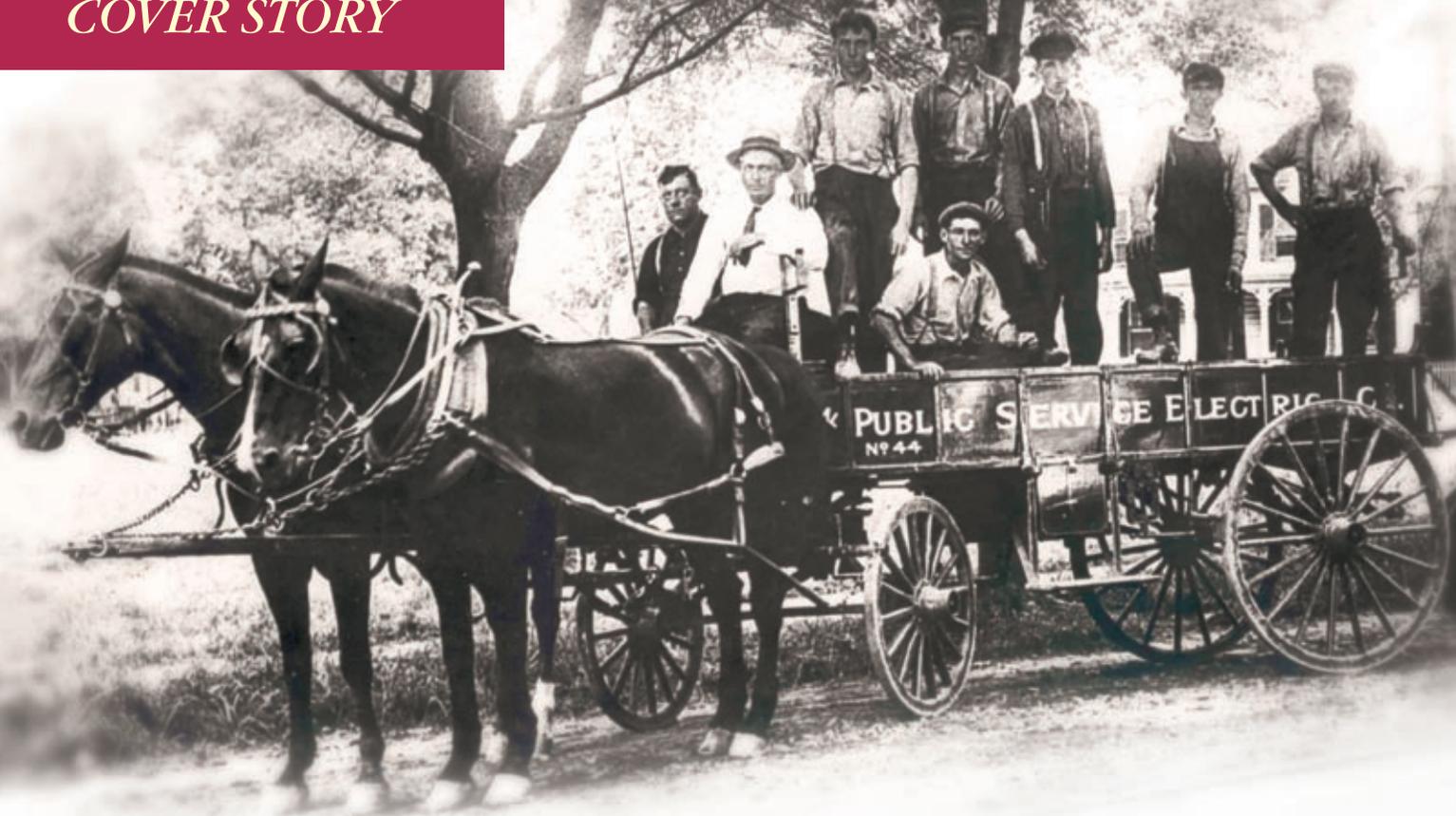


# PSEG: Building on Strong Traditions, Forging a Bright Future

"For more than 100 years, PSEG has been a strong, well-run company," says President and COO Ralph Izzo. "Operational excellence has long been the key to our company's success, and we're intent on sustaining this excellence as the surest foundation of an even brighter future."



PSEG has been a successful company for more than 100 years of rapid technological and economic change. The company and its employees continue to fuel New Jersey's prosperity and quality of life.

BY ZACHARY NARRETT, PHD

**M**ANY COMPANIES TALK ABOUT COMBINING the best of tradition and innovation. PSEG has been making a habit of it for more than a century. Today, the company continues building the foundation for a bright future.

Founded in 1903, PSEG is best known in New Jersey as the parent company of PSE&G, one of the nation's largest combined electric and gas utilities. PSE&G delivers the energy that keeps New Jersey's economy humming and ensures the quality of life for millions of people. Yet PSEG has also grown beyond the Garden State.

Its PSEG Power subsidiary is a major wholesale electricity supplier in the eastern United States and the company's main earnings engine. PSEG has a third subsidiary, PSEG Energy Holdings, which has power plants in Texas, California and Hawaii and energy distribution companies in several Latin American countries. PSEG has combined assets of about \$30 billion, making it a fixture in the *Fortune* 500.

"For more than 100 years, PSEG has been a strong, well-run company," says President and COO Ralph Izzo. "To remain a leader like this means you never rest on your laurels and never stop learning and growing.

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### A Strong Record of Reliability

PSEG has a strong record of reliability in keeping the lights on and gas flowing for customers. The company has delivered reliably for shareholders, too, with annual dividends for 100 consecutive years.

In the utility business, there is no substitute for safe, reliable operations—around the clock and year. PSE&G's record in this respect defines the industry standard. In both 2005 and 2006, PSE&G was named America's most reliable electric utility, winning the prestigious ReliabilityOne National Achievement award conferred by PA Consulting, a well-known industry benchmarking firm. PSE&G has also garnered ReliabilityOne regional titles in the Mid-Atlantic area five years in a row.

"Customers have come to expect a high standard of reliability from us in meeting their energy needs, and we work hard to justify their confidence," explains Ralph LaRossa, PSE&G president and COO.

*continued on page 42*

continued from page 41

What helps explain superior results like this? A century of solid engineering, ongoing investment and innovation have made a strong utility network even stronger. Each year PSE&G invests hundreds of millions of dollars in its gas and electric systems.

Reliability also depends on power plants being ready and able to produce electricity, and PSEG Power produces a great deal of it. Power's generating fleet of 14,000 megawatts has enough capacity to light millions of homes, thousands of businesses and facilities, and keep the Statue of Liberty shining at night.

"Nothing is more important than safety—not only for our company's reputation, but for life itself," explains Ralph Izzo. "This is especially true in an industry like ours, where employees work daily with energized wires and high-pressure gas and steam. It is only by staying safe that our employees can effectively serve others. Safety is job one."

The work of PSEG tends to be invisible to most people until a natural disaster or other emergency occurs. Then it becomes apparent how remarkable the company's employees are: they have a longstanding tradition of

rising to the occasion in the heat of summer and icy depths of winter to ensure safe, reliable service.

In addition to restoring customers in times of special need, they frequently lend a hand to help others in extraordinary circumstances such as the relief efforts following the terrorist attacks on Sept. 11, 2001. In the aftermath of Katrina, Rita and other storms that devastated America's Gulf region in 2005, PSE&G employee volunteer crews mounted the largest mutual aid effort in the company's history. In challenging conditions, they went house by house to restore power service for thousands of people—giving aid, comfort and hope to help rebuild lives and communities.

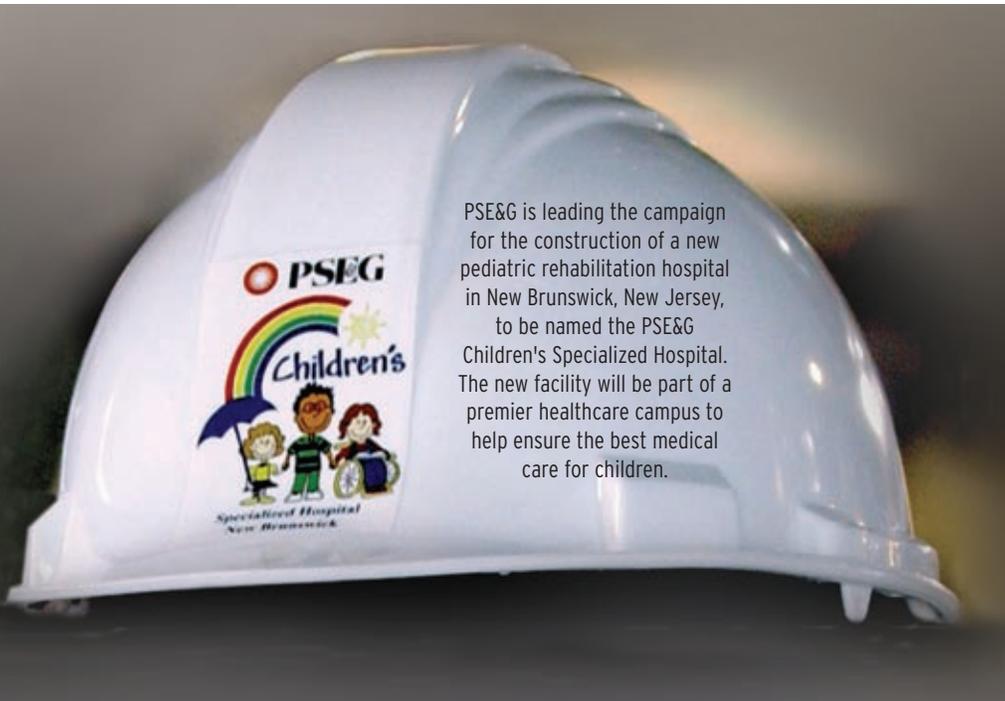
According to Margaret Pego, PSEG senior vice president-human

resources, the company's employees give PSEG its special character, and distinguish it from many others: "What truly sets us apart are our employees and the skills, training and pride they bring to their jobs. They are heroes in the many ways they demonstrate excellence on the job, care for our customers and make a difference in their communities."

Also central to PSEG's reputation is the principle of conducting business ethically, according to the highest standards of integrity. The company was one of the first public companies in the United States to have executives certify and confirm the accuracy of the company's financial statements. PSEG is determined to safeguard the good, simple values of fair and honest dealing that anchor its reputation.

### Leading Today & Tomorrow with New Ideas and Solutions

As to the future, Izzo sees a major opportunity for the company to reinforce its leadership position: "Our business intersects many key issues—most obviously energy and the environment—but also other major issues



The Hope Creek and Salem nuclear generating stations in southern New Jersey play an especially significant role in providing abundant, low-cost electricity for the state and surrounding areas. The PSEG nuclear stations have significantly improved operations—and set a number of company and industry records in the process, including a world record for a refueling involving a reactor head replacement.

### Safety First: And Being There for People in Times of Need

A strong, safety-first culture is the bedrock of operational excellence at PSEG. The company's employees—both union and management—have built a comprehensive framework to promote best-practice safety performance. They participate in a network of Safety Councils at the company's various locations to share information and develop new ideas and approaches to improve safety. These efforts have paid off: PSEG has made substantial progress during the last decade toward the ultimate goal of an accident-free workplace. The company had its safest year ever in 2006.

affecting the lives and livelihoods of countless people. We have a history as a company that contributes practical solutions, and I see us having a larger, more visible role of thought leadership in the future, as 'go-to' people who take on new and emerging issues and find solutions that increase shareholder value while providing benefits to society."

More specifically, PSEG is looking to build on its leadership as an environmentally responsible company; an innovative company in the area of workforce development; and as an early adopter of new technology. While the company has long been engaged in these areas, each is being given heightened emphasis to mirror its importance not only to the company's long-term future, but to the quality of life.

### Protecting the Environment

On the environment, for example, PSEG is exploring new ways to help people conserve energy. "We have already pledged our full support for the effort launched by Governor Corzine to develop a comprehensive Energy Master Plan for New Jersey," says Izzo. "We will be active in this and other initiatives to promote a sustainable energy future that works for customers, the environment and our company."

PSEG has already staked out a position of industry leadership on addressing global warming and other major environmental issues. The company's progressive approach to climate change began more than a decade ago when PSEG committed to stabilize its carbon dioxide emissions at 1990 levels by the year 2000. PSEG achieved this goal while generating almost two million more

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megawatt-hours of electricity in 2000 than in 1990. To continue this progress, the company is voluntarily targeting an 18 percent reduction in its carbon dioxide emissions rate by 2009.

Construction of the Bethlehem Energy Center (BEC) near Albany, New York, has resulted in major environmental benefits. The BEC produces energy far more efficiently than the older station it replaced, while dramatically cutting emissions and reducing by 98 percent the use of water from the Hudson River. It is one of many PSEG projects showing that economic and environmental progress can go together.

*continued on page 44*



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PSEG Global, a subsidiary of PSEG Energy Holdings, has developed power plants outside New Jersey such as these in Hawaii, Texas and California.

Kalaeloa, Hawaii

Guadalupe, Texas

Hanford, CA

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**Adopting New Technology**

The energy industry continues to evolve rapidly, and PSEG along with it. Over the years the company has also been an industry leader in introducing new tools and technology to do the job safer, smarter and better. It has pioneered such innovations as live-line maintenance on high-voltage lines to help keep the power flowing to 2.1 million electric customers, and the first trenchless machines for installing gas mains to help serve 1.6 million gas customers.

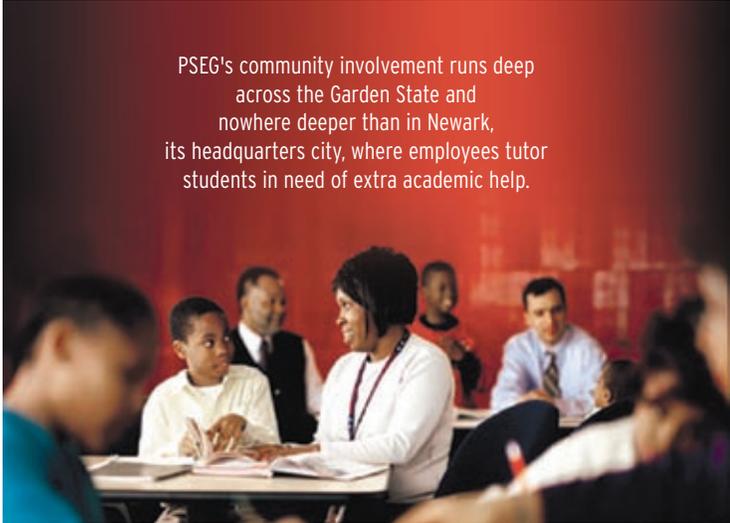
PSEG is intensifying its focus on a number of promising new technologies to further improve customer service and enhance operations. One involves a pilot program called myPower, aimed at giving customers greater control over their energy use and monthly bills. It provides customers with the opportunity to adjust their energy usage as energy prices change. "This has the potential to change the way people think about their energy consumption," says Izzo. "The goal is to preserve the comfort and convenience customers expect but at lower costs. I am excited about the possibilities."

**Keeping Commitments and Supporting Communities**

While PSEG is working to strengthen its leadership in new ways, it is determined to keep building on its longstanding commitments to customers, shareholders, employees, and not least, the communities it serves.

The company's community involvement runs deep across the Garden State and nowhere deeper than in Newark, its headquarters city.

The "PS" in its name has always stood for Public Service, and with good reason. In addition to delivering essential energy services to nearly three of every four New Jersey households, the company and its employees support many civic and charitable endeavors throughout the state. PSEG focuses especially on programs benefiting children, economic development and the environment.



PSEG's community involvement runs deep across the Garden State and nowhere deeper than in Newark, its headquarters city, where employees tutor students in need of extra academic help.

As a company with a major urban presence, PSEG targets many of its civic and economic development activities to promote a brighter future for New Jersey's cities and their residents. The company has a well-established supplier diversity program through which it has done more than a billion dollars of business with minority- and women-owned firms during the last two decades. The program not only helps PSEG meet its own business needs, but promotes job creation and stimulates the local economy. PSEG also provides free office space for the NY and NJ Minority Supplier Development Council, which seeks to foster stronger relationships between businesses and minority-owned suppliers.

Corporate citizenship at PSEG goes much farther because of the active participation of employees. PSEG is a perennial industry leader in raising funds for the March of Dimes to improve the health of infants and mothers. PSEG employees contribute to their communities in countless other ways, from serving on school boards to mentoring kids and coaching Little League.

"I am extremely grateful for and humbled by the opportunity I have each day to work with so many dedicated men and women," says Izzo. "I am tremendously excited about the opportunities we have together to write an even brighter chapter in PSEG's proud history—and confident that the best is yet to come." ■

PSEG lifeline crews are attached to helicopters so they can work on high voltage wires and towers so lines can remain in service while being repaired.



Monique Wade

## Promoting Workforce Development

**W**orkforce development is also a major, ongoing priority at PSEG. "We recognize that our employees are the single most important determinant of our company's success and we invest in their

success," says Michelle Hallerdin, vice president-workforce planning and talent management. "PSEG strives to foster a workplace built on the values of trust and mutual respect, where people feel truly empowered to achieve things even exceeding their dreams—and where their contributions are recognized and rewarded."

PSEG's strong diversity commitment is reflected in its workforce development efforts. "Diversity has made us a stronger company—one that is better aligned with our customers and better positioned to recruit and retain skilled employees," says Izzo. "Simply put, diversity is a key to attracting our fair share of the talented individuals we need for the next 100 years."

With a view to the diverse and highly skilled workforce of the future, PSEG is investing in innovative programs which open doors wider to good careers in the utility industry. For example, the company's Energy Utility Technology degree program is helping to create a pool of technically skilled and educated workers to fill

critical entry-level positions at a time when the utility industry is facing a looming workforce shortage.

"This program is proving to be an important pipeline of new and diverse talent to our company," says PSEG President and COO Ralph LaRossa. "Some 20 percent of our employees will likely retire over the next couple of years and we need qualified people to fill their shoes. This program is helping supply them."

Begun on a pilot basis in 2003, the Energy Utility Technology degree program has expanded to four New Jersey community colleges and Thomas Edison State College. The program enables qualified students to combine classroom work with hands-on, apprentice-level training as a pathway to a rewarding job and career. More than half of the program's graduates who have become full-time employees at PSEG are women and minorities. They include trailblazers like Monique Wade, an apprentice-engineering technician with PSEG's Palisades division and the first female graduate of the program. "This program really turned things around for me," she reports. "I will always be grateful for the opportunity it's provided. I love my job with PSEG."

In recognition of success stories like Monique's, the U.S. Equal Employment Opportunity Commission honored PSEG with its *Freedom to Compete* award for promoting access and inclusion in the workplace. The company is looking for opportunities to expand the program further and enlarge the talent pipeline it provides. ■