

PUBLIC SERVICE ENTERPRISE GROUP INC  
Form DEF 14A  
March 05, 2008  
UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

**SCHEDULE 14A**

(Rule 14a-101)

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934**

Filed by the Registrant  S  
Filed by a Party other than the Registrant  o

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| <input type="checkbox"/> Preliminary Proxy Statement                  | <input type="checkbox"/> Confidential, for Use of the Commission Only<br>(as permitted by Rule 14a-6(e)(2)) |
| <input type="checkbox"/> Definitive Proxy Statement                   |   |
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**Public Service Enterprise Group Incorporated**

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Title of each class of securities to which transactions applies:

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-

**Public Service Enterprise Group Incorporated**  
**80 Park Plaza, P.O. Box 1171, Newark, New Jersey 07101-1171**

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD APRIL 15, 2008  
AND  
PROXY STATEMENT**

To the Stockholders of Public Service Enterprise Group Incorporated:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Public Service Enterprise Group Incorporated will be held at the New Jersey Performing Arts Center, One Center Street, Newark, New Jersey, on April 15, 2008, at 2:00 P.M., for the following purposes:

1. To elect three members of the Board of Directors to hold office until the Annual Meeting of Stockholders in 2009, each until their respective successors are elected and qualified;
2. To consider and act upon the ratification of the appointment of Deloitte & Touche LLP as independent auditor for 2008;
3. To consider and act upon a stockholder proposal relating to executive compensation;

4. To consider and act upon a stockholder proposal relating to the nomination of directors;
5. To consider and act upon a stockholder proposal relating to the election of directors; and
6. To transact such other business as may properly come before said meeting or any adjournment thereof.

Stockholders entitled to vote at the meeting are the holders of Common Stock of record on February 15, 2008.

By order of the Board of  
Directors,

EDWARD J. BIGGINS, JR.

*Secretary*

February 29, 2008

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on April 15, 2008. The Proxy Statement and Annual Report to Stockholders are available at [www.ezodproxy.com/pseg/2008/vote/pseg2007ar/](http://www.ezodproxy.com/pseg/2008/vote/pseg2007ar/)**

**YOUR VOTE IS IMPORTANT. PLEASE SIGN, DATE AND MAIL THE ACCOMPANYING PROXY FORM PROMPTLY. TELEPHONE AND ELECTRONIC VOTING ARE ALSO AVAILABLE. PLEASE USE THE TOLL-FREE TELEPHONE NUMBER OR THE INTERNET ADDRESS SHOWN ON THE PROXY FORM.**

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## INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation of proxies by Public Service Enterprise Group Incorporated (we, us, our, PSEG or the Company) on behalf of the Board of Directors to be voted at the 2008 Annual Meeting of Stockholders. We are a public utility holding company that owns directly four subsidiaries:

Public Service  
Electric and  
Gas Company  
(PSE&G), an  
operating  
electric and  
gas utility;

PSEG Power  
LLC (Power),  
an electric  
generation and  
wholesale  
energy  
marketing and  
trading  
company;

PSEG Energy  
Holdings  
L.L.C. (Energy  
Holdings), a  
company that  
owns  
energy-related  
businesses that  
operate  
electric  
generation and  
distribution in  
selected  
international  
and domestic  
markets and  
provides  
capital to  
finance  
energy-related  
assets; and

PSEG Services  
Corporation  
(Services),  
which

provides  
management  
and  
administrative  
services to us  
and our  
subsidiaries.

The mailing address of our principal executive offices is 80 Park Plaza, P.O. Box 1171, Newark, New Jersey 07101-1171, telephone (973) 430-7000. Our Internet website is [www.pseg.com](http://www.pseg.com).

The approximate date on which this Proxy Statement and the accompanying proxy were first sent or given to security holders and made available electronically via the Internet was March 5, 2008.

### **Annual Meeting Attendance**

The Annual Meeting will be held on April 15, 2008 at 2:00 P.M., at the New Jersey Performing Arts Center, One Center Street, Newark, New Jersey. We request that if you plan to attend the Annual Meeting, you should indicate so on the proxy form or in voting shares telephonically or electronically. **AN ADMISSION TICKET IS PRINTED ON THE TOP PORTION OF EACH PROXY FORM AND SHOULD BE USED BY YOU IF YOU PLAN TO ATTEND THE ANNUAL MEETING.**

A proxy given in the form which accompanies this Proxy Statement or a vote telephonically or electronically is revocable. However, by law, your presence at the Annual Meeting will not revoke a proxy you have given, unless you file a written notice of such revocation with the Secretary of PSEG prior to the voting of the proxies at the meeting, or you vote the shares subject to the proxy by written ballot.

### **VOTING SECURITIES AND PROCEDURES**

Holders of record of the 508,456,324 shares of Common Stock outstanding on February 15, 2008 will have one vote per share. The number of shares shown here and throughout this Proxy Statement reflects the 2-for-1 split of our Common Stock effective February 4, 2008. The holders of Common Stock entitled to cast a majority of the votes at the meeting, present in person or represented by proxy, will constitute a quorum. All votes cast by proxy or in person will be counted. Abstentions and broker non-votes will not be counted, except for establishing a quorum. Under New York Stock Exchange (NYSE) rules, unless a bank or broker receives voting instructions on Proposals 3, 4 and 5, a broker non-vote will occur with respect to those matters. All votes will be tabulated by an independent inspector of elections.

### **Proxy Form**

Every vote is important. We urge you to sign, date and return the accompanying proxy form whether or not you plan to attend the Annual Meeting. Alternatively, if you are a stockholder of record, you may vote your proxy using the toll-free telephone number listed on the proxy form or via the Internet at the electronic address also listed on the proxy form. When a proxy form is returned properly dated and signed, or properly voted telephonically or electronically, the shares represented by the proxy will be voted by the persons named as proxies in accordance with the voting stockholder's directions.

You may specify your choices by marking the appropriate boxes on the enclosed proxy form. If a proxy form is dated, signed and returned without specifying choices, the shares will be voted as recommended by your Board of Directors. If you vote telephonically or electronically, you should follow the directions given during the call or on the computer screen.

If your shares are held in the name of a bank or broker, you should follow the voting instructions on the form received from your bank or broker. For such shares, the availability of telephone or Internet voting will depend on the voting processes of your bank or broker. If no instructions are received from you by a bank or broker with respect to such shares, the shares may be voted by the bank or broker with respect to Proposals 1 and 2 at the discretion of the bank or broker.

The accompanying proxy includes any shares registered in the names shown on the proxy in Enterprise Direct (formerly, the Dividend Reinvestment and Stock Purchase Plan) and the PSEG Employee Stock Purchase Plan. If no instructions are received from you with respect to any shares held in Enterprise Direct, the administrator of that plan will vote those shares in accordance with the recommendations of the Board of Directors contained in this Proxy Statement. If no instructions are received from you with respect to any shares held in the PSEG Employee Stock Purchase Plan, the shares will not be voted.

If you are a participant in the PSEG Thrift and Tax-Deferred Savings Plan or the PSEG Employee Savings Plan you will receive a separate direction card from the respective plan's trustee for shares that have been allocated to your accounts under the Enterprise Common Stock Fund and your ESOP Accounts. The trustee will vote the shares of Common Stock beneficially owned by you under the respective plan in accordance with your instructions. If no instructions are received, the shares will not be voted.

## CORPORATE GOVERNANCE

Our business and affairs are managed by or under the direction of the Board of Directors, which delegates certain responsibilities to its committees and to management consistent with our By-Laws. The Board of Directors has adopted and operates under the PSEG Corporate Governance Principles which reflect our current governance practices in accordance with applicable statutory and regulatory requirements, including those of the United States Securities and Exchange Commission (SEC) and the NYSE. The Corporate Governance Principles are posted on our website, [www.pseg.com/investor/governance](http://www.pseg.com/investor/governance). We will send you a copy upon request.

The Directors are elected by the stockholders to provide direction and oversight to the conduct of our business by management. In fulfilling these responsibilities, the Board performs the following principal functions:

- Approves corporate strategy, major management initiatives and significant investments;

- Monitors financial and business integrity and performance;



Evaluates Board processes and performance, and selects nominees for election to the Board; and

Selects and evaluates performance of the Chief Executive Officer (CEO) and other senior executives.

As discussed below under Election of Directors, at the 2007 Annual Meeting, stockholders approved the de-classification of the Board. Directors are elected annually, but each director will serve out his or her term remaining as of the 2007 Annual Meeting.

The Board has full and free access to all members of management and may hire independent consultants and advisors as it deems necessary.

### **Independence**

Under our Corporate Governance Principles and the requirements of the NYSE, the Board must consist of a majority of independent directors. The Board has established standards for director independence, which are set forth in the Corporate Governance Principles. These standards require that to be independent:

A director  
may not be an  
employee of  
ours or any of  
our  
subsidiaries;

No member of  
the director's  
immediate  
family may be  
one of our  
executive  
officers or an  
executive  
officer of one  
of our  
subsidiaries;

A director or  
immediate  
family  
member may  
not be an  
employee of  
any company  
where any  
executive of  
ours or our  
subsidiaries  
serves on the  
compensation  
committee;

A director  
may not be an  
employee and  
an immediate  
family  
member may  
not be an  
executive  
officer of any  
company that  
makes  
payments to  
or receives  
payments  
from us or our  
subsidiaries in

any year more than the greater of \$1 million or 2% of such company's consolidated gross revenue;

A director or immediate family member may not receive more than \$50,000 in direct compensation (other than fees and compensation provided to directors generally);

A director or immediate family member may not be affiliated with or employed by our independent auditor; and

A director may not be an executive officer of a charity, if contributions by us and our subsidiaries in any year exceed the greater of \$1 million or 2% of the charity's consolidated gross revenue.

These limitations apply for three years after the end of the applicable affiliation or arrangement.

The Board has determined that all of the current directors, including Ernest H. Drew, who will retire effective April 15, 2008, are independent under the Corporate Governance Principles and the requirements of the NYSE, except Ralph Izzo, the Chairman of the Board, President and CEO, who is an employee of the Company. Similarly, E. James Ferland, who served as Chairman of the Board and CEO until March 31, 2007, was not independent under these criteria, as he was an employee of the Company. These determinations were based upon a review of the questionnaires submitted by each director, our relevant business records, publicly available information and the applicable SEC and NYSE requirements.

The Board has an Audit Committee, a Corporate Governance Committee, a Finance Committee and an Organization and Compensation Committee, each consisting solely of independent directors. Effective January 2008, the Board created a Fossil Generation Operations Oversight Committee and a Nuclear Generation Operations Oversight Committee, each also consisting solely of independent directors, replacing its Nuclear Committee. Each of these committees has a charter that defines its roles and responsibilities. The charters are posted on our website, [www.pseg.com/investor/governance](http://www.pseg.com/investor/governance). We will send you a copy of any or all of the committee charters upon request.

### **Presiding Director**

In June 2007, the Board of Directors amended the Corporate Governance Principles and established the position of Presiding Director. The Presiding Director:

Chairs the executive sessions of the Board;

Consults with the CEO on Board agendas;

Advises the CEO on the quality and timeliness of information provided to the Board;

Serves on the Executive Committee; and

Receives from the Corporate Secretary all communications directed to the non-management directors.

The Presiding Director serves for a two-year term commencing with the organization meeting of the Board following the Annual Meeting of Stockholders and may serve up to an additional twelve consecutive months if approved by the non-management directors. Richard J. Swift was designated Presiding Director by the Board effective June 19, 2007, for a term expiring at the first meeting of directors after the 2009 Annual Meeting of Stockholders.

## **Meetings**

The Board of Directors holds regular monthly meetings, except in March, May, June, August and September, and meets on other occasions when circumstances require. The Board met ten times in 2007, and, on average, the meetings lasted approximately three hours. Directors spend additional time preparing for Board and committee meetings they attend and they are called upon for counsel between meetings. The Board also conducted an all-day business strategy session in May 2007.

During 2007, Caroline Dorsa, Albert R. Gamper, Jr., Conrad K. Harper and Ralph Izzo also served on the board of directors of PSE&G. The PSE&G board met ten times in 2007. Committee membership and membership on the PSE&G board are shown in the biographies under Election of Directors. Mr. Izzo also served on the boards of directors of Energy Holdings, Power and Services.

The Corporate Governance Principles adopted by the Board of Directors provide that the Board will meet at least eight times each year and in executive session without management in attendance at every meeting unless waived by the Board. When the Board meets in executive sessions, the Presiding Director serves as Chair. Prior to election of a Presiding Director, the Board designated a non-management director, who was the independent Committee Chair most closely associated with the business at hand, to chair the meeting. During 2007, eight executive sessions were held with only independent directors present. In addition, the Audit Committee, the Corporate Governance Committee, the Finance Committee, the Fossil Generation Operations Oversight Committee, the Nuclear Generation Operations Oversight Committee (in 2007, the Nuclear Committee) and the Organization and Compensation Committee each meet in executive session at each meeting, unless waived by the respective Committee.

Under the Corporate Governance Principles, each director is expected to attend all Board meetings and all meetings of committees of which such director is a member, as well as the Annual Meeting of Stockholders. Meeting materials are provided to Board and Committee members prior to meetings, and members are expected to review such materials prior to each meeting. During 2007, each nominee and each other director attended at least 77% of the aggregate number of Board meetings and committee meetings on which he or she served and each attended the 2007 Annual Meeting of Stockholders.

## **Stock Ownership**

Directors are required by the Corporate Governance Principles to own at least 4,000 shares of PSEG Common Stock (including any restricted stock, whether or not vested, any stock units under the 2007 Directors Equity Plan and any phantom stock under the Directors Deferred Compensation Plan) within three years after election to the Board. All directors currently meet this requirement.

## **Director Retirement Policy**

Under the Board's retirement policy, directors who have never been employees of the PSEG group of companies may not serve as directors beyond the Annual Meeting of Stockholders following their seventy-second birthday. Directors who are former PSEG CEOs may not serve as directors beyond the Annual Meeting of Stockholders following termination of active employment with the PSEG group of companies, unless otherwise determined by the Board, and may not serve beyond their seventy-second birthday. Directors who are former employees, other than CEOs, may not serve as directors beyond the Annual Meeting of Stockholders following termination of active employment with the PSEG group of companies. Directors must submit a letter of resignation upon any change in their primary employment responsibilities.

## **Communications with the Board**

As set forth in the Corporate Governance Principles, you, as a stockholder, and other interested parties may communicate directly with the Board, including the independent directors, by writing to Edward J. Biggins, Jr., Secretary, at Public Service Enterprise Group Incorporated, 80 Park Plaza, T4B, P.O. Box 1171, Newark, New Jersey 07101-1171, and indicating who should receive the communication. Unless the context otherwise requires, the Secretary will provide the communication to the Presiding Director and to the Chair of the Board Committee most closely associated with the nature of the

request. The Secretary has the discretion to not forward communications that are commercial advertisements, other forms of soliciting material or billing complaints.

### **Committees of the Board**

The committees of the Board, their principal functions, membership and meetings are described below. Each Committee annually conducts a performance evaluation of its activities and a review of its charter.

#### ***Audit Committee***

The Audit Committee's responsibilities include:

Assisting the Board in fulfilling its responsibility for oversight of the integrity of our financial statements and the quality and integrity of our accounting, auditing and financial reporting practices;

Appointing, terminating, compensating and overseeing the work of the independent auditor; the independent auditor reports directly to the Audit Committee;

Reviewing the independence of the independent auditor and peer review reports of their performance;



Pre-approving  
the services  
provided and  
fees paid to the  
independent  
auditor for all  
services to us  
and our  
subsidiaries;

Reviewing with  
the independent  
auditor,  
management  
and internal  
auditors the  
annual audited  
and quarterly  
financial  
statements and  
the  
acceptability  
and quality of  
our financial  
statements and  
our accounting,  
reporting and  
auditing  
practices;

Providing  
oversight to the  
internal audit  
and  
environmental,  
health and  
safety audit  
functions;

Reviewing the  
status of  
pending  
material  
litigation, as  
well as legal  
and business  
conduct  
compliance;

Reviewing risk  
management

controls, as well as policies with respect to risk assessment and risk management;

Reviewing earnings press releases, financial information and earnings guidance provided to analysts and rating agencies;

Recommending to the Board of Directors the inclusion of the audited financial statements in our Annual Report on Form 10-K; and

Reviewing with management our disclosure controls and procedures.

In accordance with the rules of the SEC and the NYSE, we maintain an Audit Committee consisting solely of directors who are independent of management. The Audit Committee is comprised of three or more independent directors who meet NYSE requirements for financial literacy, including at least one member with accounting or financial management expertise. In addition to meeting the requirements for being an independent director, members may receive no direct or indirect compensation from us or our subsidiaries, other than as a director or committee member, and may not be affiliated with us or our subsidiaries, in accordance with applicable legal requirements.

The Board determines annually, and upon any change in Audit Committee composition, the independence, financial literacy and financial expertise of the Audit Committee members and makes written affirmation to the NYSE in accordance with its rules. Also, in accordance with the NYSE rules, the Board has determined that all members of the Audit Committee are financially literate and, in addition, that each member of the Audit Committee possesses financial expertise, as defined in the NYSE rules. The Board of Directors further has determined that each of the members of the Audit Committee, Albert R. Gamber, Jr., Caroline Dorsa, William V. Hickey, Shirley Ann Jackson and Thomas A. Renyi, is an audit committee financial expert as defined under the Sarbanes-Oxley Act of 2002 and the rules of the SEC. The relevant experience of each appears below under Election of Directors.



Management and the Board believe that the current composition of the Audit Committee provides that Committee with the requisite expertise and experience to recommend to the Board of Directors the inclusion of the financial statements in the Annual Report on Form 10-K. The Board will consider this matter annually as a part of its ongoing governance review. The Audit Committee will also continue its assessment and enhancement of governance practices, including assurance that there exist adequate independent procedures for receipt and treatment of complaints regarding accounting, internal controls or auditing matters.

The Audit Committee meets at least four times per year, and in executive session without management present at each meeting unless waived by the Committee. The Audit Committee held eight meetings in 2007 and met four times in executive session. The Audit Committee Report appears below in this Proxy Statement.

***Corporate Governance Committee***

The Corporate Governance Committee's responsibilities include:

Monitoring the composition of the Board to assure a reasonable balance of professional interests, business experience, financial expertise and independence;

Recommending to the Board membership changes and nominees to maintain requisite balance, while considering the amount of time that a person will likely have to devote to his or her duties as a director, including non-PSEG responsibilities as an executive officer, board member or trustee of businesses and charitable institutions, and

the contribution  
by directors to our  
ongoing business;

Considering the  
qualifications of  
Board members  
and evaluating  
prospective  
nominees,  
including those  
identified by the  
Committee or by  
other Board  
members,  
management,  
stockholders or  
other sources;

Recommending to  
the Board the  
chairs and  
members of Board  
committees;

Evaluating the  
continuity current  
directors bring to  
service on the  
Board versus the  
benefit from new  
ideas and  
perspectives that  
new members  
may bring to the  
Board;

Evaluating  
performance of  
the Board and its  
committees,  
including a review  
of the size,  
structure and  
composition of  
the Board and its  
committees and  
their governance  
practices;

Making recommendations to the Board to improve effectiveness of the Board and its committees;

Reviewing and making recommendations to the Board with respect to compensation of directors;

Providing input to the Organization and Compensation Committee regarding the performance of the CEO; and

Periodically reviewing the Charters of the Board Committees and recommending appropriate changes.

The Corporate Governance Committee consists of three or more independent directors who meet at least two times per year, and in executive session without management present at each meeting unless waived by the Committee. The Corporate Governance Committee met nine times in 2007, including two times in executive session.

The Corporate Governance Committee on occasion may pay a fee to an executive search firm to assist it in identifying and evaluating potential nominees. Such firm's function would be to make recommendations to the Committee of potential candidates for its consideration.

The Corporate Governance Committee will consider stockholders' recommendations for nominees for election to the Board of Directors. Such recommendations must be submitted in writing to Edward J. Biggins, Jr., Secretary, Public Service Enterprise Group Incorporated, 80 Park Plaza, T4B, P.O. Box 1171, Newark, New Jersey 07101-1171. Nominations must be accompanied by the written consent of any such person to serve if nominated and elected and by biographical material to permit evaluation of the individual recommended. Our By-Laws require that stockholder nominations must be submitted at least 90 days in advance of an Annual Meeting of Stockholders.

The Corporate Governance Committee seeks candidates for the Board of Directors with an attained position of leadership in their field of endeavor, breadth of experience and sound business judgment. It is the policy of the Board of Directors that a person who is not a PSEG employee shall not be recommended initially to the stockholders for election as a director unless it appears that, consistent with the retirement policy for directors referred to above, such person would be available to serve as a director for at least five years.

The Committee does not believe it is appropriate to set limits on outside board memberships or the length of a director's service, but monitors these factors to assure that the Board contains an effective mix of people to best further our long-term business interests. The Corporate Governance Committee utilizes the same criteria to evaluate all potential nominees, including those recommended by stockholders or from other sources.

### ***Executive Committee***

Except as otherwise provided by law, the Executive Committee may exercise all the authority of the Board of Directors when the Board is not in session. Membership consists of the Chairman of the Board, the Presiding Director and at least one additional independent director. It did not meet during 2007.

### ***Finance Committee***

The Finance Committee's responsibilities include:

Reviewing and recommending to the Board annually our financial plan;

Discussing with management the application and effects of our policies with respect to risk assessment and risk management, including the limits and authorities contained in the risk management practice;

Reviewing and recommending to the Board authorizations with respect to the issuance, sale and redemption of securities by us

and our  
subsidiaries;

Reviewing with  
the pension  
investment  
committee and  
management the  
investment  
guidelines for and  
investment  
performance of  
the trust funds of  
our pension plans  
and our nuclear  
decommissioning  
trust fund;

Reviewing with  
management our  
cash management  
policies and  
practices; and

Reviewing with  
management  
credit agency  
ratings and  
analyses.

The Finance Committee consists of three or more members, the majority of whom are independent directors. The Finance Committee meets at least three times per year, and in executive session at each meeting unless waived by the Committee. The Finance Committee held five meetings in 2007 and met two times in executive session.

### ***Nuclear Committee***

During 2007, the Nuclear Committee provided an independent basis for evaluating the safety and effectiveness of our nuclear operations. The Nuclear Committee evaluated overall management attention to nuclear safety, regulatory issues, other aspects of nuclear operations and to improvement in operations. The Nuclear Committee consisted of three or more independent directors and met at least three times per year. The Nuclear Committee held four meetings in 2007 and met two times in executive session.

On January 15, 2008, the Board, upon the recommendation of the Corporate Governance Committee, dissolved the Nuclear Committee and created two new Committees, the Fossil Generation Operations Oversight Committee and the Nuclear Generation Operations Oversight Committee. The Board felt that a redefined committee with nuclear oversight responsibilities and a new committee dedicated to fossil oversight were appropriate to provide an independent basis for evaluating generation related matters in light of the evolution of our business operations and construction program.



***Fossil Generation Operations Oversight Committee***

The Fossil Generation Operations Oversight Committee's responsibilities include:

Evaluating the safety and effectiveness of our fossil generation operations, focusing on safety, plant performance, regulatory matters, large construction projects and improvement in operations;

Monitoring the operating performance of fossil generation including key performance indicator results and trends, and any significant incidents or events at any fossil generating station;

Reviewing labor and human relations, environmental, health and safety, and legal and compliance issues related to fossil operations; and

Reviewing the results of major inspections, evaluations by external oversight groups and management's response.

The Fossil Generation Operations Oversight Committee consists of three to six non-management directors. The Committee meets at least three times per year and in executive session at each meeting unless waived by the Committee. The Committee did not meet in 2007, as it was created on January 15, 2008.

***Nuclear Generation Operations Oversight Committee***

The Nuclear Generation Operations Oversight Committee's responsibilities include:

Evaluating the safety and effectiveness of the nuclear generation operations of Power's subsidiary, PSEG Nuclear LLC (Nuclear), focusing on safety, plant performance, regulatory matters, large construction projects and improvement in operations;

Monitoring the operating performance of nuclear generation including key performance indicator results and trends, and any significant incidents or events at any

nuclear  
generating  
station;

Reviewing  
labor and  
human  
relations,  
environmental,  
health and  
safety, and  
legal and  
compliance  
issues related  
to nuclear  
operations; and

Reviewing the  
results of major  
inspections,  
evaluations and  
audit findings  
by external  
oversight  
groups, and  
management's  
response.

The Nuclear Generation Operations Oversight Committee consists of three to six non-management directors. The Committee meets at least three times per year, and in executive session at each meeting unless waived by the Committee. The Committee did not meet in 2007, as it was created on January 15, 2008.

#### ***Organization and Compensation Committee***

The Organization and Compensation Committee's responsibilities include:

Reviewing,  
approving and  
modifying, as  
necessary, our  
executive  
compensation  
policy;

Reviewing  
executive  
compensation  
levels and targets  
for consistency  
and alignment  
with

compensation  
policy and  
strategic and  
operating  
objectives;

Reviewing and  
making  
recommendations  
to the Board of  
Directors  
concerning  
corporate  
organization in  
general and  
executive  
compensation  
including  
incentive plans  
and equity-based  
plans;

Administering the  
compensation  
program for  
executive officers  
and key  
employees;

Reviewing and  
approving  
corporate goals  
and objectives  
relevant to CEO  
compensation;

Evaluating the  
CEO s  
performance in  
light of those  
goals and  
objectives and,  
with the  
independent  
Board members,  
determining and  
approving the  
CEO s  
compensation  
level based on this  
evaluation;

Annually  
reviewing  
management  
succession and  
development  
plans and  
performance  
reviews for the  
CEO and certain  
other key  
members of  
management;

Monitoring compliance with the Stock Ownership and Retention Policy; and

Reviewing the Compensation Discussion and Analysis in our Annual Report on Form 10-K and this Proxy Statement.

The Committee has the authority to retain independent compensation consultants, with sole authority for their hiring and firing. Since October 2006, the Committee has retained Frederic W. Cook & Co., Inc. (Cook) as its executive compensation consultant to provide the Committee information and advice independently from management. Cook does not and will not perform any other services for us or our subsidiaries. Its only roles are advising the Committee on executive compensation, and the Corporate Governance Committee on matters pertaining to compensation of directors who are not executive officers. Responsibility for assignment to, and evaluation of work by Cook is solely that of the Committee and, beginning in April 2007 with respect to non-officer directors, the Corporate Governance Committee. In furtherance of Cook's independence, management receives copies of certain materials provided by Cook to the Committee only after the materials have been provided to the Committee. The scope of Cook's assignment is to provide general advice relating to all aspects of executive compensation, including the review of our current compensation programs and levels, benefit plans, provision of comparative industry trends and peer data and the recommendation of program and pay level changes.

We pay the fees of the compensation consultants retained by the Committee. In addition, we have agreed to indemnify Cook for certain matters related to Cook's engagement by the Committee, other than matters involving negligence or intentional misconduct by Cook. The Committee also utilizes the services of our internal compensation professionals.

The CEO makes recommendations to the Committee regarding compensation of all executive officers, which are reviewed by the Committee's consultant. The CEO participates in the Committee's discussions of those recommendations for other officers. The Committee meets in executive session, without the consultant and without the CEO, to discuss the compensation of the CEO. The Committee makes the determination of CEO compensation in consultation with all the independent directors. The Committee delegates to the CEO limited authority to award long-term incentive compensation plan grants under the PSEG Long-Term Incentive Plan (LTIP) to key employees who are not officers up to an aggregate authorized amount.

The Committee consists of three or more independent directors who meet at least two times per year, and in executive session at each meeting unless waived by the Committee. The Committee held eight meetings in 2007 and met eight times in executive session. The Organization and Compensation Committee Report on Executive Compensation appears below.

### **Code of Ethics**

Our Standards of Integrity (Standards) is a code of ethics applicable to us and our subsidiaries. The Standards are an integral part of our business conduct compliance program and embody our commitment to conduct operations in accordance with the highest legal and ethical standards. The Standards apply to all of our directors, employees

(including PSE&G s, Power s, Energy Holdings and Services respective principal executive officer, principal financial officer, principal accounting officer or Controller and persons performing similar functions), worldwide. Each such person is responsible for understanding and complying with the Standards. The Standards are posted on our website, [www.pseg.com/investor/governance](http://www.pseg.com/investor/governance). We will send you a copy on request.

The Standards establish a set of common expectations for behavior to which each employee must adhere in dealings with investors, customers, fellow employees, competitors, vendors, government officials, the media and all others who may associate their words and actions with us. The Standards have been developed to provide reasonable assurance that, in conducting our business, employees behave ethically and in accordance with the law and do not take advantage of investors, regulators or customers through manipulation, abuse of confidential information or misrepresentation of material facts.

If we adopt any amendment (other than one that is technical, administrative or non-substantive) to or a waiver from the Standards that applies to any director or our, PSE&G s, Power s, Energy

Holdings or Services principal executive officer, principal financial officer, principal accounting officer or Controller, or persons performing similar functions and that relates to any element enumerated by the SEC, we will post the amendment or waiver on our website, [www.pseg.com/investor/governance](http://www.pseg.com/investor/governance).

## Proposal 1

### ELECTION OF DIRECTORS

At the 2007 Annual Meeting, the stockholders approved the amendment of the Certificate of Incorporation to eliminate the classification of directors. All directors will each serve out their terms remaining as of the 2007 Annual Meeting. Directors elected at the 2008 Annual Meeting and at future annual meetings will be elected to serve one-year terms. Directors whose terms expire are eligible for renomination and will be considered by the Corporate Governance Committee in accordance with its policies, which are described above under Corporate Governance-Committees of the Board, and subject to the retirement policy for directors.

Dr. Ernest H. Drew will retire as a Director effective with the convening of the 2008 Annual Meeting. The Board wishes to thank Dr. Drew for his outstanding service to PSEG.

The present terms of three directors, Conrad K. Harper, Shirley Ann Jackson and Thomas A. Renyi, expire at the 2008 Annual Meeting. Therefore, at this year's meeting, these three directors will be presented for election to serve until the 2009 Annual Meeting, or until their respective successors are elected and qualified. All nominees were elected to their present terms by the stockholders. The present terms of two directors expire at the 2009 Annual Meeting and the present terms of three directors expire at the 2010 Annual Meeting. Those directors will not be elected at the 2008 Annual Meeting.

Our By-Laws currently provide that the Board of Directors shall consist of not less than three nor more than 16 directors as shall be fixed from time to time by the Board. The number of directors is currently set at nine and will be reduced to eight, effective at the convening of the 2008 Annual Meeting, upon Dr. Drew's retirement.

The nominees listed below were selected by the Board of Directors upon the recommendation of the Corporate Governance Committee. Proxies will be voted for these nominees, unless authority to vote for one or more of them shall have been withheld by so marking the enclosed proxy form or so indicating when voting by telephone or Internet.

If at the time of the meeting any of the nominees listed below should be unable to serve, which is not anticipated, it is the intention of the persons designated as proxies to vote, in their discretion, for other nominees, unless the number of directors constituting a full Board is further reduced.

We show below for each nominee, and for each director whose term of office will continue after the 2008 Annual Meeting, the period of service as a director, age as of the date of the Annual Meeting, present committee memberships, business experience during at least the last five years and other present directorships. Beneficial ownership of Common Stock is shown under Security Ownership of Directors, Management and Certain Beneficial Owners.



**Nominees For Election As Director**

CONRAD K. HARPER has been a director since May 1997. Age 67. Chair of Finance Committee and member of Corporate Governance Committee, Fossil Generation Operations Oversight Committee and Nuclear Generation Operations Oversight Committee. Director of PSE&G. Of counsel to the law firm of Simpson Thacher & Bartlett LLP, New York, New York since January 2003. Was a partner from October 1996 to December 2002 and from October 1974 to May 1993. Was Legal Adviser, U.S. Department of State from May 1993 to June 1996. Director of New York Life Insurance Company.

SHIRLEY ANN JACKSON has been a director since June 2001. Age 61. Chair of Organization and Compensation Committee and member of Audit Committee, Executive Committee and Finance Committee. Has been President of Rensselaer Polytechnic Institute, Troy, New York, since July 1999. Was previously a director of PSEG from 1987 to 1995, prior to becoming Chair, U.S. Nuclear Regulatory Commission, from July 1995 to July 1999. Was Professor of Theoretical Physics, Rutgers University and a consultant in semiconductor theory to AT&T Bell Laboratories from 1991 to 1995. Director of FedEx Corporation, IBM Corporation, Marathon Oil Corporation, Medtronic, Inc. and the New York Stock Exchange, Inc.

THOMAS A. RENYI has been a director since February 2003. Age 62. Member of Audit Committee, Corporate Governance Committee, Finance Committee and Organization and Compensation Committee. Has been Executive Chairman of the Bank of New York Mellon Corporation, New York, New York, a provider of banking and other financial services to corporations and individuals, since July 2007. Was Chairman of the Board and Chief Executive Officer of The Bank of New York Company, Inc., and The Bank of New York, from February 1998 to July 2007. Was President and Chief Executive Officer of The Bank of New York Company, Inc. from July 1997 to January 1998 and President of The Bank of New York from March 1992 to December 1994. Was President and Chief Executive Officer of The Bank of New York from January 1996 to January 1998 and President and Chief Operating Officer from December 1994 to December 1995. Director of The Bank of New York Mellon Corporation and The Bank of New York.

**Directors Whose Terms Continue Beyond the 2008 Annual Meeting  
And Who Are Not Subject to Election this Year  
Directors Whose Terms Expire in 2009**

Caroline Dorsa

CAROLINE DORSA has been a director since February 2003. Age 48. Member of Audit Committee, Corporate Governance Committee and Finance Committee. Director of PSE&G. Has been Senior Vice President of Global Human Health, Strategy and Integration of Merck & Co., Inc. (Merck), Whitehouse Station, New Jersey, which discovers, develops, manufactures and markets human and animal health products, since February 2008. Was Senior Vice President and Chief Financial Officer of Gilead Sciences, Inc, from November 2007 to January 2008. Was Senior Vice President and Chief Financial Officer of Avaya, Inc., Basking Ridge, New Jersey, from February 2007 to November 2007. Was Vice President and Treasurer of Merck from December 1996 to January 2007.

Albert R.  
Gamper, Jr.

ALBERT R. GAMPER, JR. has been a director since December 2000. Age 66. Chair of Audit Committee and member of Executive Committee, Finance Committee and Organization and Compensation Committee. Director of PSE&G. Until retirement, was Chairman of the Board of CIT Group, Inc., Livingston, New Jersey, a commercial finance company, from July 2004 until December 2004. Was Chairman of the Board and Chief Executive Officer of CIT Group, Inc. from September 2003 to July 2004. Was Chairman of the Board, President and Chief Executive Officer of CIT Group, Inc. from June 2002 to September 2003 and was President and Chief Executive Officer of CIT Group, Inc. from February 2002 to June 2002. Was President and Chief Executive Officer of Tyco Capital Corporation from June 2001 to February 2002. Was Chairman of the Board, President and Chief Executive Officer of CIT Group, Inc., from January 2000 to June 2001. Was President and Chief Executive Officer of CIT Group, Inc. from December 1989 to December 1999. Trustee to the Fidelity Group of Funds.

**Directors Whose Terms Expire in 2010**

WILLIAM V. HICKEY has been a director since October 2001. Age 63. Member of Audit Committee, Fossil Generation Operations Oversight Committee, Nuclear Generation Operations Oversight Committee and Organization and Compensation Committee. Has been President and Chief Executive Officer of Sealed Air Corporation, Saddle Brook, New Jersey, which manufactures food and specialty protective packaging materials and systems, since March 2000. Was President and Chief Operating Officer from December 1996 to February 2000 and, prior to that, Executive Vice President from 1994 to December 1996. Director of Sealed Air Corporation and Sensient Technologies Corporation.

William  
V.  
Hickey

RALPH IZZO has been a director since October 2006. Age 50. Director of PSE&G, Energy Holdings and Power. Chair of the Executive Committee. Chairman of the Board, President and Chief Executive Officer of PSEG since April 1, 2007. Was President and Chief Operating Officer of PSEG from October 2006 to April 2007 and President and Chief Operating Officer of PSE&G from October 2003 to October 2006 and was a Vice President in charge of various functions, including Corporate Planning, Appliance Services and Utility Operations from March 1998 to October 2003.

Ralph  
Izzo

RICHARD J. SWIFT has been a Director since December 1994. Age 63. Has been Presiding Director since June 2007. Chair of Nuclear Generation Operations Oversight Committee, Chair of Fossil Generation Operations Oversight Committee and member of Corporate Governance Committee, Executive Committee and Organization and Compensation Committee. Was Chairman of the Financial Accounting Standards Advisory Council from January 2002 to December 2006. Was Chairman of the Board, President and Chief Executive Officer of Foster Wheeler Ltd., Clinton, New Jersey, which provides design, engineering, construction, manufacturing, management, plant operations and environmental services, from April 1994 until October 2001. Was President and Chief Operating Officer of Foster Wheeler Ltd. from December 1992 to April 1994. Director of CVS Caremark Corporation, Hubbell Incorporated, Ingersoll-Rand Limited and Kaman Corporation.

Richard  
J. Swift

**SECURITY OWNERSHIP OF DIRECTORS, MANAGEMENT  
AND CERTAIN BENEFICIAL OWNERS**

**Directors and Management**

The following table sets forth, as of February 15, 2008, the record date, beneficial ownership of Common Stock, including options, by the directors and executive officers named in the Summary Compensation Table. None of these amounts exceeds 1% of the Common Stock outstanding.

Name	Amount and Nature of Beneficial Ownership*
Caroline Dorsa	13,560 <sup>1</sup>
Ernest H. Drew	29,131 <sup>2</sup>
E. James Ferland.	588,252 <sup>3</sup>
Albert R. Gamper, Jr.	15,282 <sup>4</sup>
Conrad K. Harper	21,932 <sup>5</sup>
William V. Hickey	13,932 <sup>6</sup>
Ralph Izzo	1,017,222 <sup>7</sup>
Shirley Ann Jackson	14,310 <sup>8</sup>
Ralph LaRossa	92,827 <sup>9</sup>
William Levis	197,500 <sup>10</sup>
Thomas M. O Flynn	634,229 <sup>11</sup>
Thomas A. Renyi	12,561 <sup>12</sup>
R. Edwin Selover	131,428 <sup>13</sup>
Richard J. Swift	26,247 <sup>14</sup>
All directors and executive officers as a group (16 persons)	2,936,906 <sup>15</sup>

<sup>1</sup> Includes 8,800 shares of restricted stock. Includes 1,000 shares jointly owned with husband.

<sup>2</sup> Includes 15,600 shares of restricted

stock.

- 3 Includes the equivalent of 42 shares held under the Thrift Plan. Includes 378,000 shares held in a trust. Mr. Ferland retired effective March 31, 2007.
- 4 Includes 9,600 shares of restricted stock.
- 5 Includes 13,200 shares of restricted stock.
- 6 Includes 9,600 shares of restricted stock.
- 7 Includes the equivalent of 702 shares held under the Thrift Plan. Includes 10,418 shares of restricted stock. Includes options to purchase 874,800 shares, 322,000 of

which are  
currently  
exercisable.

Includes  
131,302  
shares held  
in a trust.

8 Includes  
9,600 shares  
of restricted  
stock.

9 Includes  
2,868 shares  
of restricted  
stock.  
Includes  
options to  
purchase  
85,000  
shares, none  
of which are  
currently  
exercisable.

10 Includes  
100,000  
shares of  
restricted  
stock.  
Includes  
options to  
purchase  
97,500  
shares, none  
of which are  
currently  
exercisable.

11 Includes the  
equivalent  
of 32 shares  
held under  
the Thrift  
Plan.  
Includes  
7,668 shares  
of restricted  
stock.  
Includes

options to purchase 503,800 shares, 376,000 of which are currently exercisable.

12 Includes 8,800 shares of restricted stock.

13 Includes the equivalent of 24 shares held under the Thrift Plan. Includes 5,134 shares of restricted stock. Includes options to purchase 85,000 shares, 13,000 of which are currently exercisable.

14 Includes 14,400 shares of restricted stock.

15 Includes the equivalent of 3,332 shares held under the Thrift Plan. Includes 220,588 shares of restricted stock.

Includes  
options to  
purchase  
1,734,100  
shares,  
733,000 of  
which are  
currently  
exercisable.

Includes  
509,302  
shares held  
in trusts.

Includes  
1,360 shares  
jointly  
owned with  
spouses.

\* Reflects the  
2-for-1 split  
of PSEG  
Common  
Stock  
effective  
February 4,  
2008.



**Certain Beneficial Owners**

The following table sets forth, as of February 15, 2008, beneficial ownership by any person or group known to us to be the beneficial owner of more than five percent of the Common Stock. According to the Schedule 13G filed by the owner with the SEC, these securities were acquired and are held in the ordinary course of business and not for the purpose of changing or influencing the control of the Company.

<b>Name and Address</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent</b>
Franklin Resources, Inc. One Franklin Parkway San Mateo, CA 94403-1906	26,427,400 <sup>1</sup>	5.2 <sup>1</sup>

<sup>1</sup> As reported on Schedule 13G/A filed February 20, 2008

**SECTION 16 BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

During 2007, none of our directors or executive officers was late in filing a Form 3, 4 or 5 in accordance with the requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended, with regard to transactions involving Common Stock.

**COMPENSATION COMMITTEE REPORT**

The Organization and Compensation Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis included in this Proxy Statement with management and with Frederic W. Cook, Co., Inc., the Committee's independent compensation consultant. Based on such review and discussions, the Organization and Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Shirley Ann Jackson, Chair  
Albert R. Gamper, Jr.  
William V. Hickey  
Thomas A. Renyi  
Richard J. Swift

February 19, 2008



## COMPENSATION DISCUSSION AND ANALYSIS

Executive compensation is administered under the direction of the Organization and Compensation Committee (Committee). The Committee is made up of directors who are independent under NYSE rules and our requirements for independent directors.

### Compensation Philosophy and Program

We have designed our Executive Compensation Program (Program) in a way that we believe will attract, motivate and retain the high-performing executives who are critical to our long-term success. We believe that we have structured the Program to link executive compensation to successful execution of our strategic business plans and meeting our financial, operational and other corporate targets. This design is intended to provide executives increased compensation when we do well as measured against our goals and to provide less compensation when we do not.

In setting compensation for a particular executive position, the Committee's philosophy is that the median of compensation of similar positions within an identified peer group of energy companies provides a reasonable starting reference point, which it then adjusts based on the performance and experience of the individual, the ability of the individual to contribute to the long-term success of the Company, and other factors, such as relative pay positioning among executives. The Committee believes that total direct compensation (salary, plus short-term incentive target, plus long-term incentive compensation target) is a better measure for evaluating executive compensation than focusing on each of the elements individually. The Committee does not set a formula to determine the various elements.

As designed, the Committee recognizes that actual delivered short-term and long-term incentive compensation is reflective of individual and corporate performance, so that the total direct compensation may differ from the targeted compensation for each individual in regard to each element of incentive compensation.

The Committee reviews the philosophy and objectives of the Program at least annually. The Committee's experience is that the evaluations described above must be considered and revised each year in setting compensation for executives. In assessing its continued appropriateness, the Committee examines our success and the contributions of the individual executives in achieving our business plans and annual goals. The Committee considers the motivational impact of the Program in attaining desired business results and our continued ability to attract and retain high-quality executives. Key factors in judging whether the Program has met its goals are the Program's relationship to our financial results, our future outlook and our ability to attract and retain key executive talent.

The Committee has the responsibility to review, approve and modify, as necessary, the Program and each of its constituent elements.

### Compensation Consultant

The Committee has engaged Frederic W. Cook & Co., Inc. (Cook) to perform reviews of our approach to and delivery of executive compensation. The scope of Cook's engagement includes annual reviews of the CEO's and other executive officers' specific compensation levels, including analysis of peer group data and the mix of base salary, equity, incentive and other payments. The results of Cook's review were used in setting executive officers' compensation for 2007. In setting executive base pay levels for 2008 and cash payments determined for 2007 performance under the Management Incentive Compensation Plan (MICP), Cook provided data as to executive compensation trends within the peer group and within general industry. Cook also provided specific compensation data from the peer group's 2007 proxy statements and reviewed more current peer group data provided by management's external consultant, Towers Perrin, to assist the Committee in establishing the CEO's compensation and to assist the Committee in reviewing the CEO's recommendations for the compensation of other executive officers.

**Recent Committee Activities**

In setting 2008 compensation for each executive officer, the Committee examined the following elements of compensation:

Base salary;

Total cash compensation, consisting of base salary plus annual incentive target levels and the performance criteria under the MICP to earn those payments; and

Total direct compensation, consisting of total cash compensation plus long-term incentive compensation grant levels and the performance criteria under the Long-Term Incentive Plan (LTIP) to earn those grants.

During several meetings in 2006 and 2007, the Committee considered recommendations from Cook and management with regard to compensation design and effectiveness. As a result, the Committee determined, in January 2007, to adopt a new peer group of companies as a beginning reference point for officer compensation. At the Committee's December 2007 meeting, the peer group was further modified. These changes are described below under Peer Group.

In addition, after reviewing competitive practices within the peer group and within a larger sample of the energy services industry, the Committee approved the following actions during 2007:

Long-term equity awards, including those granted in December 2007, now reflect provisions for prorated vesting upon retirement and for the forfeiture of unvested and unpaid grants and the return of any long-term award received within one year of termination of employment for breaches of non-compete, non-solicitation and confidentiality

agreements;

Provisions were added to the MICP and LTIP for the repayment by the CEO, CFO and other participants of annual and long-term awards and any profits from the sale of PSEG securities in the year following a restatement of financial statements due to misconduct;

A policy for the leasing and use of charter aircraft was adopted; and

A Stock Ownership and Retention Policy for officers was adopted.

In addition, in connection with its responsibilities to review, discuss and make a recommendation to the Board in regard to the Compensation Discussion and Analysis included in the annual proxy statement, the Committee reviewed the Company's process for the reporting of executive compensation and preparation of the proxy statement. The Committee made several recommendations to management and reviewed and discussed management's responses to SEC comments received on the executive compensation disclosure in our 2007 Proxy Statement.

### **Compensation Policies**

The Committee has established compensation policies to implement the compensation philosophy stated above. To meet our compensation objectives and to focus executive efforts on improving corporate performance, the Committee has developed and currently administers pay delivery systems that fall into three broad categories:

Base salary;

Annual cash incentive

compensation,  
including annual  
performance-based  
incentives; and

Long-term  
incentive  
compensation,  
including awards  
such as restricted  
stock, restricted  
stock units, stock  
options and  
performance units.

Each of these components of compensation, including our related policies regarding determination and evaluation, is discussed further below. Our policy is to provide a mix of these components in the proportion best designed, as determined by the Committee, to achieve our compensation objectives. The Committee annually reviews with Cook the relationships among these components relative to the peer group, including cash, equity, performance-based pay, incentives, amount at risk and vesting schedules. The Committee does not have specific proportional factors it takes into account when establishing these components. The Committee's decisions in determining compensation for 2008 were made independent of prior equity awards, outstanding performance units, pensions or future compensation opportunities.

In addition to the above components of compensation, our practice has been to provide the following benefits (described more fully below) to non-represented employees generally, including the named executive officers (NEOs):

Post-employment  
benefits, including  
defined benefit  
pension plans,  
severance and  
change-in-control  
benefits;

Health care  
programs;

Employee Stock  
Purchase Plan  
(5% discount);  
and

A defined  
contribution plan  
(the Thrift Plan).

Depending on the individual, NEOs and other key employees are provided with certain additional benefits, such as deferred compensation opportunities, enhanced post-employment benefits and a limited number of perquisites, in amounts deemed appropriate by the Committee and management based on the individual's position and ability to contribute to the achievement of our business goals.

We do not provide a tax gross-up of benefit amounts deemed to be taxable income under federal or state income tax laws and regulations, except for gross-ups:

contained in certain employment agreements with senior managers, described below;

of certain benefits resulting from a termination of employment following a change-in-control for certain executive officers covered under our Key Executive Severance Plan;

of relocation expenses under a program generally available to all employees; and

upon individual determinations made by management on a case-by-case basis, primarily in the case of newly-hired executives.

#### **Role of Chief Executive Officer**

The CEO attends Committee meetings, other than executive sessions. Other executive officers and compensation professionals may attend portions of Committee meetings, as requested by the Committee. The CEO recommends changes to the salaries of his direct reports (who include the NEOs) within an overall base salary budget approved by the Committee and the Committee considers these recommendations in the context of the peer group. The CEO recommends incentive compensation targets (expressed as a percentage of base salary for the MICP) and LTIP grants as well as the associated goals, objectives and performance evaluations. Management's data provided to the Committee



generally includes a recommendation with respect to CEO compensation which, historically, has reflected the average base compensation adjustment and average MICP performance factor of other officers.

The design and effectiveness of compensation policies and programs are reviewed by the CEO periodically in light of general industry trends and the peer group and recommendations for changes are made to the Committee as deemed advisable by the CEO. The CEO reviews such compensation matters with our internal compensation professionals and other consultants. The Committee believes that the role played by the CEO in this process is reasonable and appropriate because the CEO is uniquely suited to evaluate the performance of his direct reports.

### **Peer Group**

The Committee sets executive compensation so as to be competitive with other large energy companies within an identified peer group. The Committee looks at base salary, total cash compensation (base salary plus target annual incentive) and total direct compensation (base salary plus target annual incentive plus target long-term incentive) as the elements of compensation within the peer group for purposes of benchmarking. General industry data may sometimes be taken into consideration for certain positions where valid data for comparable positions may not be available within the peer group.

#### *2007 Peer Group*

In determining NEO compensation for 2007, the following group of energy companies with reported net income averaging approximately \$1 billion a year and market capitalization averaging about \$16 billion was identified as the 2007 peer group. Our net income and market capitalization were approximately at the median of this group.

American Electric Power Company, Inc.  
Consolidated Edison, Inc.  
Dominion Resources, Inc.  
Duke Energy Corporation  
Edison International  
Entergy Corporation  
Exelon Corporation  
FirstEnergy Corp.  
FPL Group, Inc.  
PG&E Corporation  
Progress Energy, Inc.  
Sempra Energy  
The AES Corporation  
The Southern Company  
The Williams Companies, Inc.  
TXU Corp.  
Xcel Energy Inc.

*2008 Peer Group*

In December 2007, management recommended and, after conferring with Cook, the Committee agreed to change the peer group of companies for 2008 executive compensation benchmarking. The Committee agreed to add Constellation Energy and PPL Corp. to the peer panel, since their size and operations are comparable to ours, and to remove AES Corp., TXU and Williams Companies (since AES has principally international operations, TXU is no longer a public company and Williams is principally a gas company). Beginning in 2008, this new peer group is being used as a reference point for competitive executive compensation and also as a major comparison factor in assessing our performance under our annual and long-term incentive plans. The revised peer group had reported net income averaging approximately \$1.1 billion a year and market capitalization averaging \$19.5 billion. Based on our net income, market capitalization and business focus, the Committee agrees that this group is more closely aligned with us. The new peer group is:

American Electric Power Company, Inc.  
Consolidated Edison, Inc.  
Constellation Energy Group, Inc.  
Dominion Resources, Inc.  
Duke Energy Corporation  
Edison International  
Entergy Corporation  
Exelon Corporation  
FirstEnergy Corp.  
FPL Group, Inc.  
PG&E Corporation  
PPL Corporation  
Progress Energy, Inc.  
Sempra Energy  
The Southern Company  
Xcel Energy Inc.

As an initial positioning, the Committee targets the median (50th percentile) for comparable positions to those of our officers within this peer group for total cash compensation, which is the total of base salary and annual cash incentive compensation. The mix of base salary and annual cash incentive for each of the executive positions is surveyed from this peer group. The reported pay structure from the competitive analysis is used as a general guideline in determining the appropriate mix of compensation among base salary, annual incentive opportunity and long-term compensation opportunity. There is no predetermined formula regarding the allocation of salary and incentives. The mix of incentives is selected to be reflective of the competitive practice found in this peer group for each of the pay components listed above and what the Committee determines to be the right mix of compensation within our officer group. As mentioned above, the Committee believes that total direct compensation is a better approach for evaluating executive compensation than focusing on each of the elements individually.

**Compensation Components**

***Base Salary***

The Committee considers the median of the base salaries provided to executives in the peer group who have duties and responsibilities similar to those of our executive officers as the reference point for competitive base salaries. The Committee also considers the executive's current salary and makes adjustments based principally on individual performance and experience. The NEOs' base salary levels are reviewed annually by the Committee using a budget it establishes for merit increases and salary survey data provided by Towers Perrin. Benchmark competitive base salary levels are determined and established for all the NEOs as well as for other officers. Annually, the individual

performance of the executives with respect to individual and corporate performance criteria is determined and taken into account when setting salaries.

The Committee considers base salaries and base salary adjustments for individual NEOs, other than the CEO, based on the recommendations of the CEO, considering the individual's level of responsibilities, experience in position, sustained performance over time, results during the immediately preceding year and the executive's pay in relation to the benchmark median. Performance metrics included achievement of business plans, financial targets, safety and operational results, customer satisfaction, regulatory outcomes and other factors. In addition, factors such as leadership ability, managerial skills and other personal aptitudes and attributes are considered. Base salaries for

satisfactory performance are targeted at the median (50th percentile) of the competitive benchmark data.

For 2007, the merit increase budget was set at 3.75% and base salaries for the NEOs as a group were increased by 3.6%. In 2007, until his retirement on March 31st, Mr. Ferland was paid a salary at an annualized rate of \$1,160,000. On Mr. Izzo's election as President and COO in October 2006, Mr. Izzo's annual base salary rate was set at \$700,000. Effective January 1, 2007, Mr. Izzo's annual rate of base salary as COO was increased to \$725,000. On his election as Chairman of the Board and CEO, effective April 1, 2007, Mr. Izzo's base annual salary rate was set at \$900,000.

For 2008, the merit increase budget was set at 3.75%. For 2008, NEO base salaries, as a group, increased 4.8% from 2007 levels to reflect general market adjustments for comparable positions. The 4.8% average included a special market-based pay adjustment that the Committee determined was needed to reduce the gap between current salary and the competitive pay level reported by the 2007 peer group and the 2008 peer group companies for Mr. LaRossa's position.

Effective January 1, 2008, the annual rate of base salary for Mr. Izzo was increased by 5.6% to \$950,000, which is below the median of base salary provided to CEOs of the peer group companies. In determining base salary for the CEO, the Committee considered his tenure in position, his individual performance during 2007 in relation to achievement of business plans, financial results, safety, human resources management, nuclear operations and civic leadership. The prime reason that Mr. Izzo's new salary is below the median of the peer group is his relatively recent promotion to the CEO position. The Committee determined the 2008 annual rates of base pay for the other NEOs as \$426,000 for Mr. LaRossa, \$546,000 for Mr. Levis, \$618,000 for Mr. O'Flynn, and \$520,000 for Mr. Selover.

Mr. Izzo's salary of \$950,000 exceeds that of other NEOs due to the greater level of duties and responsibilities undertaken by the CEO as the principal executive officer to whom NEOs report, and to whom the board of directors will look for the execution of corporate business plans.

### ***Annual Cash Incentive Compensation***

The MICP, which was approved by stockholders in 2004, is an annual cash incentive compensation program for officers. To support the performance-based objectives of our compensation program, corporate and business unit goals and measures are established each year based on factors deemed necessary to achieve our financial and non-financial business objectives. The goals and measures are established by the CEO for the NEOs reporting to him, and for all other officers by the individual to whom he or she reports. The goals and measures applicable to each NEO for 2007 are further discussed below.

The MICP sets a maximum award fund in any year of 2.5% of our net income. The formula for calculating the maximum award fund for any plan year was determined at the time of plan adoption by reference to, among other things, similar award funds in use by other companies and review of executive compensation plan practices that were designed to address compliance with the requirements of Internal Revenue Code (IRC) Section 162(m), which, as explained below, limits the Federal income tax deduction for compensation in excess of certain limits. The Committee annually reviews the adequacy of the award fund calculation relative to the Committee's determination of the appropriate level of annual cash incentive compensation for plan participants. If appropriate, the Committee will recommend for stockholder approval any changes to the MICP it deems required to align the plan's terms with the our compensation objectives.

The CEO's maximum award cannot exceed 10% of the award fund. The maximum award for each other participant cannot exceed 90% of the award fund divided by the number of participants, other than the CEO, for that year. For 2007 performance under the MICP, these limits were \$33,375,425 for the total award pool (of which \$10,638,200 was awarded), \$3,337,543 for the CEO's maximum award and \$566,753 for each other participant's maximum award.

Subject to the overall maximums stated above, NEOs are eligible for annual incentive compensation based on a combination of the achievement of individual performance goals by each officer which determines his/her Individual Performance Factor, as adjusted by overall corporate performance, as measured by the Corporate Factor. The Corporate Factor is a financial measure,

Return on Equity (ROE), which is a relative performance assessment comparing our ROE against the median ROE of other companies. For 2007, ROE was measured against the performance of energy companies that comprise the Dow Jones Utility Index (DJUI). For 2008, the comparison will be to the 2008 peer group. This Corporate Factor is a significant determinant of MICP awards. A maximum award is based on a comparative performance factor of 1.5 and is achieved if our annual ROE, as measured on September 30, exceeds by at least five hundred basis points the median ROE performance of the group of energy companies that make up the DJUI. The minimum award threshold, based on a comparative performance factor of 0.5, is reached if our ROE is not more than five hundred basis points below the DJUI median. If the ROE is less than five hundred basis points below the DJUI median, the comparative performance factor is 0.

Actual incentive awards for participants in the MICP are computed as follows: (A) the participant's Target Award Amount (% of base salary) is multiplied by (B) the participant's Individual Performance Factor (0.0 to 1.5), which, in turn, is multiplied by (C) the Corporate Factor to arrive at the Final Award. In no case, however, may a Final Award exceed the lesser of (i) 1.5 times the participant's Target Award Amount or (ii) the maximum amount allowed for that participant under the total award pool for that year.

Performance goals and levels of achievement for the NEOs for 2007 are set forth below. Each NEO position has a targeted incentive award established by the Committee at the beginning of each year ranging from 60% to 100% of base salary target. Annual incentive awards are intended to provide a competitive level of compensation if we meet our financial goals and the NEO achieves his or her business unit and individual goals. Since MICP targets are set as a percentage of base salary, increases in salary affect target bonuses. Incentive award targets are established for each NEO's position and reflect the median reported incentive target for similar positions within the peer group.

For the 2007 performance year, based on PSEG's ROE of 19.0%, as compared with the median ROE of the companies comprising the DJUI of 14.5%, the Corporate Factor applied to MICP participants was 1.45. For reference, the following table shows the three-year comparison of the PSEG ROE with that of the DJUI median return on equity performance as follows:

**MICP Corporate Factor  
Return On Equity (%)**

<b>Year</b>	<b>PSEG</b>	<b>DJUI Median</b>	<b>Corporate Factor</b>
2007	19.0	14.5	1.45
2006	15.3	13.4	1.19
2005	13.2	13.2	1.00

For 2007, Mr. Izzo's Individual Performance Factor was 1.162, the average of the Individual Performance Factors of all MICP participants. This individual factor was multiplied by the Corporate Factor of 1.45, producing a result in excess of 1.5. The Committee therefore reduced the award to 1.5, as required by the Committee's administrative regulations under the MICP. The MICP awards of the NEOs for 2007 are shown in the Summary Compensation Table. The Committee made its determinations regarding MICP awards for the 2007 performance year in February 2008, for payment in early March 2008. There were no instances in which the Committee awarded compensation absent achievement of relevant performance goals, or in which it waived or modified goals.

The following table sets forth the goals, measure and performance factors achieved for 2007 for each NEO other than Mr. Ferland. Mr. Ferland's incentive compensation is separately discussed below, in light of his retirement in March 2007. Under the provisions of the MICP, the Individual Performance Factor achieved by each NEO was multiplied by the Corporate Factor, with the resulting amount subject to a maximum of 1.5 times his/her Target Award amount. The awards of each of the NEOs were limited by this maximum of 1.5, except for Mr. Levis, whose Total Factor was

1.428, The maximum factor was reached because of the relative importance of the Corporate Factor in determining a participant's Final Award. For 2007, the Corporate Factor was 1.45 out of a maximum of 1.5, which reflects the Company's strong operating performance and financial results for the year. As indicated above, the MICP is designed to reflect this strong 2007 performance in the awards granted to participants.

## 2007 MICP Goals and Performance

Name	Individual Performance Target Award <sup>1</sup>		Goals							
	% of Base Salary	Target \$	Financial		Operational		Strategic			
			Weight	Achievement Factor	Weight	Achievement Factor	Weight	Achievement Factor	Factor	
Izzo <sup>3</sup>	95 % <sup>8</sup>	855,000	Not Applicable		Not Applicable			Not Applicable		
O Flynn <sup>4</sup>	60 %	360,000	30 %	1.486	30 %	1.148	40 %	1.050		
Levis <sup>5</sup>	60 %	318,000	20 %	1.500	50 %	0.785	30 %	0.975		
Selover <sup>6</sup>	60 %	303,000	20 %	1.304	40 %	1.195	40 %	0.850		
LaRossa <sup>7</sup>	60 %	228,000	40 %	1.469	30 %	0.872	30 %	0.792		

<sup>1</sup> Percent of annual base salary.

<sup>2</sup> Individual Performance Factors achieved may range from a minimum of 0.0 to a maximum of 1.50, with targeted performance at 1.0. Each NEO's Individual Performance Factor as shown above was multiplied by the Corporate Factor to determine the awards as shown in the table. Awards are capped at 1.5



times the target award amount.

3 Mr. Izzo's results reflect an average of all participant goal factors.

4 Mr. O'Flynn's primary goals were:

Financial goal addresses earnings and cash flow targets for Energy Holdings (weighted @ 30%). The result was 1.486.

Operational goals cover improving credit profile, optimization of capital structure for PSEG Global and Energy Holdings, investor relations effectiveness, fossil operations benchmarking, accuracy of financial reports and the assessment of PSEG's capital project results (weighted @ 30%). The

result was  
1.148.

Strategic goals  
include  
corporate  
merger and  
acquisition and  
overall  
business  
strategy  
(weighted  
@ 10%),  
growth  
opportunity  
assessments  
(weighted  
@ 10%),  
Energy Master  
Plan execution  
(weighted @  
10%) and  
Energy  
Holdings  
strategic  
alternatives  
(weighted  
@ 10%). The  
results were  
1.000, 1.500,  
0.500 and  
1.200,  
respectively.

5 Mr.  
Levis  
primary  
goals  
were:

Financial goal  
includes a net  
income target  
against  
business plan  
(weighted  
@ 20%). The  
result on the  
measure was  
1.500.

Operational goals include employee safety measures (weighted @ 15%), nuclear operations reliability measures (weighted @ 20%), and fossil operations performance measures (weighted @ 15%). Results were 0.650, 0.500 and 1.300 respectively.

Strategic goals cover two areas including meeting cost & scheduling milestones as they relate to fossil operations (weighted @ 15%) and achieving nuclear operational independence from the Exelon operating agreement and the rebuilding of the Energy Resources and Trade organization (weighted

@ 15%).  
Results were  
0.750 and  
1.200  
respectively.

6 Mr.  
Selover's  
primary  
goals  
were:

Financial goal  
addresses the  
financial  
planning and  
contribution of  
the Law function  
to Services  
(weighted  
@ 20%). The  
result on the  
measure was  
1.304.

Operation goals  
include an  
end-of-year  
client  
assessment of  
services  
rendered by the  
various units that  
make up the  
Law  
organization  
(weighted  
@ 40%). The  
result of the  
measure was  
1.195%.

Strategic goal  
include plans to  
preserve  
investment in  
energy efficient  
and  
environmentally  
sound products  
and services as

defined in  
PSEG's Energy  
Master Plan and  
to support  
PSEG's  
generation  
business with  
respect to the  
impact of  
programs that  
regulate  
greenhouse  
gases (weighted  
@ 40%). The  
result of the  
measure was  
0.850.

7 Mr.  
LaRossa's  
primary  
goals  
were:

Financial goals  
address total  
capital  
expenditures  
against business  
plan and  
productivity  
improvements  
from prior year  
expenditures  
(weighted  
@ 10%) and  
overall earnings  
against target  
projections  
(weighted  
@ 30%). The  
results were  
1.375 and 1.500,  
respectively.

Operational  
goals include  
employee safety  
measures  
(weighted  
@ 10%),  
customer service  
satisfaction  
measures  
(weighted  
@ 10%) and  
electric and gas  
reliability and  
safety measures  
(weighted  
@ 10%). Results  
for the safety,  
customer service  
and system  
reliability  
measures were  
0.656, 1.063 and  
0.896

respectively.

Strategic goals include the introduction of a management business model across PSE&G (weighted @ 5%), the implementation of a new customer service and billing system (weighted @ 10%) and a strategy to preserve investment in energy efficient and environmentally sound products and services -Energy Master Plan (weighted @ 15%). The result for the management model introduction was 1.250, for the customer system implementation was 1.000 and for the Energy Master Plan was 0.500.

- 8 Composite based on 80% for three months and 100% for nine months, reflecting Mr. Izzo's election as

CEO of  
PSEG on  
April 1,  
2007.

For the 2008 MICP plan year, the Committee has determined to modify the approach to the CEO's proposed plan award by establishing a set of individual goals for Mr. Izzo. The Committee believes that determining MICP compensation for the CEO on the basis of individual goal results, multiplied by the Corporate Factor, rather than on the basis of the average of the individual performance factors of all officers, will better align the CEO's individual compensation scheme to that applicable to all officers and will focus the CEO's efforts on agreed objectives that are important to the Company's success. The Committee has established an individual performance target award of 100% of base pay and has established the following 2008 individual goals for Mr. Izzo, which the Committee intends to weight approximately equally:

Financial  
performance,  
including  
earnings,  
quality of  
earnings,  
credit ratings,  
access to  
capital,  
adequacy of  
internal  
controls and  
compliance  
and  
continuous  
improvement  
in operational  
performance  
to produce  
strong  
financial  
results;

Strategic  
development,  
including  
deployment of  
capital through  
disciplined  
investment  
decisions,  
optimizing  
total  
shareholder  
return and  
quality of  
consultations



with the  
Board;

Leadership  
and  
management  
development,  
including  
succession  
planning, the  
recruitment,  
development  
and retention  
of a diverse,  
talented  
workforce and  
support in the  
recruitment of  
Board  
members; and

Thought  
leadership,  
including the  
prominence of  
PSEG in the  
public  
discourse on  
issues of vital  
importance to  
stockholders,  
employees,  
customers and  
policymakers.

The Committee believes that the 2008 goals established for the other NEOs are consistent in nature with their 2007 goals and accordingly are not necessary to an understanding of the NEOs' 2007 goals and performance. These 2008 goals will be described in the 2009 proxy statement. The NEOs' 2006 goals and performance were significantly related to the proposed merger with Exelon Corporation, which was cancelled in September 2006. The Committee believes that such goals and performance likewise are not relevant to an understanding of the NEOs' 2007 goals and performance.

### ***Long-Term Incentive Compensation***

The LTIP was approved by stockholders at the 2004 Annual Meeting. To permit flexibility, the LTIP provides for different forms of equity awards including:

stock options  
(the right to  
purchase  
shares of

Common  
Stock at a  
stated price);

restricted  
stock (shares  
of Common  
Stock subject  
to forfeiture  
if certain  
service  
requirements  
or other  
restrictions  
are not met);  
during the  
restriction  
period,  
recipients of  
shares of  
restricted  
stock may  
exercise full  
voting rights  
with respect  
to those  
shares and  
are entitled to  
receive all  
dividends on  
the shares;

restricted  
stock units  
(the right to  
receive  
shares of  
Common  
Stock in the  
future which  
is subject to  
transfer  
restrictions  
and a risk of  
forfeiture or  
other  
restrictions  
that will  
lapse upon  
the  
completion  
of service by  
the recipient,  
or  
achievement  
of other  
objectives);  
and

performance  
units (the  
right to  
receive a  
stated  
number of  
shares of  
Common  
Stock upon  
the  
attainment of  
certain  
performance  
goals).

NEOs, other officers as determined by the Committee, and other key employees, as selected by the CEO within guidelines established by the Committee, are eligible to participate in the LTIP. This plan is designed to attract and retain qualified personnel for positions of substantial responsibility, to motivate participants toward goal achievement by means of appropriate incentives, to achieve long- range corporate goals, to provide incentive compensation opportunities that are competitive with those of other similar companies and to align participants' interests with those of our stockholders.

The exercise price of any stock option granted under the LTIP may not be below the closing price of our Common Stock on the date of grant, no repricing may be done without stockholder approval and no discounted options may be

granted. Performance goals are used for any performance-based awards.

For grants made in January 2007, the Committee determined that senior officers, including the NEOs, would be granted a long-term award consisting of 50% performance shares and 50% non-qualified stock options. For other participants, January 2007 awards consisted of 50% performance shares and 50% restricted stock. The Committee structured the grants in this manner to increase the performance-related nature of the grants to senior officers. The same weighting and form of long-term award grants to NEOs was used for 2008 compensation awards made in December 2007.

Grant levels are determined by the Committee based upon several factors, including the value of long-term incentive awards made by firms in the peer group to executives in similar positions and whose cash compensation is similar to each NEO as well as the individual's ability to contribute to our overall success. The level of grants is reviewed annually by the Committee. In general, when making LTIP grants, the Committee's determinations are made independently from any consideration of the individual's prior LTIP awards.

The CEO determines his recommendations for the size of LTIP grants for NEOs and each other participant in part by analyzing long-term incentive award values granted to executives for comparable positions as reported in the peer group. Median long-term incentive values for comparable levels of base salary for executive positions within the peer group are used as a further reference for determining the recommended grant size for NEOs and other officers. In making his recommendation for the size of a particular LTIP grant for each NEO, the CEO adjusts this average to reflect the individual's performance and ability to contribute to the long-term value of the Company.

In January 2007, the Committee granted stock options and performance shares to Mr. Izzo, Mr. Ferland and the other NEOs, as a component of 2007 compensation. Additional grants of performance units and stock options were made in March and June 2007 to Mr. Izzo and Levis, respectively, upon their election to their current positions. In December 2007, grants of stock options and performance units were made to Mr. Izzo and the other NEOs as a component of 2008 compensation.

Stock Options have a term of ten years and exercise prices based on the closing price on the date of grant. The performance units are subject to the achievement of certain performance goals related to PSEG's performance with respect to Total Shareholder Return (TSR) and ROE relative to the companies in the DJUI for a performance period ending on December 31, 2009 for the performance units granted in January, March and June and in the 2008 peer group for a performance period ending on December 31, 2010 for the performance units granted in December.

#### ***Target Total Direct Compensation***

The Committee reviews base salary, target total cash compensation (base salary plus target annual cash incentive) and target total direct compensation (base salary plus target annual cash incentive plus long-term incentive) of each of the NEOs in comparison to the identified peer group. The data used for the 2007 and 2008 comparisons below are from the most recent data available for the companies in the 2007 peer group as of the time each comparison was made, provided to the Committee by management and Towers Perrin. The Committee considers a range of 90% to 110% of the 50th percentile of comparable positions to be within the competitive median.

2007

For 2007, base salary, target total cash compensation and target total direct compensation of the NEOs as a percentage of the comparative benchmark levels of the 2007 peer group are as follows:

<b>Name</b>	<b>Izzo</b> %	<b>O Flynn</b> %	<b>Levis</b> %	<b>Selover</b> %	<b>LaRossa</b> %
Base Salary	83	97	91	102	86
Total Cash Compensation	83	93	86	102	84
Total Direct Compensation	84	96	88	95	93

The comparisons for Mr. Izzo reflect his compensation as of April 2007, when he became CEO. The comparisons for Mr. Levis reflect his compensation as of June 2007, when he became President of Power.

2008

For 2008, base salary, target total cash compensation and target total direct compensation of the NEOs as a percentage of the comparative benchmark levels of the 2007 peer group are as follows:

<b>Name</b>	<b>Izzo</b> %	<b>O Flynn</b> %	<b>Levis</b> %	<b>Selover</b> %	<b>LaRossa</b> %
Base Salary	77	106	103	111	87
Total Cash Compensation	77	105	100	111	87
Total Direct Compensation	81	94	100	97	91

For 2007 and 2008, Mr. Izzo's total direct compensation is below the median range primarily as a result of his recent promotion to the CEO position. The Committee set Mr. Izzo's 2008 LTIP award at 82% of the corresponding 2008 peer group level, which was designed to move him closer to the target total direct compensation range. The Committee expects his relative position, compared to the 2008 peer group, to change as he gains experience as CEO. Mr. Levis' total direct compensation for 2007 is below the range because of his recent promotion to the position of President of Power.

### ***Compensation of E. James Ferland***

Mr. Ferland retired as CEO effective March 31, 2007. In January 2007, the Committee increased Mr. Ferland's base salary by 3.6%. His target MICP, set at 100% of base salary, was \$1,160,000. The Committee awarded Mr. Ferland an LTIP award of 88,000 stock options which vested upon his retirement, and 15,600 performance shares which are payable within 75 days of January 1, 2008. These LTIP awards were made in recognition of Mr. Ferland's substantial contributions to the Company over his long tenure as CEO, and were consistent with the provisions of his employment agreement.

For 2007, Mr. Ferland's base salary, target total cash compensation and target total direct compensation were 107%, 107% and 103%, respectively, compared to the 2007 peer group.

### **Other Executive Compensation Programs**

#### ***Retirement***

We provide certain retirement benefits to maintain practices that are competitive with companies in the energy services industry with which we compete for executive talent. In addition to the qualified pension plan, we maintain supplemental plans to provide competitive retirement benefits. These benefits are described below under Pension Benefits and were reviewed in November 2007 by the Committee, with the assistance of Cook.

***Severance and Change-in-Control Benefits***

We provide for severance benefits in the event of certain employment terminations. These benefits are available to officers, including the NEOs, in order to be competitive with the companies in the energy industry with which we compete for executive talent. The Committee, with the assistance of Cook, compares the benefits made available to NEOs and officers in the event of a termination to that generally offered by other companies in our industry. The multiples of components of compensation chosen as severance payments are based upon the comparative analysis.

We also provide severance benefits upon a change-in-control to officers, including the NEOs, and to certain key executive level employees. A change-in-control is by its nature disruptive to an organization and to many executives. Such executives are frequently key players in the success of organizational change. To assure the continuing performance of such executives in the face of a possible termination of employment in the event of a change-in-control, we deem it prudent to provide a competitive severance package. In addition, some executives, not a key party to such transaction, may have their employment terminated following its completion. A severance plan with benefits applicable upon a change-in-control is an important element for attracting and retaining key executives.

Severance and change-in-control benefits are described below under Potential Payments Upon Termination of Employment or Change-in-Control. As noted there, the employment agreements of Messrs. Izzo and O Flynn also provide for certain severance benefits. The Committee, with the assistance of Cook, reviewed severance benefits in November 2007, comparing them with the benefits offered by the 2007 peer group. This review found that, while the severance benefits following a change-in-control are appropriately competitive, the benefits provided following involuntary severance for other reasons may not be competitive.

### ***Perquisites***

We provide certain perquisites that we believe are reasonably within compensation practices and are competitive with companies in the energy industry with which we compete for executive talent. These include automobile use, financial planning services, annual physical examinations, spousal travel to accompany executive officers on business trips (which requires the approval of the CEO), Company-purchased tickets to entertainment and sporting events, home security, home computer services and chartered air travel. These perquisites are described in the Summary Compensation Table.

### **Stock Ownership and Retention Policy**

To strengthen the alignment of the interests of management with the interests of stockholders, we have established a Stock Ownership and Retention Policy (Policy), effective November 20, 2007.

Each officer is to maintain ownership of PSEG Common Stock having a market value in the following multiples of such officer's annual base salary, as in effect from time to time:

<b>Position</b>	<b>Multiple</b>
Chief Executive Officer	5
President/Chief Operating Officer	3
Executive Vice President	3
Senior Vice President	2
Vice President	1

Determination of whether an officer has met the requirement is made by multiplying the number of shares owned by the officer by the average share price for the 12 months preceding the officer's election, promotion or change in base salary.

In fulfilling the ownership requirement, all shares owned by the officer are counted, including (i) shares held in trusts for the benefit of immediate family members where the officer is the trustee, (ii) shares granted to the officer in the form of restricted stock and restricted stock units, whether or not vested, and (iii) shares held by the officer in the Thrift Plan. Stock options and performance units (as distinct from shares which are actually issued as a result of exercise or vesting) are not counted. Shares subject to hedging or monetization transactions (such as zero-cost collars and forward sale contracts) that have the effect of allowing the officer to retain legal ownership without the full risks

and rewards of that ownership, are not counted for purposes of either the ownership or retention provisions of the Policy.

Each officer serving as of the date the Policy was adopted must acquire the applicable amount of shares required by the Policy by the fifth anniversary of the date of adoption. Each newly elected or promoted officer must acquire the applicable amount of shares by the fifth anniversary of the date of election or promotion.

Each officer must retain not less than 100%, after tax and costs of issuance, of all shares acquired by the officer through equity grants including the vesting of restricted stock or restricted stock unit



grants, the payout of performance awards and the exercise of option grants, until the officer's ownership requirement is met. Once the required ownership level is met, a covered officer must retain 25%, after tax and costs of issuance, of shares so acquired until the officer retires or his or her employment otherwise ends. The retention requirement does not apply to grants made before the policy was adopted.

The Committee has the authority to vary the application of the provisions of the policy for good cause or exceptional circumstances. In the event an officer is not in compliance with any provision of this policy, the Committee may take such action as it deems appropriate, consistent with the provisions of our compensation plans and applicable law and regulations, to enable the officer to achieve compliance at the earliest practicable time or otherwise enforce this policy. Such action may include establishing conditions with respect to all or part of any MICP or LTIP award.

In making 2008 grants under the LTIP, the Policy was not a factor considered by the Committee.

The following table shows, for each NEO, the dollar amount of stock ownership required by the Policy and the dollar amount of actual holdings as of February 15, 2008 (see Security Ownership of Directors, Management and Certain Beneficial Owners). For each of the NEOs, compliance must be achieved by November 20, 2012.

Name	Required Amount <sup>1</sup>	Amount Held <sup>2</sup>
Izzo	\$ 4,750,000	\$ 6,074,453
O Flynn	\$ 1,854,000	\$ 5,562,923
Levis	\$ 1,638,000	\$ 4,265,100
Selover	\$ 1,560,000	\$ 1,980,212
LaRossa	\$ 1,278,000	\$ 333,814

<sup>1</sup> Determined on basis of base salary on January 1, 2008, the effective date of the current salary of each of the NEOs.

<sup>2</sup> Based on average price of Common Stock for the twelve months preceding

January 1,  
2008.

### **Accounting and Tax Implications**

The Committee has considered the effect of the adoption of Financial Accounting Standard (FAS) 123R (see Note 17 to Consolidated Financial Statements included in our Annual Report on Form 10- K) regarding the expensing of stock options in determining the nature of the grants under the LTIP. During 2007 the Committee, with the assistance of its independent compensation consultant, reviewed the competitiveness of the NEOs LTIP grants, as measured against the peer group, using reported FAS 123R grant values and approved grants to the NEOs accordingly as reported above in Long-Term Incentive Compensation.

The Committee considers the tax-deductibility of our compensation payments. IRC Section 162(m) generally denies a deduction for United States federal income tax purposes for compensation in excess of \$1 million for persons named in the proxy statement, except for compensation pursuant to stockholder-approved performance-based plans. Stockholder approval of the LTIP and MICP was received at the 2004 Annual Meeting of Stockholders. As a result, performance-based compensation under these plans is not now subject to the limitation on deductions contained in Section 162(m) of the IRC.

In 2007, Mr. Izzo and Mr. O Flynn had compensation (consisting of base salary and the taxable value of restricted stock that vested during the year) in excess of the amount deductible under Section 162(m) of the IRC. The Committee will continue to evaluate executive compensation in light of Section 162(m) of the IRC. During 2007, the Committee made all awards to the NEOs under the LTIP performance-based, except for restricted stock.

In light of Section 162(m), as well as certain NYSE rules, the Committee s general policy is to present all incentive compensation plans in which executive officers participate to stockholders for approval prior to implementation.

**SUMMARY COMPENSATION TABLE**

<b>Name and Principal Position<sup>1</sup></b>	<b>Year</b>	<b>Salary (\$)<sup>2</sup></b>	<b>Bonus (\$)<sup>3</sup></b>	<b>Stock Awards (\$)<sup>4</sup></b>	<b>Option Awards (\$)<sup>5</sup></b>	<b>Non-Equity Incentive Plan Compensation (\$)<sup>6</sup></b>	<b>Change in Pension Value and Non-Qualified Deferred Compensation Earnings (\$)<sup>7</sup></b>
Ralph Izzo	2007	845,388	100,000	1,364,142	671,758	1,282,500	663,930
Chairman of the Board, Chief Executive Officer, President and Chief Operating Officer	2006	559,920	0	778,585	272,836	437,600	620,394
E. James Ferland	2007	331,833	0	1,801,918	580,800	420,000	239,158
Chairman of the Board and Chief Executive Officer	2006	1,115,816	0	5,166,867	109,350	1,680,000	821,233
Thomas M. O Flynn	2007	596,034	50,000	681,041	153,826	540,000	170,363
Executive Vice President and Chief Financial Officer	2006	552,926	0	650,435	26,730	437,600	575,436
William Levis	2007	491,657	516,667	685,331	107,491	454,200	1,964,000
President and Chief Operating	2006	0	0	0	0	0	0

Officer (Power)							
R. Edwin Selover	2007	501,963	0	696,875	366,816	454,500	54,787
Executive Vice President and General Counsel	2006	473,225	0	425,019	17,819	356,300	494,725
Ralph LaRossa	2007	377,431	0	251,879	97,944	342,000	195,000
President and Chief Operating Officer (PSE&G)	2006	238,720	0	155,230	4,536	176,400	135,000

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<sup>1</sup> Mr. Izzo was elected to his current position effective April 1, 2007. He was President and COO of PSEG from October 1, 2006 until March 31, 2007 and President and COO of PSE&G through September 30, 2006.

Mr. Ferland retired on March 31, 2007.

Mr. Levis commenced employment on January 1, 2007.

Mr. LaRossa was elected to his current position

effective October  
1, 2006.

Previously he  
was Vice  
President Electric  
Delivery.

2 Mr. Ferland's  
2006 salary  
includes  
\$780,000  
deferred under  
the Deferred  
Compensation  
Plan.

Mr. Selover's  
2007 salary  
includes \$52,000  
and his 2006  
salary includes  
\$39,000 deferred  
under the  
Deferred  
Compensation  
Plan.

3 In 2007, Mr. Izzo  
and Mr. O'Flynn  
each received a  
special  
achievement  
award for smooth  
transition of the  
merger  
termination with  
Exelon and  
strong operating  
performance.

Mr. Levis  
received a hiring  
bonus of  
\$500,000 and  
compensation for  
lost bonus  
opportunity at his  
prior  
employment of  
\$16,667.

4

The amounts shown reflect the expense included on PSEG's financial statements for 2007 and 2006 related to restricted stock awards and performance units granted in current or prior years under the

LTIP and still outstanding as determined under FAS 123R. The fair value at the grant date of the number of shares of equity awards granted in 2007 is shown below in the Grants of Plan-Based Awards Table.

Generally, restricted stock awards vest one-fourth annually.

Awards made prior to 2007 vest one-third annually.

Recipients receive dividends at the regular dividend rate and are paid on each regular dividend date. Under their terms, all shares of restricted stock vest upon retirement.

The amount shown for Mr. Ferland reflects the vesting of all of his

restricted  
stock and  
performance  
units upon  
retirement.

Performance  
units are  
denominated  
in shares of  
Common  
Stock and are  
subject to  
achievement  
of certain  
performance  
goals over a  
three-year  
period and  
are payable  
as determined  
by the  
Company in  
shares of  
stock or cash.

For a  
discussion of  
the  
assumptions  
made in  
valuation see  
Note 17 to  
the  
Consolidated  
Financial  
Statements  
included in  
PSEG's 2007  
Annual  
Report on  
Form 10-K.

Under FAS  
123R, the  
respective  
amounts  
attributable to  
restricted  
stock and  
performance  
units are as



follows:

	<b>Izzo</b>	<b>Ferland</b>	<b>O Flynn</b>	<b>Levis</b>	<b>Selover</b>	<b>LaRossa</b>
Restricted Stock (2007)	\$ 612,747	\$ 1,031,278	\$ 484,598	\$ 548,750	\$ 325,517	\$ 128,093
Performance Units (2007)	\$ 751,395	\$ 770,640	\$ 196,443	\$ 136,581	\$ 371,358	\$ 123,786
Restricted Stock (2006)	\$ 691,123	\$ 4,813,839	\$ 562,973	\$ 0	\$ 372,541	\$ 140,918
Performance Units (2006)	\$ 87,462	\$ 353,028	\$ 87,462	\$ 0	\$ 52,478	\$ 14,312

<sup>5</sup> The amounts shown reflect the expense included on PSEG's financial statements for 2007 and 2006 related to options granted in current or prior years under the LTIP and still outstanding as determined under FAS 123R. The fair value at the grant date of the number of shares of equity awards granted in 2007 is shown below in the Grants of Plan-Based Awards Table. For a discussion of the assumptions made in valuation see

Note 17 to the Consolidated Financial Statements included in PSEG's 2007 Annual Report on Form 10-K.

- 6 Amounts awarded were earned under the MICP and determined and paid in the following year. Mr. Izzo and Mr. Ferland have elected to defer their entire 2007 awards under the Deferred Compensation Plan. The entire 2006 awards were deferred under the Deferred Compensation Plan by Messrs. Izzo, Ferland and O'Flynn.
- 7 Includes change in actuarial present value of accumulated benefit under defined benefit pension plans and supplemental executive retirement plans between December 31, 2006 and

December 31,  
2007 and  
between  
December 31,  
2005 and  
December 31,  
2006  
determined by  
calculating the  
benefit under  
the applicable  
plan benefit  
formula for  
each of the  
plans, based  
on credited  
service and  
earnings in  
effect at the  
respective  
measurement  
dates. These  
changes are:

	<b>Izzo</b>	<b>Ferland</b>	<b>O Flynn</b>	<b>Levis</b>	<b>Selover</b>	<b>LaRossa</b>
2007	\$ 626,000	\$ 0	\$ 157,000	\$ 1,964,000	\$ 15,000	\$ 195,000
2006	\$ 601,000	\$ 708,000	\$ 571,000	\$ 0	\$ 469,000	\$ 135,000

Includes interest earned under the Deferred Compensation Plan at Prime plus 1/2%, to the extent that it exceeds 120% of the applicable long-term rate. These amounts are: