	100.00	$0
Variable*	Series AA	11/1/2033	$50,000,000	Yes	100.00	$0
Variable*	Series AB	11/1/2033	$45,200,000	Yes	100.00	$0
	Total Pollution Control Bonds		**$672,000,000**			
4.000%	Series C	11/1/2008	$250,000,000	Make Whole	-	$0
8.160%	Series A	5/26/2009	$16,500,000	No	-	$0
8.100%	Series A	5/26/2009	$43,500,000	No	-	$0
5.125%	Series B	9/1/2012	$300,000,000	Make Whole	-	$0

[6] Petition, para. 3 and Response to RC-8.
[7] The names of the Series provided in para. 3 of the Petition vary, in some instances, to those provided in Response to RC-8.

5.000%	Series B	1/1/2013	$150,000,000	Make Whole	-	$0
5.375%	Series C	9/1/2013	$300,000,000	Make Whole	-	$0
5.000%	Series D	8/15/2014	$250,000,000	Make Whole	-	$0
7.040%	Series A	11/6/2020	$9,000,000	No	-	$0
7.180%	Series A	8/1/2023	$5,000,000	Yes	102.51	$125,500
7.150%	Series A	8/30/2023	$33,500,000	Yes	102.50	$837,500
5.250%	Series D	7/1/2035	$250,000,000	Make Whole	-	$0
5.700%	Series D	12/1/2036	$250,000,000	Make Whole	-	$0
5.800%	Series E	5/1/2037	$350,000,000	Make Whole	-	$0
	Total Medium Term Notes		**$2,207,500,000**			
	TOTAL LONG-TERM DEBT		**$3,357,230,700**			

* Indicates floating rate security

Following is a description of the Company's Outstanding Preferred Stock consisting of 795,234 shares of Preferred Stock (par value $100 per share) with an outstanding value of $79,523,400:[8]

Coupon	Series	Maturity Date	Principal Amount	Eligible for Redemption	Redemption Premium Rate	Redemption Premium Cost
4.080%	Pref. Stock	Perpetual	$14,622,100	Yes	103.00	$438,663
4.180%	Pref. Stock	Perpetual	$11,695,800	Yes	103.00	$350,874
4.300%	Pref. Stock	Perpetual	$14,947,800	Yes	102.75	$411,065
5.050%	Pref. Stock	Perpetual	$10,400,200	Yes	103.00	$312,006
5.280%	Pref. Stock	Perpetual	$11,786,400	Yes	103.00	$353,592
6.920%	Pref. Stock	Perpetual	$16,071,100	Yes	102.43	$390,528
	Total Preferred Stock		**$79,523,400**			

The Company has no plans at this time to issue any new common or preferred stock.[9]

During the period covered by the Board's Order ("Prior Period Covered")[10] in Docket No. EF05110967 ("Prior Order"), the Company did not call for any economic

[8] Petition, para. 3.
[9] Response to Staff-7.

redemption of its Long-Term Debt nor did it issue any Mortgage Bonds, Pollution Control Bonds or MTNs to refund any economic redemption.[11] The Prior Order authorized the Company to issue not more than $700,000,000 of long-term debt securities to refund $686,285,939 of long-term debt maturing in 2004 through 2007:[12]

Maturity Date	Rate	Series	Amount
May 1, 2004	6.500%	Series PP	$125,923,939
July 1, 2005	9.125%	Series BB	$125,000,000
March 1, 2006	6.750%	Series UU	$147,425,000
June 23, 2006	Variable	Floating Rate Series A	$175,000,000
January 1, 2007	6.250%	Series WW	$112,937,000
Total Maturities to be Refunded (2006-2007 Authority)			**$686,285,939**

The principal amounts of Mortgage Bonds/MTNs that PSE&G actually issued during the Prior Period Covered to refund the above maturities has totaled only $600,000,000 leaving $86,285,939 (consisting of a portion of Series WW debt) of maturities not yet refunded but previously authorized in the Prior Order for refund through December 31, 2007 ("Maturities Not Yet Refunded"):[13]

Issuance Date	Rate	Series	Amount
December 18, 2006	5.700%	MTN Series D due 2036	$250,000,000
May 15, 2007	5.800%	MTN Series E due 2037	$350,000,000
		Total Issued to Refund Maturities	**$600,000,000**

The Company states that it has not reflected the $86,285,939 of Maturities Not Yet Refunded in its Outstanding Long-Term Debt Securities at June 30, 2007 because Series

[10] Although the Response to RC-11 states the period covered by the Order in Docket No. EF05110967 was January 1, 2005 through December 31, 2007, the Board's previous Order for financing, *et al.* in Docket No. EF03121003 covered a period extending through December 31, 2005, implying the period covered by the Order in EF05110967 began on January 1, 2006 not 2005.
[11] Petition, para. 4.
[12] Id.
[13] Id.

WW is no longer outstanding.[14] The Company explains that it sizes its long-term debt financing with its cash needs, as impacted by seasonal cash flows, and that it "temporarily deferred refinancing a portion of Series WW to avoid issuing long-term debt resulting in excess cash needing to be temporarily invested."[15] In response to discovery, the Company noted that the "Series WW is no longer outstanding. However, we have not yet replaced Series WW with long-term financing. As a result, we are reflecting this series as a maturity not yet refunded."[16] Thus, Rate Counsel assumes that the Company used short-term debt or equity to pay off this matured debt, and that this capital will be replaced with long-term debt once the proposed issuance is approved by the Board.

The Company is requesting authority through December 31, 2009, if savings can be achieved, to a) redeem, at its option, all or any part of the outstanding principal balance of any of the remaining Outstanding Long-Term Debt Securities that are eligible to be redeemed at their previously approved redemption prices, including any premium plus interest thereon; or b) purchase in the open market or in negotiated transactions or tender for and/or defease any of its remaining Outstanding Long-Term Debt Securities.[17] The Company will determine if savings can be achieved by, and on an ongoing basis, "reviewing market conditions and the impact on its debt portfolio."[18] If the Company's "matched maturity analysis" between a new and an existing security, including interest costs, call premiums, and issuance expenses generates a positive net present value, then PSE&G considers the security a candidate for refinancing, and generally considers an

[14] Response to RC-13.
[15] Response to RC-12.
[16] Response to RC-13.
[17] Petition, para. 6.
[18] Response to RC-15.

"economic financing attractive if it generates savings representing 5% of the notional value of the security."[19]

The Company has requested authorization to issue and sell, in one or more series at any time through December 31, 2009, not more than $800,000,000 in aggregate principal amount[20] of New Long-Term Debt Securities consisting of Mortgage Bonds ("New Bonds"), and/or MTNs ("New MTNs"), and/or Debenture Bonds ("New Debentures"), and/or Notes ("New Notes"), and/or other debt instruments or evidences of indebtedness, secured or unsecured, and/or certificates issued in connection with an offering of Asset-Backed Securities (hereinafter defined).[21] The Company anticipates issuing the $800 million of new debt between January 1, 2008 and December 31, 2009.[22]

The Company plans on using the proceeds from the sale of the New Long-Term Debt Securities for construction purposes and for other "general corporate purposes,"[23] including refunding $396,285,939 of its Mortgage Bonds and MTNs maturing in 2007, 2008 and 2009, plus related expenses[24] ("Refund Amount").[25] The Refund Amount includes the issuance of $86,285,939 of Maturities Not Yet Refunded but previously authorized in the Prior Order for refund through December 31, 2007:[26]

Maturity Date	Rate	Series	Amount
January 1, 2007 *	6.250%	Series WW	$86,285,939

[19] Id.
[20] Plus, per para. 7 of the Petition, "redemption/market premium paid and expenses incurred for its Outstanding Long-Term Debt Securities redeemed or acquired…"
[21] Petition, para. 5.
[22] Response to RC-5.
[23] Per response to RC-21 "general corporate purposes" includes funding for operations, maintenance and capital expenditures.
[24] Per para. 5 of the Petition, "related expenses" are "of refunding and issuance, at or before their respective maturity dates or to reimburse its Treasury for funds expended therefor, and, in connection therewith, to execute and deliver such related ancillary documents as may be necessary."
[25] Petition, paras. 5.
[26] Id.

November 1, 2008	4.000%	MTN Series C due 2008	$250,000,000
May 26, 2009	8.160%	MTN Series A due 2009	$16,500,000
May 26, 2009	8.100%	MTN Series A due 2009	$43,500,000
Total Maturities to be Refunded			**$396,285,939**

* NOTE: The aggregate principal amount of Series WW that matured was $112,937,000; the above table includes the principal amount of $86,285,939 not previously refunded.

To the extent any or all of the $86,285,939 Maturities Not Yet Refunded are issued and refunded by December 31, 2007, the Company states such issued amount will reduce, on a dollar-for-dollar basis, the $800,000,000 of New Long-Term Debt Securities requested.[27]

Up to $400 million of the amount requested will be used other than to refund, redeem, defease or purchase outstanding or recently retired long-term debt, and rather will be used to fund in part the Company's most recent forecast of capital expenditures (see below).[28] The Company anticipates that $200 million of this amount would be issued in 2008 and $200 million in 2009.[29] Following are the Company's estimated capital expenditures from 2007 through 2012.[30]

	($ Millions)						
	2007	2008	2009	2010	2011	2012	Total
Facility Support	73	143	74	52	60	51	453
Environmental/Regulatory	35	94	84	85	86	85	469
Facility Replacement	191	185	186	187	188	195	1,132
System Reinforcement	149	217	269	446	485	563	2,129
New Business	168	164	152	148	152	161	945
Total Utility	616	803	765	919	971	1,055	5,129

[27] Id.
[28] Response to Staff-3.
[29] Id.
[30] Response to RC-4.

In addition to normal replacement projects, following are some of the projects included in the above forecast:[31]

- iPower, a replacement of the Company's 28-year old customer information system ($161 million through 2009);
- Increased distribution reliability investments to enhance the Company's SAIFI/CAIDI indices ($45 million through 2009);
- PJM Susquehanna to Roseland regional transmission project, scheduled to go in service in 2012 ($100 million through 2009); and
- PSE&G's solar initiative to help fund 30 MWs of solar installations toward achieving the State's RPS requirements ($100 million through 2009).

If fully utilized, the refinancing requested in the Company's Petition would increase long-term debt by about $86 million as well as by the additional net incremental financing of $400 million, resulting in a total increase to long-term debt of $486 million by December 31, 2009.[32]

Following is a statement of the sources and application of funds reflecting the portion of proceeds from the issuance of the New Long-Term Debt Securities to be used in 2008 and 2009 for construction and reimbursement of the Company's Treasury for expenditures not theretofore capitalized:[33]

($ Millions)	2008	2009	2008-2009
Sources			
Sources of Cash(1)	530	587	1,117
External Long-Term Financing	536	248	784
Total Sources	1,066	835	1,901
Uses			
Support Facilities	143	74	217
Environment/Regulatory	94	84	178

[31] Response to Staff-4.
[32] Response to Staff-2.
[33] Petition, para. 24, Exh. 4.

Replace Facilities	185	186	371
New Business	164	152	316
System Reinforcement:			
Transmission	128	172	301
Electric Distribution	71	74	145
Gas Delivery	17	23	40
Other/CWIP/AFUDC	13	10	23
Total Capital Expenditures(2)	816	775	1,591
Maturities	250	60	310
Total Application	1,066	835	1,901

(1) Sources of Cash represent cash from operations less dividends to Parent, less revenues collected for repayment of securitization principal, and changes in the Company's short-term debt/cash position related to working capital.

(2) Capital expenditures represent investment in plant to maintain reliability of transmission and distribution systems. Future capital expenditures include additions and replacements to transmission and distribution systems to meet expected growth and to manage reliability.

The Company will credit the principal amount of the New Long-Term Debt Securities to Long-Term Debt and amortize the issuance expenses and the debt discount or premium over the life of such New Long-Term Debt Securities.[34] PSE&G will charge the cost to redeeming or purchasing the Outstanding Long-Term Debt Securities to unamortized loss on reacquired debt and will amortize such cost, along with related Federal income tax savings, over the life of the New Long-Term Debt Securities.[35] The Company will also amortize the unamortized debt discount or premium and expense of the Outstanding Long-Term Debt Securities over the life of the New Long-Term Debt Securities.[36]

[34] Petition, para. 25.
[35] Id.
[36] Id.

In order to take advantage of tax-exempt financing, the Company requests authority to issue and sell the New Long-Term Debt Securities, as market opportunities arise, to the New Jersey Economic Development Authority, or other similar state, county or other financing authority (collectively "Authorities") in New Jersey or Pennsylvania to service and secure pollution control revenue obligations of such Authorities ("New Authority Securities").[37] Such financing would require that the Company borrow funds from the Authorities from time to time pursuant to a loan agreement to be executed between the Company and the respective Authority which would allow the Company to utilize the proceeds from the sale of New Authority Securities for construction purposes, to refund or redeem taxable Outstanding Long-Term Debt Securities or to refund and redeem previously issued Authority Securities serviced and secured by Outstanding Long-Term Debt Securities.[38] PSE&G will use its best efforts to secure government approvals and/or allocations of tax-exempt financing authority required to issue tax-exempt bonds.[39]

The Company is requesting permission to a) issue and/or sell the New Long-Term Debt Securities in one or more structured and/or negotiated transactions, including, *inter alia*, public sales, private placements, puts, calls, multi-mode programs or other Asset-Backed Securities transactions (hereinafter defined) or other structure or means (collectively, "Structured Transactions"), b) engage in related asset dispositions, and c) provide security, create encumbrances or guarantee or provide other credit support related to the Structured Transactions.[40] The Company claims the "structure, complexity and marketing considerations inherent in a Structured Transaction," are not conducive to using

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[37] Petition, para. 10.
[38] Id.
[39] Id.
[40] Petition, para. 11.

a traditional competitive bidding process for such issuance/sale. Rather, the Company proposes to effect such Structured Transactions through a negotiated transaction with one or more agents, dealers, underwriters, purchasers, managers and/or institutions in the same manner authorized in the Prior Order.[41]

Following is the procedure the Company will utilize in order to yield the lowest cost of debt to ratepayers associated with the issuance and sale of securities:[42]

- Before launching a transaction, the Company will ask potential underwriters or agents to provide it with market updates, comparable secondary levels, and indicative new issue pricing in order to have a good read on a market clearing price before initiating the transaction.

- The Company's primary method for accessing capital markets is through its MTN program, which the Company states results in competitive pricing. According to the Company, MTN agents build an order book (i.e., demand for the Company's bonds), and in doing so the process results in investors competing for bonds, leading to competitive pricing.

- Underwriters/agents selected for the transaction are typically compensated through the agent fee, which is an upfront cost applied to the principal amount. They are motivated to obtain the lowest cost of financing possible, and if they do not obtain attractive pricing they do not receive further assignments.

The Company does not know the exact terms of any Structured Transactions stating these will depend on "market conditions at the time of issuance and sale," but will advise the Board a) coincident with its decision to issue each new series of New Long-Term Debt Securities and b) of the terms and conditions thereof, including submitting one or more indentures, supplemental indentures or other material document to the Board.[43] Any tax exempt New Long-Term Debt Securities will be sold without registration with the Securities and Exchange Commission ("SEC"), and any taxable New Long-Term Debt

[41] Id.
[42] Response to Staff-8.
[43] Petition, paras. 12 and 13.

Securities will be sold to the public under one or more registration statements filed with the SEC or in compliance with applicable SEC rules.[44]

Depending upon the then prevailing market conditions, New Long-Term Debt Securities "will have maturities up to 40 years,[45] may include conventional, floating rate, put, call, remarketed, swaps, options or other terms and conditions, and consist of one or more of the types of securities, instruments or evidences of indebtedness and be issued and/or sold pursuant to one or more transactions as set forth" in the Petition.[46]

New Bonds, including each global New Bond, if any, issued to service and secure MTNs, would be issued under the First and Refunding Mortgage dated August 1, 1924, from PSE&G to US Bank National Association, as successor to Fidelity Union Trust Company, as Trustee, as supplemented and amended.[47] The First and Refunding Mortgage is a first lien on substantially all property and franchises now owned or to be acquired by the Company.[48] Terms and conditions for each Supplemental Indenture for each series will be determined prior to issuance.[49] The Company will submit any draft and final (executed and delivered) Supplemental Indentures to the Board.[50]

New Debentures will be issued pursuant to one or more indentures or one or more supplemental indentures thereto to be entered into between the Company and a trustee, and

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[44] Id., para. 12.
[45] In para. 9 of the Petition, PSE&G says MTNs would be issued with maturities of from one to 30 years, however in the coupon spread table that immediately follows, maturities are shown to range from one to 35 years. Further, in its response to RC-18, the Company states "Under the MTN program, a 'global' Mortgage Bond securing the MTNs of a particular series is issued. For flexibility, to permit issuance of MTNs over a period of time as desirable and authorized with maturities of up to 35 years, the Mortgage Bond could be issued with a maturity of 40 years."
[46] Petition, para. 13.
[47] Petition, para. 14.
[48] Id.
[49] Id.
[50] Id.

will be unsecured obligations of the Company unless the New Debentures are secured obligations in connection with Asset-Backed Securities (hereinafter defined).[51] The Company will provide the Board with any such indenture or supplemental indenture once terms and conditions are established.[52]

New Notes will be issued pursuant to one or more loan agreements, and will be unsecured obligations unless the New Notes are secured obligations in connection with Asset-Backed Securities (hereinafter defined).[53] The Company will provide the Board with each loan agreement once terms and conditions are established.[54]

PSE&G may enter into related "ancillary documents"[55] in connection with the issuance of New Long-Term Debt Securities under a Structured Transaction.[56] The Company will provide the Board with any such material ancillary document once terms and conditions are established.[57]

New Long-Term Debt Securities consisting of asset-backed securities and/or debt instruments secured by cash, account, bills receivable and/or other unencumbered assets (collectively, "Asset-Backed Securities") will be issued pursuant to one or more indentures and/or agreements, and/or one or more supplemental indentures.[58] Asset-Backed Securities will be issued directly or indirectly by the Company and/or by an entity established, settled or owned initially by the Company or later by a direct or indirect

[51] Petition, para. 15.
[52] Id.
[53] Petition, para. 16.
[54] Id.
[55] In its Response to RC-19, PSE&G says the type of ancillary document "depends on the type of transaction. For example, there could be documents relating to credit support, such as guarantees, bond, insurance or security, marketing and remarketing, and/or others that may be necessary to complete the transactions."
[56] Petition, para. 17.
[57] Id.
[58] Petition, para. 18.

subsidiary of an entity controlled by the Company (each, a "Subsidiary"). The Company may guarantee the obligations of a Subsidiary.[59] Asset-Backed Securities will be secured by the Company's assets, consisting of cash, accounts, bills receivable and/or other unencumbered assets not subject to the lien of the Company's First and Refunding Mortgage (collectively, "Assets"), through an indenture, pledge or other agreement/instrument, which would create a lien on the Assets.[60] Assets may be pledged, transferred or sold (each an "Asset Disposition") depending upon the terms of an Asset-Backed Securities transaction, which will depend on the then current market conditions.[61] The Company will provide the Board with each material document relating to the issuance of Asset-Backed Securities, including any Asset Dispositions, once terms and conditions are established.[62]

The Company is requesting a "one-order" approach for Board authorization to issue securities, including one or more MTN programs, multi-mode programs, or other structured/negotiated transactions.[63] The Company proposes that it issue and sell the New Long-Term Debt Securities on a competitive basis without further order of the Board, if, pursuant to public invitations, at least two independent bids for such purchase are received and the Company accepts the bid that "produces the lowest annual cost of money" and the price to PSE&G is "no less than 97% of the principal amount and no more than 102% of the principal amount."[64] The Company believes the flexibility of the "one-order" approach

[59] Id.
[60] Id.
[61] Id.
[62] Id.
[63] Petition, para. 8.
[64] Id.

"afford(s) to it the opportunity to take advantage of favorable market conditions."[65] PSE&G says the Board has approved its prior requests for a "one-order" approach in Docket Nos. EF05110967, EF03121003, EF02010022, EF00070495 and EF97110840.[66]

MTNs would be issued in one or more series through one or more agents, dealers, underwriters, purchasers or managers with maturities of from one (1) to thirty (30) years[67] and with various specified conditions including redemption conditions.[68] Secured MTNs would be secured with a global bond that will be a series of Mortgage Bonds or a global New Bond.[69] MTNs would be sold at 100% of principal amount or at discount.[70] Secured MTNs would be issued pursuant to an Indenture of Trust dated as of July 1, 1993 between PSE&G and The Bank of New York, as successor to The Chase Manhattan Bank, as Trustee ("Indenture of Trust"), providing for the issuance of MTNs in one or more series from time to time without limit, as may be supplemented by supplemental indentures thereto.[71] Unsecured MTNs would be issued pursuant to an indenture between the Company and a trustee PSE&G selects, and would provide for the issuance of one or more series from time to time without limit, as may be supplemented by supplemental indentures thereto.[72] The Company will file with the Board copies of supplemental indentures or new indentures created once terms and conditions have been established.[73]

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[65] Petition, para. 12.
[66] Response to RC-16.
[67] In para. 9 of the Petition, PSE&G says MTNs would be issued with maturities of from one to 30 years, however in the coupon spread table that immediately follows, maturities are shown to range from one to 35 years.
[68] Petition, para. 9.
[69] Id.
[70] Id.
[71] Id.
[72] Id.
[73] Petition, para. 14.

MTNs will bear an interest rate that would be set at a maximum coupon spread over the applicable U.S. Treasury securities (shown in the table below) and determined on the date of issuance based on the interest rate formula for the initial interest period:[74]

Range of Maturities	Maximum Coupon Spread Over U.S. Treasury Securities (Basis Points)
1 Yr. to less than 18 Mos.	105
18 Mos. to less than 2 Yrs.	115
2 Yrs. to less than 3 Yrs.	120
3 Yrs. to less than 4 Yrs.	125
4 Yrs. to less than 5 Yrs.	130
5 Yrs. to less than 6 Yrs.	135
7 Yrs. to less than 10 Yrs.	145
10 Yrs. to less than 15 Yrs.	150
15 Yrs. to less than 20 Yrs.	160
20 Yrs. to less than 35 Yrs.	175

The Company states the proposed spreads shown above "represent maximum levels reflecting current market conditions" and provide "reasonably sufficient flexibility over the two-year period for which authority is requested."[75]

Following is the Company's capital structure at December 31, 2006, plus a pro forma giving effect to securities subsequently issued, matured and repurchased and further adjusted to give effect to the proposed issuance, maturity and redemption of securities.[76]

	As reported Dec. 31, 2006 ($ Millions)	%	Security Adjustments from 1/1/2007 through 6/30/2007 & pro forma issuances, redemptions and maturities through 2009 ($ Millions)	As reported Dec. 31, 2006 plus pro forma security adjustments through 2009 ($ Millions)	%

[74] Petition, para. 9.
[75] Response to RC-17.
[76] Petition, para. 23, Exh. 3.

Long-Term Debt:						
First and Refunding Mortgages: (A)	$ 3,120	49.5% $	-		$ 3,120	40.3%
Matured through June 30, 2007			(113)		(113)	-1.5%
Issuance of Secured Medium Term Notes Series E, due May 1, 2037			350	(B)	350	4.5%
Maturing First and Refunding Mortgage Bonds from July 1, 2007 through Dec. 31, 2009			(310)		(310)	-4.0%
Issuance of Secured Long-Term Debt from July 1, 2007 through Dec. 31, 2009			800	(C)	800	10.4%
Total First & Refunding Mortgage Bonds	3,120	49.5%	727		3,847	49.7%
Net Unamortized Discount	(4)	-0.1%	-		(4)	-0.1%
Total Long-Term Debt	$ 3,116	49.4% $	727		$ 3,843	49.6%
Preferred Securities:						
Preferred Stock, $100 par value, cumulative without mandatory redemption, various series	80	1.3%	-		80	1.0%
Total Preferred Stock	$ 80	1.3% $	-		$ 80	1.0%
Common Stock, Premium on Capital Stock, Other Paid-in-Capital & Retained Earnings:						
Common Stock (no par value)	892	14.1%	-		892	11.5%
Other Paid-in-Capital	170	2.7%	-		170	2.2%
Other Paid-in-Capital (Basis Adjustment)	986	15.6%	-		986	12.6%
Unappropriated Retained Earnings	1,061	16.8%	725	(D)	1,786	23.0%
Accumulated Other Comprehensive Loss	1	0.0%	-		1	0.0%
Total	$ 3,110	49.3% $	725		$ 3,835	49.3%
TOTAL CAPITALIZATION	$ 6,306	100.0% $	1,452		$ 7,758	100.0%

(A) Includes $113 million due within one year.
(B) Issued for refunding of maturities of $27 million (included in $113 million) in 2007 and $323 million of maturities in 2006.
(C) Includes approximately $400 million for maturities to be refunded and approximately $400 million for funding of capital expenditures.
(D) Assumes Unappropriated Retained Earnings growth to support increased debt levels.

Following is the Company's weighted average cost of capital as agreed to in Docket No. GR05100845:[77]

	Amount ($ Millions)	%	Cost	Weighted Cost
Long-Term Debt	$3,188	50.64%	6.19	3.13%
Short-Term Debt	0	0.00%	0.00	0.00%

[77] Response to Staff-5.

Preferred Stock	80	1.27%	5.03	0.06%
Customers' Deposits	43	0.68%	2.94	0.02%
Common Equity	2,984	47.40%	10.00	4.74%
	$6,295	100.00%		7.96%

PSE&G and its Parent each are targeting capital structures "designed to achieve strong investment grade ratings."[78] The Company's credit rating from S&P is currently A- and from Moody's is A3 for First Mortgage Bonds.[79] Moody's is currently reflecting a negative outlook on PSE&G's credit rating.[80]

[78] Response to RC-1.
[79] Id.
[80] Id.

Following is the Parent's current consolidated capital structure:[81]

	Public Service Enterprise Group [PSEG] ($ Millions)	%
Current Portion of Long-Term Debt		
Current Portion of Long-Term Debt	$ 256	1.4%
Current Portion of Nonrecourse Project Financing	105	0.6%
Current Portion of Securitization Debt	175	1.0%
Current Portion of Subordinate Debt Supporting Trust Pref. Securities	474	2.6%
Total Current Portion of Long-Term Debt	1,010	5.6%
Commercial Paper and Loans		0.0%
Commercial Paper and Loans	345	1.9%
Short-Term Nonrecourse Project Debt	-	0.0%
Short-Term Loan from Affiliate	-	0.0%
Total Commercial Paper and Loans	345	1.9%
Long-Term Debt		
Long-Term Debt	7,404	40.8%
Nonrecourse Project Financing	647	3.6%
Securitization Debt	1,626	9.0%
Subordinate Debt Supporting Trust Pref. Securities	186	1.0%
Total Long-Term Debt	9,863	54.4%
TOTAL DEBT	$ 11,218	61.8%
Preferred Stock	80	0.4%
Common Equity	6,847	37.7%
TOTAL CAPITALIZATION	$ 18,145	100.0%

As of June 30, 2007, the Company had $295,960,000 of short-term debt outstanding, including commercial paper and bank loans, with no offset of short-term investments.[82] This balance is significantly more than the Company's historic short-term debt balances for the past three years, as shown below:[83]

- Dec. 31, 2006 $30,500,000
- Dec. 31, 2005 $0

[81] Response to RC-2.
[82] Petition, para. 22.
[83] Response to RC-9.

– Dec. 31, 2004 $105,062,000

Rate Counsel assumes that at least some of this increase may be due to the use of short-term debt to pay off the Series WW debt that matured earlier this year. Because the Company uses short-term debt temporarily to support its cash working capital needs it is unable to estimate the amount of short-term debt it expects to issue and repay, if any, at the end of 2009.[84] The Company utilizes a Cash Management function to maintain adequate liquidity and strives to "minimize average short-term debt while balancing the intra-month peaks to avoid straining liquidity and valleys to avoid negative carry (i.e., long-term funds borrowed which are earning short-term invested rates)."[85] PSE&G has a $600 million syndicated credit facility available that expires in June 2011 and whose cost is 8 basis points per annum.[86] This facility provides liquidity backup to PSE&G's commercial paper program.[87]

Assuming the Company's requested authority for long-term debt financing is approved, PSE&G anticipates next requesting the Board's authority in the third quarter of 2009 for debt to be issued beginning January 1, 2010.[88] The Company's short-term debt authority expires at the end of 2008 and the Company expects to file with the Board for authority on short-term debt in the third quarter of 2008 to begin January 1, 2009.[89]

[84] Response to Staff-11.
[85] Id.
[86] Response to Staff-14.
[87] Id.
[88] Response to RC-6.
[89] Id.

Recommendation

Rate Counsel has reviewed the Petition and is not opposed to its approval, with certain conditions. The Company serves approximately 3.8 million electric and gas customers and can bring the necessary resources to bear to properly and adequately meet its service obligations. Also, as a subsidiary of PSEG, the Company has access to additional managerial, technical, and financial resources furthering its ability to serve its customers in a safe and proper manner.

Rate Counsel notes that the proposed issuance will result in a net increase in debt of approximately $486 million. The Company's pro forma capitalization contains an equity ratio of 49.3%, which is in the range of reasonableness for an electric and gas utility.

Rate Counsel does recommend one adjustment to the Company's filing. In paragraph 18 of the Petition, PSE&G states that Asset-Backed Securities may be issued by "a direct or indirect subsidiary of an entity controlled by Petitioner..." and that "[o]bligations of a Subsidiary may be guaranteed by the Petitioner…." The BPU Order should limit any such Subsidiary guarantee by PSE&G to obligations that are issued as a direct result of this Petition and that are used for the provision of utility service to PSE&G regulated ratepayers. The Order resulting from this case should not extend to PSE&G the ability to guarantee Subsidiary obligations that may be used for unregulated operations of the Company and which would not otherwise be guaranteed by PSE&G with utility assets.

In addition to the above recommended modification, prior orders have contained additional provisions regarding marketing of the securities, reporting requirements, and other issues. These are summarized in the Appendix to this report. Rate Counsel recommends that any BPU approval of the instant filing contain similar conditions to those outlined in the Appendix.

Approval of the Petition should not include authorization to include in rate base any specific assets that may be constructed or acquired as a result of this Petition. The determination of any assets to be included in rate base and the ratemaking impact of serving customers, therefore, should be addressed in a future base rate proceeding. Accordingly, Rate Counsel recommends that any Board Order approving the Company's Petition contain language specifying that the BPU is not approving the inclusion of any specific assets in rate base or of any ratemaking treatment with regard to either the financing or any assets that may be acquired as part of the financing. Finally, Rate Counsel recommends that the Board expressly indicate that its approval of this request for long-term financing authority should not in any way be construed to imply Board approval of any aspect of the PSE&G Solar Proposal currently pending before the Board in a separate docket. These conditions are also included in the Appendix.

Conclusion

In summary, Rate Counsel recommends that the BPU approve the financing Petition subject to limitations on guarantees of Subsidiary debt and subject to the additional conditions outlined in the Appendix. Subject to these provisions, Rate Counsel is not opposed to approval of the proposed financing.

Appendix

Following are the additional provisions that should be included in any BPU Order approving the transaction.

1. Petitioner will issue the New Long-Term Debt Securities and do the refinancing of its Outstanding Long-Term Debt Securities and Outstanding Preferred Stock in compliance with this Order.

2. With respect to each issue and sale of New Long-Term Debt Securities through competitive bidding, Petitioner shall provide the Board with the following material for informational purposes, as soon as it is available, and in no event later than 24 hours prior to the time for the receipt of bids (which materials may be provided by mail or by facsimile transmission and confirmed by mail): (a) a statement with respect to the bidding for the New Long-Term Debt Securities which shall specify (i) the date and time for the receipt of bids for the New Long-Term Debt Securities, (ii) the principal amount of the New Long-Term Debt Securities, (iii) the series designation of the New Long-Term Debt Securities, (iv) the minimum and maximum percentage of principal amount which may be specified in the bid as the purchase price for the New Long-Term Debt Securities, (v) the term of the New Long-Term Debt Securities, (vi) the terms and conditions upon which the New Long-Term Debt Securities may be redeemed, whether at the option of the Petitioner, pursuant to any sinking or improvement fund for the New Long-Term Debt Securities, or otherwise, and (vii) such other provisions as may be established by Petitioner with respect to the terms and conditions of the New Long-Term Debt Securities and the bidding therefor; and (b) an assessment of the then current financial market applicable to the New Long-Term Debt Securities which shall include (i) data with respect to recent sales of comparable bonds of other utilities, (ii) data with respect to current yield on certain outstanding Mortgage Bonds of Petitioner, (iii) interest rate spreads between United States Treasury Bonds and comparable utility bonds, (iv) the anticipated number of bidders for the New Long-Term Debt Securities, (v) the anticipated range of the yield of the New Long-Term Debt Securities based upon current market conditions, and (vi) such other information as Petitioner shall deem relevant to assess the expected sale for the New Long-Term Debt Securities and the reasonableness of the annual cost of money rate thereof.

3. If, pursuant to competitive bidding procedures, (a) at least two independent bids for the purchase of New Long-Term Debt Securities are received, (b) Petitioner accepts the bid which produces the lowest annual cost of money, and (c) the price to Petitioner in such bid is no less than 97% of principal amount and no more than 102% of principal amount, Petitioner may, without further Order of the Board, issue and sell the New Long-Term Debt Securities in accordance with the terms and conditions contained in such accepted bid. If (x) only one bid is received for

the New Long-Term Debt Securities, or (y) Petitioner proposes to accept the bid which does not produce the lowest annual cost of money, or (z) the accepted bid provides for a price to the Petitioner of less than 97% of principal amount or more than 102% of principal amount, the proposed issuance and sale of the New Long-Term Debt Securities shall not be consummated until a further Order of the Board authorizing such issuance and sale has been entered.

4. Petitioner shall furnish the Board, in writing as soon as practicable after accepting the bid for the New Long-Term Debt Securities, the names of all principal bidders or group representatives together with the interest rate, the annual cost of money to Petitioner, the price to the public, the percentage yield and the price to Petitioner applicable to each bid.

5. Petitioner shall not issue MTNs at coupon rates in excess of the Market Yield Spread Table set forth below. In the event that market conditions change, Petitioner may file an updated market yield spread table with the Board for approval. Any such updated market yield spread table submitted by Petitioner for approval of the Board shall be accompanied by Petitioner's statement of the basis or rationale therefore.

Range of Maturities	Over U.S. Treasury Securities (Basis Points)
1 Yr. to less than 18 Mos.	105
18 Mos. to less than 2 Yrs.	115
2 Yrs. to less than 3 Yrs.	120
3 Yrs. to less than 4 Yrs.	125
4 Yrs. to less than 5 Yrs.	130
5 Yrs. to less than 6 Yrs.	135
7 Yrs. to less than 10 Yrs.	145
10 Yrs. to less than 15 Yrs.	150
15 Yrs. to less than 20 Yrs.	160
20 Yrs. to less than 35 Yrs.	175

6. Petitioner shall telephonically notify the Chief Economist prior to its issuance of MTNs, and shall furnish the following for informational purposes only: (a) principal amount or amounts of the MTNs proposed to be sold; (b) anticipated maturity ranges; (c) actual current yields of U.S. Treasury Securities; (d) range of estimated coupon spreads over U.S. Treasury Securities; (e) data, as available, with respect to recent sales of comparable MTNs of other utilities; and (f) such other information as Petitioner shall deem relevant to assess the reasonableness of the expected sale of the MTNs. Further, within seven business days after the issuance and sale of any MTNs, Petitioner will provide the Chief Economist with such

information as was available at the time of sale upon which Petitioner based its decision to sell, such as market data with respect to utilities with similar credit ratings that have issued comparable securities.

7. As promptly as is practicable following the end of each month during which the MTNs are sold, Petitioner shall file with the Board a statement which shall set forth the MTN transactions concluded during such month including the names of the agents and their offers. Such statement shall also set forth (a) the principal amount, maturity date, redemption provisions, commissions and the interest rate spread over comparable U.S. Treasury Securities for any MTNs sold, and (b) the principal amount of the Petitioner's New Long-Term Debt Securities remaining authorized for issuance and sale in this Docket.

8. With respect to any series of New Long-Term Debt Securities to be issued pursuant to a multi-mode program and/or Structured Transaction, Petitioner shall furnish the Board, in writing at least 24 hours prior to issuance, for informational purposes, the following data (a) with respect to the New Long-Term Debt Securities: (i) the principal amount of the New Long-Term Debt Securities; (ii) the series designation of the New Long-Term Debt Securities; (iii) the anticipated maturity ranges; (iv) the identity of any governmental agency for whose benefit the New Long-Term Debt Securities will be issued; (v) the term of the New Long-Term Debt Securities; (vi) the terms and conditions upon which the New Long-Term Debt Securities may be redeemed; and (vii) such other provisions with respect to the New Long-Term Debt Securities as the Petitioner may deem to be material; and (b) with respect to the Structured Transaction: (i) the identity of any agent/dealer/manager and/or institution; and (ii) a description of the proposed program/transaction, including any security interest or Asset Disposition related thereto.

9. With respect to any series of New Long-Term Debt Securities issued to service and secure governmental agency securities or issued pursuant to a Structured Transaction, Petitioner shall furnish the Board, as promptly as practicable following the issuance of the New Long-Term Debt Securities the following: (a) a copy of all material agreements between the Petitioner and the governmental agency, (b) a copy of the agent/dealer/manager agreement, and (c) a copy of all material agreements related to the Structured Transaction.

10. Petitioner shall, as promptly as practicable following the end of each quarter during which the Structured Transaction securities are sold, file with the Board a statement which shall set forth the Structured Transaction concluded during such quarter. Such statement shall also set forth (a) the principal amount, maturity date, redemption provisions, commissions and the interest rate for any Structured Transaction securities sold; (b) the principal amount of Structured Transaction securities scheduled for maturity during the following quarter; and (c) a brief description of any Asset Disposition and/or any liens placed on any Assets of Petitioner in connection with a Structured Transaction.

11. Petitioner shall issue the New Long-Term Debt Securities solely for the purposes authorized in this Order.

12. To the extent that Petitioner issues long-term debt heretofore authorized by the Board in Docket No. EF05110967 through December 31, 2007 to refund Long-Term Debt Securities which have previously matured but which have not yet been refunded, any such amounts shall be deemed to be deducted on a dollar for dollar basis from the authority conferred in this Order to refund maturing Mortgage Bonds and MTNs.

13. Petitioner shall furnish the Board with copies of (a) each Indenture and/or Supplemental Indenture; (b) any UCC financing statement or pledge; and (c) any material agreement related to Asset-Backed Securities and/or Asset Dispositions.

14. Petitioner shall furnish the Board with copies of all documents as executed and filed with other regulatory agencies relating to the New Long-Term Debt Securities.

15. Petitioner shall semiannually file with the Board, a statement setting forth: (a) the amount of New Long-Term Debt Securities issued; and (b) details with respect to the disbursement of proceeds.

16. Upon any transfer of ownership interest in the issuing entity by Petitioner to a subsidiary, Petitioner will, as promptly as is practicable, notify the Chief Economist in writing, by facsimile transmission or by hand delivery and notify the Board by mail of such action and include a statement setting forth the aggregate principal amount, the maturity (if other than a demand Note) and interest rate of the Note.

17. The New Long-Term Debt Securities authorized herein shall not be redeemed at a premium prior to maturity without further Board approval.

18. This Order shall not be construed as a certification that the securities authorized to be offered for sale will be represented by tangible or intangible assets of commensurate value or investment costs.

19. This Order shall not affect nor in any way limit the exercise of the authority of the Board, or of this State, in any future petition or in any proceeding with respect to rates, franchises, services, financing, capitalization, depreciation, or any other matters affecting the Petitioner.

20. This Order shall not be construed as directly or indirectly fixing, for any purpose whatsoever any value of the tangible or intangible assets now owned or hereafter to be owned by Petitioner.

21. With regard to refinancing where savings may be achieved, the Petitioner will, upon completion of the financing, provide to the Office of the Economist, a detailed analysis of the savings realized from each such financing.

22. This Order shall not be construed as, in any way, indicating Board approval of any aspect of the PSE&G Solar Proposal currently pending before the Board in a separate docket.

23. This Order does not extend to PSE&G the ability to guarantee Subsidiary obligations that may be used for unregulated operations of the Company and which would not otherwise be guaranteed by PSE&G with utility assets.

24. The authority granted in this Order shall become null and void and of no effect with respect to any portion thereof which is not exercised by December 31, 2009.

Respectfully submitted,

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PUBLIC ADVOCATE

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