PSEG

Energy Holdings L.L.C.

2007 Annual Report

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PSEG Energy Holdings L.L.C.

2007 Annual Report

Table of Contents

INDEPENDENT AUDITORS' REPORT

To the Sole Member and Board of Managers of
PSEG Energy Holdings L.L.C.
Newark, New Jersey

We have audited the accompanying consolidated balance sheets of PSEG Energy Holdings L.L.C. and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations, member's equity and cash flows for each of the three years in the period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, on January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement 109*.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey
April 2, 2008

PSEG ENERGY HOLDINGS L.L.C.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Millions)

	For The Years Ended December 31,		
	2007	2006	2005
OPERATING REVENUES			
Electric Generation and Distribution	$ 642	$ 769	$ 690
Income from Leveraged and Operating Leases	132	151	175
Other	187	35	122
Total Operating Revenues	961	955	987
OPERATING EXPENSES			
Energy Costs	450	523	517
Operation and Maintenance	139	132	157
Write-down of Assets	16	274	-
Depreciation and Amortization	38	32	29
Total Operating Expenses	643	961	703
Income from Equity Method Investments	116	120	124
OPERATING INCOME	434	114	408
Other Income	37	31	19
Other Deductions	(63)	(16)	(23)
Interest Expense	(153)	(185)	(195)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	255	(56)	209
Income Tax (Expense) Benefit	(199)	33	(58)
Minority Interests in Earnings (Loss) of Subsidiaries	2	(1)	(1)
INCOME (LOSS) FROM CONTINUING OPERATIONS	58	(24)	150
Income from Discontinued Operations, including Gain on Disposal, net of tax of $185, $137 and $14 for the years ended 2007, 2006 and 2005, respectively	24	299	67
NET INCOME	82	275	217
Preference Units Distributions	-	-	(3)
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	$ 82	$ 275	$ 214

See Notes to Consolidated Financial Statements

PSEG ENERGY HOLDINGS L.L.C.
CONSOLIDATED BALANCE SHEETS
(Millions)

	December 31, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 32	$ 64
Accounts Receivable:		
Trade - net of allowances of $1 in 2007 and 2006, respectively	13	19
Other Accounts Receivable	7	2
Notes Receivable Affiliated Companies	841	28
Inventory	24	25
Restricted Funds	57	67
Assets of Discontinued Operations	1,162	1,292
Derivative Contracts	18	14
Other	7	9
Total Current Assets	2,161	1,520
PROPERTY, PLANT AND EQUIPMENT	972	949
Less: Accumulated Depreciation and Amortization	(174)	(133)
Net Property, Plant and Equipment	798	816
NONCURRENT ASSETS		
Leveraged Leases, net	2,826	2,810
Corporate Joint Ventures and Partnership Interests	248	868
Intangibles	13	11
Derivative Contracts	43	26
Other	74	113
Total Noncurrent Assets	3,204	3,828
TOTAL ASSETS	$ 6,163	$ 6,164

See Notes to Consolidated Financial Statements

PSEG ENERGY HOLDINGS L.L.C.
CONSOLIDATED BALANCE SHEETS
(Millions)

	December 31, 2007	December 31, 2006
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$ 644	$ 30
Accounts Payable:		
Trade	17	8
Affiliated Companies	138	12
Derivative Contracts	3	16
Accrued Interest	19	24
Current Portion of Deferred Income Taxes	150	-
Liabilities of Discontinued Operations	520	421
Other	89	40
Total Current Liabilities	1,580	551
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment and Energy Tax Credits	1,861	1,903
Derivative Contracts	4	11
Long-Term Accrued Taxes	316	-
Other	70	76
Total Noncurrent Liabilities	2,251	1,990
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 8)		
MINORITY INTERESTS	16	17
LONG-TERM DEBT		
Project Level, Non-Recourse Debt	349	569
Senior Notes	530	1,149
Total Long-Term Debt	879	1,718
MEMBER'S EQUITY		
Ordinary Unit	838	1,193
Retained Earnings	498	592
Accumulated Other Comprehensive Income	101	103
Total Member's Equity	1,437	1,888
TOTAL LIABILITIES AND MEMBER'S EQUITY	$ 6,163	$ 6,164

See Notes to Consolidated Financial Statements

PSEG ENERGY HOLDINGS L.L.C.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions)

	For The Years Ended December 31, 2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	$ 82	$ 275	$ 217
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:			
Gain on Disposal of Discontinued Operations, net of tax	(48)	(227)	-
Depreciation and Amortization	57	54	60
Demand Side Management Amortization	1	3	7
Write-down of Project Investments	16	7	22
Deferred Income Taxes (Other than Leases)	12	26	-
Leveraged Lease Income, Adjusted for Rents Received and Deferred Income Taxes	70	64	(27)
Undistributed Earnings from Affiliates	(10)	(44)	(46)
(Gain) Loss on Sale of Investments	(173)	253	(122)
Change in Fair Value of Derivative Financial Instruments	(8)	(35)	3
Net Changes in Certain Current Assets and Liabilities	171	(235)	68
Proceeds from Withdrawal of Partnership Interests and Other Distributions	15	10	64
Other	(98)	8	11
Net Cash Provided By Operating Activities	87	159	257
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to Property, Plant and Equipment	(52)	(64)	(67)
Proceeds from the Sale of Discontinued Operations	275	494	-
Proceeds from the Sale of Investments and Return of Capital from Partnerships	701	246	28
Proceeds from Termination of Leveraged Leases	2	-	287
Changes in Notes Receivable - Affiliated Company, net	(813)	381	(294)
Restricted Funds	10	(5)	(43)
Proceeds from Collection of Notes Receivable	-	-	120
Other	16	1	16
Net Cash Provided By Investing Activities	139	1,053	47
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Issuance of Non-Recourse Long-Term Debt	163	-	18
Repayment of Senior Notes	(14)	(609)	-
Repayment of Non-Recourse Long-Term Debt	(57)	(51)	(37)
Return of Capital Contributed	(355)	(520)	(100)
Redemptions of Preference Units	-	-	(184)
Ordinary Unit Distributions	-	-	(125)
Other	5	(1)	(9)
Net Cash Used In Financing Activities	(258)	(1,181)	(437)
Effect of Exchange Rate Change	-	(1)	1
Net (Decrease) Increase In Cash and Cash Equivalents	(32)	30	(132)
Cash and Cash Equivalents at Beginning of Period	64	34	166
Cash and Cash Equivalents at End of Period	$ 32	$ 64	$ 34
Supplemental Disclosure of Cash Flow Information:			
Income Tax Paid / Benefits (Received)	$ 21	$ (97)	$ (82)
Interest Paid, Net of Amounts Capitalized	$ 159	$ 187	$ 199

See Notes to Consolidated Financial Statements

PSEG ENERGY HOLDINGS L.L.C.
CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY
(Millions)

	Ordinary Unit	Preference Units	Retained Earnings	Other Comprehensive Income (Loss)	Total Member's Equity
Balance as of January 1, 2005	$ 1,813	$ 184	$ 228	$ (209)	$ 2,016
Net Income	-	-	217	-	217
Other Comprehensive Income (Loss), net of tax:					
Currency Translation Adjustment, net of tax	-	-	-	84	84
Reclassification Adjustments for Net Amounts Included in Net Income, net of tax	-	-	-	16	16
Minimum Pension Liability Adjustment, net of tax	-	-	-	(1)	(1)
Other Comprehensive Income					99
Comprehensive Income					316
Ordinary Unit Distributions	-	-	(125)	-	(125)
Return of Contributed Capital	(100)	-	-	-	(100)
Preference Units Redemption	-	(184)	-	-	(184)
Preference Units Distribution	-	-	(3)	-	(3)
Balance as of December 31, 2005	$ 1,713	$ -	$ 317	$ (110)	$ 1,920
Net Income	-	-	275		275
Other Comprehensive Income, net of tax:					
Currency Translation Adjustment, net of tax	-	-	-	154	154
Reclassification Adjustments for Net Amounts Included in Net Income, net of tax	-	-	-	7	7
Sale of Investments	-	-	-	55	55
Minimum Pension Liability Adjustment, net of tax	-	-	-	1	1
Other Comprehensive Income					217
Comprehensive Income					492
Adjustment for adoption of FASB Statement 158, net of tax	-	-	-	(4)	(4)
Return of Contributed Capital	(520)	-	-		(520)
Balance as of December 31, 2006	$ 1,193	$ -	$ 592	$ 103	$ 1,888
Net Income	-	-	82		82
Other Comprehensive Income (Loss), net of tax:					
Currency Translation Adjustment, net of tax	-	-	-	(3)	(3)
Current Period Declines in Fair Value of Derivative Instruments, net of tax	-	-	-	(4)	(4)
Reclassification Adjustments for Net Amounts Included in Net Income, net of tax	-	-	-	(1)	(1)
Sale of Investments	-	-	-	1	1
Adjustment for application of FASB Statement 158, net of tax	-	-	-	5	5
Other Comprehensive Income					(2)
Comprehensive Income					80
Adjustment for adoption of FSP13-2, net of tax	-	-	(67)	-	(67)
Adjustment for adoption of FIN 48, net of tax	-	-	(109)	-	(109)
Return of Contributed Capital	(355)	-	-	-	(355)
Balance as of December 31, 2007	$ 838	$ -	$ 498	$ 101	$ 1,437

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Organization

PSEG Energy Holdings L.L.C. (Energy Holdings) is a wholly owned subsidiary of Public Service Enterprise Group Incorporated (PSEG). Energy Holdings has two principal direct wholly owned subsidiaries: PSEG Global L.L.C. (Global) and PSEG Resources L.L.C. (Resources).

Global

Global has investments in power producers that own and operate electric generation in Texas, California and Hawaii, with smaller investments in New Hampshire and Pennsylvania. Global's assets include consolidated projects and those accounted for under the equity method and cost method of accounting. As of December 31, 2007, Global's domestic generation portfolio consisted of 2,395 Mega Watts (MW) of owned capacity, primarily in Texas.

Global owns 100% of PSEG Texas, LP (PSEG Texas) (formerly Texas Independent Energy) which owns and operates two gas-fired, combined cycle generation facilities with a total generating capacity of 2,000 MW, one in Guadalupe County in south central Texas (Guadalupe) and one in Odessa in western Texas (Odessa). Guadalupe and Odessa each have a generation capacity of 1,000 MW. Approximately 40% to 50% of the expected output of PSEG Texas for 2008 has been sold via bilateral agreements and additional bilateral sales for peak and off-peak services are expected to be signed as the year progresses. Any remaining uncommitted output will be sold in the Texas spot market. Included in Odessa's 1,000 MW of generation capacity is a 350 MW daily capacity call option at Odessa that expires on December 31, 2010.

Global's projects in California, Hawaii and New Hampshire are fully contracted under long-term Power Purchase Agreements (PPAs) with the public utilities or power procurers in those areas. Therefore, Global does not have price risk with respect to the output of such assets, and generally, with respect to such assets, has limited risk with respect to fuel prices. Global's risks related to these projects are primarily operational in nature and have historically been minimal.

Global has reduced its international risk by opportunistically monetizing the majority of its international investments. On December 18, 2007, Global announced that it intends to sell its investment in the SAESA Group, its largest remaining international investment, and has reclassified it to discontinued operations. The SAESA Group consists of four distribution companies, one transmission company and a generation facility located in Chile. For additional information, see Note 3. Discontinued Operations, Dispositions, Acquisitions and Impairments.

Global is also continuing to explore options for its remaining international investments in Italy, Venezuela and India. These businesses had an asset investment value of approximately $123 million as of December 31, 2007.

Resources

Resources has investments in energy-related financial transactions and manages a diversified portfolio of assets, including leveraged leases, operating leases, a leveraged buyout fund, limited partnerships and marketable securities.

Resources earns revenues from its passive investments in leveraged leases, limited partnerships, leveraged buyout fund and marketable securities. Approximately 96% of Resources' investments are in leveraged leases. Demand Side Management investments earn revenues primarily from monthly payments from utilities, representing shared electricity savings from the installation of energy efficient equipment. Resources operates both domestically and internationally; however, revenues from all international investments are denominated in U.S. dollars.

Enterprise Group Development Corporation (EGDC)

Energy Holdings also owns EGDC, a commercial real estate property management business. Energy Holdings' investment in EGDC was $43 million as of December 31, 2007.

Summary of Significant Accounting Policies

Principles of Consolidation

Energy Holdings consolidates those entities in which it has a controlling interest or is the primary beneficiary, in accordance with Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46 (revised December 2003), "Consolidation of Variable Interest Entities (VIE)" (FIN 46). Entities over which Energy Holdings exhibits significant influence, but does not have a controlling interest and/or is not the primary beneficiary are accounted for under the equity method of accounting. For investments in which significant influence does not exist and Energy Holdings is not the primary beneficiary, the cost method of accounting is applied. All intercompany accounts and transactions are eliminated in consolidation.

Revenue Recognition

Certain of Energy Holdings' investments in electric generation facilities are majority owned, controlled and consolidated by Global and the revenues earned from customers by these investments are included in Global's consolidated financial statements within Generation and Distribution Revenues. Generation and Distribution Revenues are earned pursuant to long-term PPAs, shorter-term third party sales arrangements, or sales of energy through the spot market. Other investments are less than majority owned and are accounted for under the equity method. Income from these investments is recorded as a component of Operating Income, since these investments are integral to Global's and Energy Holdings' business.

The majority of Energy Holdings' Investment Income relates to its investments through Resources in leveraged leases which are accounted for under Statement of Financial Accounting Standards (SFAS) No. 13 "Accounting for Leases" (SFAS 13). Income on leveraged leases is recognized by a method which produces a constant after-tax rate of return on the outstanding investment in the lease, net of the related deferred tax liability, in the years in which the net investment is positive. Any gains or losses incurred as a result of a lease termination are recorded as Investment Income as these events occur in the ordinary course of business of managing the investment portfolio. Resources records investment gains and losses from the changes in share prices of publicly-traded equity securities. See Note 4. Long-Term Investments for further discussion.

Derivative Financial Instruments

Energy Holdings uses derivative financial instruments to manage risk from changes in interest rates, commodity prices and foreign currency exchange rates pursuant to its business plans and prudent practices.

Energy Holdings recognizes derivative instruments on the balance sheet at their fair value. Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a fair value hedge, along with changes of the fair value of the hedged asset or liability that are attributable to the hedged risk, are recorded in current-period earnings. Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a cash flow hedge are recorded in Accumulated Other Comprehensive Income until earnings are affected by the variability of cash flows of the hedged transaction. Any hedge ineffectiveness is included in current-period earnings. In certain circumstances, Global enters into derivative contracts that do not qualify as hedges; in such cases, changes in fair value are recorded in current-period earnings.

Depreciation and Amortization

Energy Holdings calculates depreciation under the straight-line method based on estimated average remaining lives of several classes of depreciable property.

Global calculates depreciation on property, plant and equipment under the straight-line method with estimated useful lives for Furniture and Equipment and Other ranging from 3 years to 12 years and estimated useful lives for generation assets ranging from 15 years to 40 years.

Resources calculates depreciation on property and equipment under the straight-line method with estimated useful lives from 15 to 20 years for commercial buildings, 15 years for land improvements and from 3 to 5 years for office furniture and equipment. Leasehold improvements are amortized over the lives of the related leases.

Foreign Currency Translation/Transactions

A business' functional currency is the currency of the primary economic environment in which the business operates and is generally the currency in which the business generates and expends cash. In accordance with SFAS No. 52, "Foreign Currency Translation", the assets and liabilities of foreign operations of Global, with a functional currency other than the U.S. Dollar, are translated into U.S. Dollars at the current exchange rates in effect at the end of the reporting period. The translation differences that result from this process, and gains and losses on intercompany foreign currency transactions, which are long-term in nature and that Global does not intend to settle in the foreseeable future, are recorded in Accumulated Other Comprehensive Income as a separate component of Member's Equity.

The revenue and expense accounts of such foreign operations are translated into U.S. Dollars at the average exchange rates that prevail during the period.

Income Taxes

Energy Holdings is included in a consolidated federal income tax return filed by PSEG. A tax allocation agreement exists between PSEG and Energy Holdings. The general operation of these agreements is that the subsidiary company will compute its taxable income on a stand-alone basis. For additional information, see Note 9. Income Taxes and Note 12. Related Party Transactions.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of working funds and highly liquid marketable securities (commercial paper and money market funds) with an original maturity of three months or less.

Inventory

Inventory is valued at the lower of weighted average cost or market.

Property, Plant and Equipment

Global capitalizes costs that increase the capacity or extend the life of an existing asset, represent a newly acquired or constructed asset or represent the replacement of a retired asset. Costs that meet one of the following conditions may be capitalized: (1) expenditures that are incremental and represent direct project costs related to a construction project; (2) expenditures that are incremental and represent indirect project costs related to construction projects; or (3) expenditures that are third party construction related costs.

The cost of maintenance, repair and replacement of minor items of property is charged to appropriate expense accounts as incurred. Environmental costs are capitalized if they are mandated by law. Other environmental expenditures are expensed as incurred.

Resources' property and equipment includes buildings, leasehold improvements, aircraft and administrative office furniture and equipment. Resources capitalizes costs which extend the life of an existing asset, represent a newly acquired asset or the replacement of a retired asset. The cost of maintenance, repair and replacement of minor items of property is charged to appropriate expense accounts as incurred. For additional information, refer to Note 11. Property, Plant and Equipment.

Investments in Corporate Joint Ventures and Partnerships

Generally, Global's interests in active joint ventures and partnerships are accounted for under the equity method of accounting, where its respective ownership interests are 50% or less, it is not the primary beneficiary as defined under FIN 46, and significant influence over joint venture or partnership operating and management decisions exists. For investments in which significant influence does not exists and Global is not the primary beneficiary, the cost method of accounting is applied.

Global has several investments accounted for under the equity method of accounting for which there is a difference in the investment account when compared to the underlying equity in net assets. For additional information related to these investments, see Note 4. Long-Term Investments.

Resources carries its partnership investment in a leveraged buyout fund at fair value. Fair value is determined based on the review of market price in conjunction with Resources' invested liquid position in such security. Changes in fair value are recorded in Net Gain on Investments under Other Operating Revenues in the Consolidated Statements of Operations.

Leveraged Leases as Lessor

Resources, as lessor, leases property and equipment through leveraged leases with remaining lives of up to 28 years. The leveraged lease investments are recorded on a net basis by totaling the lease rents receivable over the lease term, adding the residual value, if any, and deducting unearned income to be recognized over the lease term. Leveraged leases are recorded net of non-recourse debt.

Deferred Project Costs

Global capitalizes all direct external and direct incremental internal costs related to project development once the project, such as construction of a power plant, reaches certain milestones. For equity method investments, the deferred project costs are included in the investment account and amortized on a straight-line basis over the lives of the related project assets. For Global's consolidated companies, these costs are reported as deferred project costs and are amortized on a straight-line basis over the lives of the related assets. Development costs related to unsuccessful projects are charged to expense.

Long-Lived Assets

Energy Holdings periodically evaluates the carrying value of long-lived assets when events and circumstances suggest that such assets may be impaired. The carrying value of a long-lived asset is considered impaired when indicators of impairment are present and undiscounted cash flows estimated to be generated by the asset are less than the asset's carrying amount. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted principles in the U.S. (GAAP) requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may materially differ from estimated amounts.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation.

Note 2. Recent Accounting Standards

The following accounting standards were issued by the FASB but have not yet been adopted by Energy Holdings.

SFAS No. 157, "Fair Value Measurements" (SFAS 157)

In September 2006, the FASB issued SFAS 157 which provides a single definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Prior to SFAS 157, guidance for applying fair value was incorporated into several accounting pronouncements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy that distinguishes between assumptions based on market data obtained from independent sources (observable inputs) and those based on an entity's own assumptions (unobservable inputs). Under SFAS 157, fair value measurements are disclosed by level within that hierarchy, with the highest priority being quoted prices in active markets. While this statement does not require any new fair value measurements, the application of this statement will change current practice for some fair value measurements.

This statement also nullifies the guidance in footnote 3 of Emerging Issues Task Force Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities" (EITF 02-3). The guidance in footnote 3 applied for derivative (and other) instruments measured at fair value at initial recognition under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). That guidance precluded immediate recognition in earnings of an unrealized gain or loss, measured as the difference between the transaction price and the fair value of the instrument at initial recognition, if the fair value of the instrument was determined using significant unobservable inputs. Under this guidance, an entity could not recognize an unrealized gain or loss at inception of a derivative instrument unless the fair value of that instrument was obtained from a quoted market price in an active market or was otherwise evidenced by comparison to other observable current market transaction or based on a valuation technique incorporating observable market data. SFAS 157 requires that the principles of fair value measurement should be applied for derivatives and other financial instruments at initial recognition and in all subsequent periods. At December 31, 2007, Energy Holdings had a deferred inception loss of $34 million, which is expected to be recognized in Retained Earnings in the first quarter of 2008 as in accordance with the transition guidance.

SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Energy Holdings adopted this statement effective January 1, 2008. In February 2008, the FASB also issued two FASB Staff Positions (FSPs):

- FSP FAS 157-1 to exclude leasing transactions accounted for under SFAS 13 and its related interpretive pronouncements from SFAS 157's scope
- FSP FAS 157-2 to partially defer the effective date of SFAS 157 for non financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

Both FSPs are expected to simplify Energy Holdings' adoption of SFAS 157 on January 1, 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159)

In February 2007, the FASB issued SFAS 159, which permits entities to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. An entity would report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The decision about whether to elect the fair value option is applied instrument by instrument, with a few exceptions; the decision is irrevocable; and it is required to be applied only to entire instruments and not to portions of instruments.

The statement requires disclosures that facilitate comparisons (a) between entities that choose different measurement attributes for similar assets and liabilities and (b) between assets and liabilities in the financial statements of an entity that selects different measurement attributes for similar assets and liabilities.

SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Upon implementation, an entity shall report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of Retained Earnings. Since the provisions of SFAS 159 are applied prospectively, any potential impact will depend on the instruments selected for fair value measurement at the time of implementation. Energy Holdings adopted this statement effective January 1, 2008. However, to date Energy Holdings has not elected any of its assets or liabilities to fair value under this standard.

SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141(R)),

In December 2007, the FASB issued SFAS 141(R), which replaces SFAS 141. SFAS 141(R) will significantly change financial accounting and reporting of business combination transactions. Issuance of SFAS 141(R) marks the FASB's most significant convergence effort with the International Accounting Standards Board (IASB) and move towards fair value accounting. SFAS 141(R) is based on the principle that all the assets acquired and the liabilities assumed in a business combination should be measured at their acquisition date fair values, with limited exceptions. This standard applies to all transactions and events in which an entity obtains control of one or more businesses of the acquiree. The standard also expands the definition of a business. Transactions formerly recorded as an asset acquisition, may qualify as a business combination under SFAS 141(R). It also requires that acquisition-related costs and certain restructuring costs be recognized separately from the business combination.

SFAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. SFAS 141(R) is required to be adopted concurrently with SFAS 160. Energy Holdings will adopt SFAS 141(R) effective January 1, 2009. Accordingly, all business combinations for which the acquisition date is on or after January 1, 2009, will be accounted for under this new guidance.

SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51" (SFAS No. 160)

In December 2007, the FASB issued SFAS 160. The new standard will significantly change the financial reporting relationship between a parent and non-controlling interest (i.e. minority interest). SFAS 160 requires all entities to report minority interests in subsidiaries as equity in the consolidated financial statements. Accordingly, the amount of net income attributable to the noncontrolling interest is required to be included in consolidated net income on the face of the income statement. Further, transactions between a parent and noncontrolling interests are treated as equity. However, if a subsidiary is deconsolidated, a parent is required to recognize a gain or loss.

SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. SFAS 160 will be applied prospectively, except for presentation and disclosure requirements which are required to be applied retrospectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following new accounting standards were adopted by Energy Holdings during 2007.

FIN 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109" (FIN 48)

Energy Holdings, Global and Resources

In July 2006, the FASB issued FIN 48, which prescribes a model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. Under FIN 48, the financial statements reflect expected future tax consequences of such positions presuming the tax authorities' full knowledge of the position and all relevant facts. FIN 48 permits recognition of the benefit of tax positions only when it is "more likely-than-not" that the position is sustainable based on the merits of the position. It further limits the amount of tax benefit to be recognized to the largest amount of benefit that is cumulatively over 50% likely of being realized upon settlement. FIN 48 also requires explicit disclosures about uncertainties in income tax positions, including a detailed roll-forward of unrecognized tax benefits taken that do not qualify for financial statement recognition.

Energy Holdings adopted FIN 48 effective January 1, 2007. Energy Holdings recorded the change in net assets that resulted from the application of FIN 48 as an adjustment to Retained Earnings. The following table presents the impact at January 1, 2007 on the Condensed Consolidated Balance Sheets for Energy Holdings and its subsidiaries as a result of implementing FIN 48:

		(Millions)
Balance Sheet		
Increase to Long-Term Accrued Taxes	$	355
Decrease to Accumulated Deferred Income Tax Liability	$	246
Decrease to Retained Earnings	$	109

For the year ended December 31, 2007, Energy Holdings' after-tax expense resulting from the adoption of FIN 48 was $28 million. For additional information relating to the impacts of FIN 48, see Note 9. Income Taxes.

In May 2007, the FASB issued FASB Staff Position No. FIN 48-1, which provides guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The adoption of this FSP did not have a material impact on Energy Holdings' financial statements.

FASB Staff Position (FSP) No. FAS 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction" (FSP FAS 13-2)

In July 2006, the FASB issued FSP FAS 13-2, which addresses how a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affects the accounting by a lessor for that lease. The FSP amends SFAS 13, stating that a change in the timing of the above referenced cash flows must be reviewed at least annually or more frequently, if events or circumstances indicate a change in timing is probable. If a change in timing has occurred, or is projected to occur, the rate of return and the allocation of income to positive investment years must be recalculated from the inception of the lease.

The guidance in this FSP was adopted effective January 1, 2007. The cumulative effect of applying the provisions of this FSP was reported as an adjustment to the beginning balance of Retained Earnings as of the date of adoption. As a result of implementing FSP FAS 13-2, upon adoption Energy Holdings recognized a reduction in Investment in Leveraged Leases of $69 million, a reduction in Deferred Income Taxes of $2 million and a reduction in Retained Earnings of $67 million.

The impact to earnings for Energy Holdings resulting from the adoption of FSP FAS 13-2 for the year ended December 31, 2007 was an after-tax decrease of $12 million.

Note 3. Discontinued Operations, Dispositions, Acquisitions and Impairments

Discontinued Operations

SAESA Group

On December 18, 2007, Global announced its intention to sell its 99.99% equity interest in Sociedad Austral de Electricidad S.A. (SAESA), 98.99% of Empresa Electrica de la Frontera S.A. and 100% of PSEG Generacion y Energia Chile Limitada (SAESA Group). As a result, operating results for the SAESA Group have been reclassified to Discontinued Operations. In conjunction with management's decision to sell the SAESA Group, in the fourth quarter of 2007, Global recorded an income tax expense of $82 million and a $67 million current deferred tax liability on foreign currency gains included in Accumulated Other Comprehensive Income, related to the discontinuation of applying Accounting Principles Board No. 23," Accounting for Income Taxes-Special Areas" (APB 23).

SAESA Group's operating results for the years ended December 31, 2007, 2006 and 2005, which were reclassified to Discontinued Operations, are summarized below:

	Years Ended December 31, 2007	2006	2005
	(Millions)		
Operating Revenues	$ 442	$ 341	$ 263
Income Before Income Taxes	$ 55	$ 46	$ 43
Net (Loss) Income	$ (34)	$ 57	$ 35

The carrying amounts of SAESA Group's assets as of December 31, 2007 and 2006 are summarized in the following table:

	As of December 31, 2007	As of December 31, 2006
	(Millions)	
Current Assets	$ 191	$ 136
Noncurrent Assets	971	859
Total Assets of Discontinued Operations	$ 1,162	$ 995
Current Liabilities.	$ 130	$ 84
Noncurrent Liabilities	390	203
Total Liabilities of Discontinued Operations	$ 520	$ 287

Electroandes S.A. (Electroandes)

On September 19, 2007, Global entered into an agreement for the sale of Electroandes, a hydro-electric generation and transmission company in Peru that owns and operates four hydro-generation plants with total capacity of 180 MW and 437 miles of electric transmission lines. The purchaser is a wholly owned subsidiary of Statkraft Norfund Power Invest of Norway.

The sale was completed on October 17, 2007 for a total purchase price of $390 million, including the assumption of approximately $108 million of debt. Net cash proceeds, after taxes of $72 million and including dividends received prior to closing were approximately $220 million, which resulted in an after-tax gain of $48 million recorded in the fourth quarter of 2007.

Operating results for Electroandes have been reclassified to Discontinued Operations. In conjunction with the plan to sell Electroandes, Global recorded a $19 million income tax expense in the second quarter of 2007 related to the discontinuation of applying APB 23, as the income generated by Electroandes is no longer expected to be indefinitely reinvested.

Electroandes' operating results for the years ended December 31, 2007, 2006 and 2005, which were reclassified to Discontinued Operations, are summarized below:

	Years Ended December 31, 2007	2006	2005
	(Millions)		
Operating Revenues	$ 41	$ 61	$ 52
Income Before Income Taxes	$ 15	$ 22	$ 18
Net Income	$ 10	$ 16	$ 14

The carrying amounts of the assets of Electroandes as of December 31, 2006 are summarized in the following table:

	As of December 31, 2006
	(Millions)
Current Assets	$ 25
Noncurrent Assets	272
Total Assets of Discontinued Operations	$ 297
Current Liabilities	$ 9
Noncurrent Liabilities	125
Total Liabilities of Discontinued Operations	$ 134

Elektrocieplownia Chorzow Elcho Sp. Z o.o. (Elcho) and Elektrownia Skawina SA (Skawina)

On January 31, 2006, Global entered into an agreement with CEZ a.s. to sell its interest in two coal-fired plants in Poland, Elcho and Skawina. The sale was completed on May 29, 2006. Proceeds, net of transaction costs, were $476 million, resulting in a gain of $227 million net of tax expense of $142 million. This gain is included in Discontinued Operations. The 2006 and 2005 operating results for Global's assets in Poland have been reclassified to Discontinued Operations.

Elcho's and Skawina's operating results for the years ended December 31, 2006 and 2005 are summarized below:

	Years Ended December 31,			
	Elcho		Skawina	
	2006	2005	2006	2005
Operating Revenues	$ 39	$ 106	$ 44	$ 125
(Loss) Income Before Income Taxes	$ (3)	$ 17	$ 2	$ 3
Net (Loss) Income	$ (2)	$ 16	$ 1	$ 2

Dispositions

Chilquinta Energia S.A. (Chilquinta) and Luz del Sur S.A.A. (LDS)

On December 14, 2007, Global closed on the sales of its 50% ownership interest in the Chilean electric distributor, Chilquinta and its affiliates and its 37.9% ownership interest in the Peruvian electric distributor, LDS and its affiliates, for $685 million. Net cash proceeds after taxes were approximately $480 million, which resulted in an after-tax loss of $23 million.

Rio Grande Energia S. A. (RGE)

On May 10, 2006, Global entered into an agreement with Companhia Paulista de Force Luz to sell its 32% ownership interest in RGE, a Brazilian electric distribution company. The transaction closed on June 23, 2006 and gross proceeds of $185 million were received. The transaction resulted in a pre-tax write-down of $263 million ($178 million after-tax), primarily related to the devaluation of the Brazilian Real subsequent to Global's acquisition of its interests in RGE in 1997.

Dhofar Power Company S.A.O.C. (Dhofar Power)

In April 2005, Global sold a 35% interest in Dhofar Power through a public offering on the Omani stock exchange as required under its Concession Agreement for the project, reducing Global's ownership in Dhofar Power from 81% to 46%. Net proceeds from the sale were $25 million, resulting in a pre-tax gain of $3 million ($1 million after-tax). As a result, Global's investment in Dhofar Power was accounted for under the equity method following the sale.

On May 15, 2006, Global signed an agreement to sell its remaining 46% interest in Dhofar Power to Oman Technical Partners Ltd. Global closed the sale in November 2006 and received net proceeds after-tax of $31 million, the approximate book value of the investment.

Thermal Energy Development Partnership, L.P. (Tracy Biomass)

On December 22, 2006, Global entered into an agreement to sell its 34.5% interest in Tracy Biomass for $7 million. The sale closed on January 26, 2007 and resulted in a 2007 pre-tax gain of $7 million ($6 million after-tax).

Empresa de Energia Rio Negro S.A. (Edersa)

On December 21, 2006, SAESA completed the sale of its 50% indirect interest in Edersa (an Argentinian utility company) for an insignificant amount, and realized an after-tax benefit of $18 million.

Magellan Capital Holdings Corporation (MCHC)

During the fourth quarter of 2006, Global sold its interest in the MCHC generation development project for $1 million, resulting in a pre-tax loss of $4 million ($2 million after-tax).

Resources

On October 16, 2006, Resources entered into an agreement under which Puget Sound Energy, Inc. will purchase Whitehorn Units Nos. 2 and 3 from Resources on the current lease expiration date of February 2, 2009 for a cash price of approximately $23 million. This transaction is expected to produce approximately $3 million of incremental after-tax income and $3 million of incremental cash flow for Resources, at such time.

On December 28, 2005, Resources sold its interest in the Seminole Generation Station Unit 2, a 659 MW coal-fired facility in Palatka, Florida, to Seminole Electric Cooperative Inc. for $286 million, resulting in a pre-tax gain of $71 million ($43 million after-tax).

Resources was the equity investor in a Boeing B767 leased to United Airlines (UAL). In December 2002, UAL filed for Chapter 11 bankruptcy protection. In 2005, Resources received a notice from the Trustee under the UAL lease that the lenders had terminated the lease and repossessed the aircraft. Upon receipt of this notice, Resources recorded a $21 million pre-tax ($15 million after-tax) charge to write off the carrying value of this investment.

Resources was also the equity investor in two leveraged leases with Northwest Airlines (Northwest) B 757-200 and Delta Airlines (Delta) B 737-200. On September 14, 2005 both Northwest and Delta filed for protection under Chapter 11 of the U.S. Bankruptcy Code, as anticipated. In 2004 and 2005, Resources successfully restructured the leases and converted the Delta and Northwest leases from leveraged leases to operating leases. The Delta aircraft was sold in January 2006, generating a small gain for Resources.

In January 2005, a KKR Fund in which Resources had invested, sold its investment in Kinder Care Learning Centers, Inc. and Resources received proceeds of approximately $17 million resulting in a pre-tax gain of approximately $1 million ($1 million after-tax).

Acquisitions

Bioenergie S.p.A. (Bioenergie)

In May 2006, Global forgave the guarantees of its partner in the Bioenergie investment of certain loans Global had made to Bioenergie and converted such loans totaling $38 million into additional equity in Bioenergie, thereby increasing its ownership interest from 50% to 85% and giving Global voting control of the project. As a result, Energy Holdings began consolidating this investment in May 2006 and reclassified the investment balance to Property, Plant and Equipment of approximately $62 million, Long-Term Investments of approximately $13 million, Capital Lease Obligations of approximately $40 million and certain other assets and liabilities on Energy Holdings' Consolidated Balance Sheet. Energy Holdings recorded certain purchase accounting adjustments to reflect the plant, contracts and investment in Biomasse Italia S.p.A. at fair value.

Impairments

Venezuela

Energy Holdings has indirect ownership interests in two generating facilities in Maracay and Cagua, Venezuela that have a total capacity of 120 MW. The projects are owned and operated by Turboven Company Inc. (Turboven), an entity which is jointly-owned by Global (50%) and Corporacion Industrial de Energia (CIE). Global also has a 9% indirect interest in Turbogeneradores de Maracay through a partnership with CIE.

During Global's 2006 year-end review of its investments, management concluded that due to the current political situation in Venezuela, it was probable that Global would not be able to recover all of its investment in its Venezuelan operations. Therefore, Global recorded an impairment loss of $4 million, after-tax, to write down these investments in the fourth quarter of 2006.

In January 2007, the Venezuelan government announced its intention to nationalize certain sectors of Venezuelan industry and commerce, including certain foreign-owned energy and communications companies. In a subsequent press release, Turboven was named as one of the companies that Venezuela intended to nationalize. Since these announcements, Venezuela has proceeded to nationalize certain companies. Global has entered into valuation discussions with the government of Venezuela as part of the nationalization efforts, which are ongoing. Based upon a review of the circumstances and Global's estimated market value of the project, an additional impairment charge of $7 million, after-tax, was recorded in the third quarter of 2007.

India

In December 2007, Global recorded an impairment loss of $2 million, after-tax, on Power Generating Company Limited based on Global's estimated market valuation of the project.

Note 4. Long-Term Investments

Energy Holdings had the following Long-Term Investments as of December 31, 2007 and 2006:

	As of December 31, 2007	2006
	(Millions)	
Leveraged Leases	$ 2,826	$ 2,810
Partnerships and Corporate Joint Ventures (A)	248	868
Other Investments	4	4
Total Long-Term Investments	$ 3,078	$ 3,682

(A) Accounted for under the equity method of accounting.

Leveraged Leases

Resources net investment in leveraged leases was comprised of the following elements:

	As of December 31, 2007	2006
	(Millions)	
Lease rents receivable (net of non-recourse debt)	$ 2,890	$ 2,918
Estimated residual value of leased assets	1,010	1,012
	3,900	3,930
Unearned and deferred income	(1,074)	(1,120)
Total investments in leveraged leases	2,826	2,810
Deferred tax liabilities	(2,045)	(1,886)
Net investment in leveraged leases	$ 781	$ 924

The pre-tax income and income tax effects related to investments in leveraged leases were as follows:

	Years Ended December 31, 2007	2006	2005
		(Millions)	
Pre-tax income of leveraged leases	$ 114	$ 134	$ 161
Income tax effect on pre-tax income of leveraged leases	$ 36	$ 41	$ 64
Amortization of investment tax credits of leveraged leases	$ (1)	$ (1)	$ (1)

The $23 million decrease in income tax effect on pre-tax income of leveraged leases in 2006 as compared to 2005, was primarily due to the absence of the tax expense resulting from the sale of Resources' interest in Seminole in 2005. For additional information regarding the sale of Seminole, see Note 3. Discontinued Operations, Dispositions, Acquisitions and Impairments.

Investments in Affiliated Companies

Investments in net assets of affiliated companies accounted for under the equity method of accounting by Global amounted to $208 million and $818 million as of December 31, 2007 and 2006, respectively. During the three years ended December 31, 2007, 2006 and 2005, the amount of dividends from these investments was $108 million, $74 million and $70 million, respectively. Global's share of income and cash flow distribution percentages ranged from 40% to 60% as of December 31, 2007.

Global had the following equity method investments as of December 31, 2007:

Name	Location	% Owned
Kalaeloa	HI	50%
GWF		
Bay Area I	CA	50%
Bay Area II	CA	50%
Bay Area III	CA	50%
Bay Area IV	CA	50%
Bay Area V	CA	50%
Hanford L.P	CA	50%
GWF Energy		
Hanford-Peaker Plant	CA	60%
Henrietta-Peaker Plant	CA	60%
Tracy-Peaker Plant	CA	60%
Bridgewater	NH	40%
Turboven		
Maracay	Venezuela	50%
Cagua	Venezuela	50%
Biomasse (A)	Italy	43%

(A) Global owns an 85% interest in Bioenergie which indirectly owns and operates three biomass generation plants in Italy through its ownership of 100% of San Marco Bioenergie S.p.A., which owns a 20 MW plant, and 50% of Biomasse, a partnership with Api Holding S.p.A., which owns two plants totaling 60 MW. Global records Bioenergie's investment in Biomasse as an equity method investment due to Global's approximate 43% indirect ownership in Biomasse.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summarized results of operations and financial position of affiliates in which Global applied the equity method of accounting are presented below:

	Foreign	Domestic	Total
		(Millions)	
December 31, 2007			
Statement of Operations Information			
Revenue	$ 134	$ 386	$ 520
Gross Profit	$ 73	$ 147	$ 220
Net Income	$ —	$ 86	$ 86
Balance Sheet Information			
Assets:			
Current Assets	$ 69	$ 108	$ 177
Property, Plant and Equipment	190	537	727
Goodwill	—	50	50
Other Noncurrent Assets	19	25	44
Total Assets	$ 278	$ 720	$ 998
Liabilities:			
Current Liabilities	$ 38	$ 78	$ 116
Debt*	134	217	351
Other Noncurrent Liabilities	—	66	66
Total Liabilities	172	361	533
Equity	106	359	465
Total Liabilities and Equity	$ 278	$ 720	$ 998
December 31, 2006			
Statement of Operations Information			
Revenue	$ 858	$ 378	$ 1,236
Gross Profit	$ 345	$ 154	$ 499
Minority Interest	$ 15	$ —	$ 15
Net Income	$ 107	$ 86	$ 193
Balance Sheet Information			
Assets:			
Current Assets	$ 314	$ 100	$ 414
Property, Plant and Equipment	1,072	555	1,627
Goodwill	497	49	546
Other Noncurrent Assets	187	32	219
Total Assets	$ 2,070	$ 736	$ 2,806
Liabilities:			
Current Liabilities	$ 186	$ 63	$ 249
Debt*	675	203	878
Other Noncurrent Liabilities	143	60	203
Minority Interest	70	—	70
Total Liabilities	1,074	326	1,400
Equity	996	410	1,406
Total Liabilities and Equity	$ 2,070	$ 736	$ 2,806
December 31, 2005			
Statement of Operations Information			
Revenue	$ 1,773	$ 366	$ 2,139
Gross Profit	$ 513	$ 133	$ 646
Minority Interest	$ 14	$ —	$ 14
Net Income	$ 170	$ 78	$ 248

* Debt is non-recourse to Energy Holdings and Global.

The differences in the results of operations and the financial position as of and for the year ended December 31, 2007, as compared to 2006, were due to Energy Holdings' sale of its interests in Chilquinta, LDS and in Tracy Biomass as well as EGDC's sale of its Largo property. See Note 3. Discontinued Operations, Dispositions, Acquisitions and Impairments for further details of these transactions.

Energy Holdings also has investments in certain companies in which it does not have the ability to exercise significant influence. Such investments are accounted for under the cost method. As of December 31, 2007 and 2006, the carrying value of these investments aggregated $31 million and $35 million, respectively. Energy Holdings periodically reviews these cost method investments for impairment and adjusts the values of these investments accordingly.

Note 5. Goodwill and Other Intangibles

As of December 31, 2007 and 2006, Energy Holdings had recorded intangible assets of $13 million and $11 million mainly related to the fair value of a power purchase agreement resulting from a purchase price allocation at Bioenergie as of December 31, 2007 and 2006, respectively.

During 2007, goodwill related to SAESA which was $418 million and $390 million as of December 31, 2007 and 2006, respectively was reclassified to assets of discontinued operations.

Also during 2007, Global sold its investments in Electroandes, Chilquinta and LDS. As of December 31, 2006, Global's goodwill in Electroandes and pro-rata share of goodwill in Chilquinta and LDS was $133 million, $193 million and $55 million, respectively.

Note 6. Schedule of Consolidated Debt

		As of December 31,	
	Maturity	**2007**	**2006**
		(Millions)	
Energy Holdings (Parent)			
Senior Notes:			
8.625%(A)	2008	$ 207	$ 207
10.00%(B)	2009	400	400
8.50%(C)	2011	530	544
Principal Amount Outstanding		1,137	1,151
Amounts Due Within One Year(D)		(607)	—
Net Unamortized Discount		—	(2)
Total Long-Term Debt of Energy Holdings (Parent)		$ 530	$ 1,149
Global(E)			
Non-Recourse Debt:			
PSEG Texas (Odessa)–Libor +2.25%–3.25%(F)	2007–2009	$ 177	$ 194
PSEG Texas (Guadalupe)–Libor +1.875%–2.00%(G)	2007–2009	153	181
Chilquinta–5.58%–6.62%(H)	2008–2011	—	162
Bioenergie	2026	3	3
Principal Amount Outstanding		$ 333	$ 540
Amounts Due Within One Year(D)		(32)	(25)
Total Long-Term Debt of Global		$ 301	$ 515
Resources(E)			
4.75%–8.75%–Non-Recourse Bank Loan	2007–2016	$ 36	$ 40
Amounts Due Within One Year(D)		(3)	(3)
Total Long-Term Debt of Resources		$ 33	$ 37
EGDC(E)			
8.27%–Non-Recourse Mortgage	2007–2013	$ 17	$ 19
Amounts Due Within One Year(D)		(2)	(2)
Total Long-Term Debt of EGDC		$ 15	$ 17
Total Long-Term Debt of Energy Holdings		$ 879	$ 1,718

(A) In February 2008, Energy Holdings repaid at maturity $207 million of its 8.625% Senior Notes.

(B) In December 2007, Energy Holdings called for redemption all of the outstanding $400 million of 10% Senior Notes due 2009. The Senior Notes were redeemed in January 2008.

(C) In December 2007, Energy Holdings repurchased $14 million of the remaining $544 million of the outstanding 8.50% Senior Notes due 2011.

(D) The aggregate principal amounts of maturities for each of the five years following December 31, 2007 are as follows:

Year	Energy Holdings	Global	Resources	EGDC	Total
2008	$ 607	$ 32	$ 3	$ 2	$ 644
2009	—	298	4	3	305
2010	—	—	20	3	23
2011	530	—	1	3	534
2012	—	—	—	3	3
	$ 1,137	$ 330	$ 28	$ 14	$ 1,509

(E) Non-recourse financing transactions consist of loans from banks and other lenders that are typically secured by project assets and cash flows and generally impose no material obligation on the parent-level investor to repay any debt incurred by the project borrower. The consequences of permitting a project-level default include the potential for loss of any invested equity by the parent. However, in some cases, certain obligations relating to the investment being financed, including additional equity commitments, may be guaranteed by Global and/or Energy Holdings for their respective subsidiaries. PSEG does not provide guarantees or credit support to Energy Holdings or its subsidiaries.

During 2007, Energy Holdings' subsidiaries repaid $51 million of non-recourse debt, including $45 million related to PSEG Texas, $4 million to Resources and $2 million to EGDC.

(F) In February 2006, the maturity of the debt was extended to December 31, 2009. On September 29, 2006, 80% of the scheduled outstanding principal became subject to an interest rate swap that converted floating rate Libor interest to a fixed rate of 5.4275% through December 31, 2009. On December 31, 2007, the LIBOR rate on the unswapped portion of the debt was 4.875% and the interest spread was 2.75%.

(G) In April 2006, 80% of the scheduled outstanding principal became subject to interest rate swaps that converted floating rate Libor to a weighted average fixed rate of 4.518%. On December 31, 2007, the LIBOR rate on the unswapped portion of the debt was 4.875% and the interest spread was 1.875%.

(H) Chilquinta was sold in December 2007.

Debt Covenants

Energy Holdings' bank revolving credit agreement has a covenant requiring the ratio of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) to fixed charges to be greater than or equal to 1.75. As of December 31, 2007, Energy Holdings' coverage under this covenant was 3.84. Additionally, the bank revolving credit agreement has a covenant requiring that Energy Holdings maintain a ratio of net debt (recourse debt offset by funds loaned to PSEG) to EBITDA of less than 5.25. As of December 31, 2007, Energy Holdings' ratio under this covenant was 0.75. Energy Holdings is a co-borrower under this facility with Global and Resources, which are joint and several obligors. The terms of the agreement include a pledge of Energy Holdings' membership interest in Global, restrictions on the use of proceeds related to material sales of assets and the satisfaction of certain financial covenants. Net cash proceeds from asset sales in excess of 5% of total assets of Energy Holdings during any 12-month period must be used to repay any outstanding amounts under the credit agreement. Net cash proceeds from asset sales during any 12-month period in excess of 10% of total assets must be retained by Energy Holdings or used to repay the debt of Energy Holdings, Global or Resources.

Energy Holdings' indenture with respect to its senior notes does not permit liens securing indebtedness in excess of 10% of consolidated net tangible assets as calculated under the terms of the indenture. The terms of Energy Holdings' Senior Notes allow the holders to demand repayment if a transaction or series of related transactions causes the assets of Resources to be reduced by 20% or more and as a direct result there is a downgrade of credit ratings.

Credit Ratings

If the rating agencies lower or withdraw the credit ratings, such revisions may adversely affect the market price of Energy Holdings' securities and serve to materially increase its cost of capital and limit its access to capital. Outlooks assigned to ratings are as follows: stable, negative (Neg) or positive (Pos). There is no assurance that the ratings will continue for any given period of time or that they will not be revised by the rating agencies, if, in their respective judgments, circumstances so warrant. Each rating given by an agency should be evaluated independently of the other agencies' ratings. The ratings should not be construed as an indication to buy, hold or sell any security.

The credit ratings of Energy Holdings' Senior Notes are shown in the table below.

	Moody's (A)	S&P (B)	Fitch (C)
Outlook	**Neg**	**Stable**	**Stable**
Senior Notes	Ba3	BB–	BB

(A) Moody's ratings range from Aaa (highest) to C (lowest) for long-term securities and P-1 (highest) to NP (lowest) for short-term securities.

(B) S&P ratings range from AAA (highest) to D (lowest) for long-term securities and A-1 (highest) to D (lowest) for short-term securities.

(C) Fitch ratings range from AAA (highest) to D (lowest) for long-term securities and F1 (highest) to D (lowest) for short-term securities.

Fair Value of Debt

The estimated fair values were determined using the market quotations or values of instruments with similar terms, credit ratings, remaining maturities and redemptions as of December 31, 2007 and 2006, respectively.

	December 31, 2007		December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions)			
Long-Term Debt:				
Senior Notes	$ 1,137	$ 1,204	$ 1,149	$ 1,232
Project Level, Non-Recourse Debt	386	387	599	606
	$ 1,523	$ 1,591	$ 1,748	$ 1,838

Short-Term Liquidity

Energy Holdings has a $150 million five-year credit facility to be used for funding and letters of credit. The facility expires in June 2010. As of December 31, 2007, Energy Holdings had issued $18 million in letters of credit under this facility.

Note 7. Financial Risk Management Activities

Energy Holdings' operations are exposed to market risks from changes in commodity prices, foreign currency exchange rates, interest rates and equity prices that could affect its results of operations and financial condition. Energy Holdings manages exposure to these market risks through its regular operating and financing activities and, when deemed appropriate, hedges these risks through the use of derivative financial instruments. Energy Holdings uses the term 'hedge' to mean a strategy designed to manage risks of volatility in prices or rate movements on certain assets, liabilities or anticipated transactions and by creating a relationship in which gains or losses on derivative instruments are expected to counterbalance the gains or losses on the assets, liabilities or anticipated transactions exposed to such market risks. Energy Holdings uses derivative instruments as risk management tools consistent with its business plan and prudent business practices.

Commodity Derivatives

Global entered into electricity forward and capacity sale contracts to sell a portion of its 2,000 MW in Texas for portions of the current calendar year, with the balance sold into the daily spot market. Global also entered into gas purchase contracts to specifically match the generation requirements to support the electricity forward sales contracts. Although these contracts fix the amount of revenue, fuel costs and cash flows, and thereby provide financial stability to Global's Texas facilities, these contracts are, based on their terms, derivatives that do not meet the specific accounting criteria in SFAS 133 to qualify for the normal purchases and normal sales exception, or to be designated as a hedge for accounting purposes. As a result, these contracts must be recorded at fair value through the income statement. The net fair value of the open positions was $63 million and $38 million as of December 31, 2007 and December 31, 2006, respectively.

Interest Rates

Energy Holdings is subject to the risk of fluctuating interest rates in the normal course of business. Energy Holdings' policy is to manage interest rate risk through the use of fixed and floating rate debt and interest rate derivatives.

Cash Flow Hedges

Energy Holdings uses interest rate swaps and other interest rate derivatives to manage its exposures to the variability of cash flows, primarily related to variable-rate debt instruments. The interest rate derivatives used are designated and effective as cash flow hedges. As of December 31, 2007, the fair value of these cash flow hedges was $(7) million at Energy Holdings. As of December 31, 2006, the fair value of these cash flow hedges was immaterial. As of December 31, 2007, there was no hedge ineffectiveness associated with these hedges.

Note 8. Commitments and Contingent Liabilities

Minimum Fuel Purchase Requirements

The Guadalupe and Odessa plants of PSEG Texas have entered into gas supply agreements for their anticipated fuel requirements to satisfy obligations under their forward energy sales contracts. As of December 31, 2007, the plants had fuel purchase commitments totaling $106 million to support their contracted energy sales.

Leveraged Lease Investments

On November 16, 2006, the Internal Revenue Service (IRS) issued its Revenue Agents report for tax years 1997 through 2000, which disallowed all deductions associated with certain lease transactions that are similar to a type that the IRS publicly announced its intention to challenge. In addition, the IRS imposed a 20% penalty for substantial understatement of tax liability. In February 2007, Energy Holdings filed a protest to the Office of Appeals of the IRS. As of each of December 31, 2007 and December 31, 2006, Resources' total gross investment in such transactions was $1.5 billion.

If all deductions associated with these lease transactions, entered into by Energy Holdings between 1997 and 2002, are successfully challenged by the IRS, it could have a material adverse impact on Energy Holdings' financial position, results of operations and net cash flows and could impact future returns on these transactions. Energy Holdings believes that its tax position related to these transactions is proper based on applicable statutes, regulations and case law and will aggressively contest the IRS' disallowance. Energy Holdings believes that it is more likely than not that it will prevail with respect to the IRS' challenge, although no assurances can be given.

If the IRS' disallowance of tax benefits associated with all of these lease transactions was sustained, $878 million of Energy Holdings' deferred tax liabilities that have been recorded under leveraged lease accounting through December 31, 2007 would become currently payable. In addition, as of December 31, 2007 interest of approximately $179 million, after-tax, and penalties of $169 million may become payable, with potential additional interest and penalties of approximately $17 million accruing quarterly. Energy Holdings' management has assessed the probability of various outcomes to this matter and recorded the tax effect to be realized in accordance with FIN 48. In December 2007, Energy Holdings deposited $100 million with the IRS to defray potential interest costs associated with this disputed tax liability. In the event Energy Holdings is successful in its defense of its position, the deposit is fully refundable with interest.

Minimum Lease Payments

Energy Holdings and its subsidiaries lease office space and equipment under operating leases. Future minimum lease payments are approximately $1 million for each of 2008, 2009 and 2010 with immaterial amounts thereafter. Rent expense was approximately $4 million for each of the years ended December 31, 2007 and 2006.

Global has entered into capital leases relating to its investment in Bioenergie. The total future minimum payments and present value of these capital leases as of December 31, 2007 are:

Year	(Millions)
2008	$ 10
2009	10
2010	7
Thereafter	—
Total Minimum Lease Payments	27
Less: Imputed Interest	(3)
Present Value of Net Minimum Lease Payments	$ 24

Note 9. Income Taxes

A reconciliation of reported income tax expense for Energy Holdings with the amount computed by multiplying pre-tax income by the statutory federal income tax rate of 35% is as follows:

	2007	2006	2005
		(Millions)	
Net Income	$ 82	$ 275	$214
Income from Discontinued Operations, including Gain on Disposal, net of tax expense	24	299	67
Minority Interest in Earnings of Subsidiaries	2	(1)	(1)
Income (Loss) from Continuing Operations, excluding Minority Interests	56	(23)	148
Preference Unit Distributions (net)	—	—	(3)
Income (Loss) from Continuing Operations, excluding Minority Interests and Preference Unit Distributions, net	56	(23)	151
Income taxes:			
Operating income:			
Federal – Current	91	(207)	(65)
Deferred (A)	93	187	149
Investment Tax Credit (ITC)	(1)	(1)	(1)
Total Federal	183	(21)	83
State – Current	(15)	(30)	14
Deferred (A)	28	9	(41)
Total State	13	(21)	(27)
Total Foreign	3	9	2
Total Income Taxes	$ 199	$ (33)	$ 58
Pre-tax Income (Loss)	$ 255	$ (56)	$ 209
Tax Computed at the Statutory Rate @35%	$ 89	$ (20)	$ 73
Increase (Decrease) Attributable to Flow-Through of Certain Tax Adjustments:			
Foreign Operations	$ (12)	$ (20)	$ (22)
Tax Reserve	25	11	6
APB 23	(15)	7	—
Assets Sales	95	8	—
Repatriation	—	—	11
Other	3	(1)	2
State Income Tax (net of Federal Income Tax)	14	(18)	(12)
Subtotal	$ 110	$ (13)	$ (15)
Total Income Tax Provision	$ 199	$ (33)	$ 58
Effective Income Tax Rate	78.0%	58.9%	27.8%

The following is an analysis of deferred income taxes for Energy Holdings:

	2007	2006
Deferred Income Taxes	**(Millions)**	
Assets:		
Non-current:		
OCI	$ 2	$ 16
New Jersey Corporate Business Tax	(41)	(21)
Investment Related Adjustment	—	9
Development Fees	10	10
Related to Uncertain Tax Positions	269	—
Total Non-current	240	14
Total Assets	$ 240	$ 14
Liabilities:		
Current:	$ 150	$ —
Non-current:		
Leasing Activities	1,984	1,842
Partnership Activity	86	51
Related to Foreign Operations	3	(2)
Other	23	21
Total Non-current Liabilities	2,096	1,912
Total Liabilities	$ 2,246	$ 1,912
Summary of Accumulated Deferred Income Taxes:		
Net Current Liabilities	$ 150	$ —
Net Non-current Liability	1,856	1,898
Total Liabilities (Net)	$ 2,006	$ 1,898
ITC	5	5
Current Liabilities-APB 23/Foreign Currency Translation Transferred	(150)	—
Total Deferred Income Taxes and ITC	$ 1,861	$ 1,903

Energy Holdings provides deferred taxes at the enacted statutory tax rate for all temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

The 2005 Jobs Act provided a one-year window to repatriate earnings from foreign investments and claim a special 85% dividends received tax deduction on such distributions. PSEG approved a total of three Domestic Reinvestment Plans, which provided for the repatriation of $242 million through December 2005, of which $177 million was eligible for the reduced tax rate pursuant to the 2005 Jobs Act. The tax expense associated with such repatriation totaled $11 million and was recorded in 2005.

Energy Holdings adopted FIN 48 effective January 1, 2007, which prescribes a model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. For additional information, see Note 2. Recent Accounting Standards. Energy Holdings recorded the following amounts related to its uncertain tax positions:

	(Millions)
Total Amount of Unrecognized Tax Benefits At the Date of Adoption	$ 408
Increases as a result of positions taken in a prior period	55
Decreases as a result of positions taken in a prior period	(27)
Increases as a result of positions taken during the current period	29
Decreases as a result of positions taken during the current period	(12)
Decreases as a result of Settlements with taxing authorities	—
Decreases due to lapses of applicable statute of limitations	—
Total Amount of Unrecognized Tax Benefits at December 31, 2007	$ 453
Accumulated Deferred Income Taxes associated with Unrecognized Tax Benefits	$ (269)
Total Amount of Unrecognized Tax Benefits that if recognized, would impact the effective tax rate (includes interest and penalties)	$ 184

On December 17, 2007, Energy Holdings made a tax deposit with the IRS in the amount of $100 million to defray interest costs associated with disputed tax assessments associated with certain lease investments (see Note 8. Commitments and Contingent Liabilities). The $100 million deposit is fully refundable and is recorded as a reduction to the Unrecognized Tax Benefit liability on the Energy Holdings' Consolidated Balance Sheet, but is not reflected in the amounts shown above.

Energy Holdings and its subsidiaries include all accrued interest and penalties, required to be recorded under FIN 48, as income tax expense. Energy Holdings' interest and penalties on Unrecognized Tax Benefits as of December 31, 2007 was $125 million.

It is reasonably possible that approximately $33 million of unrecognized tax benefits associated with various items included in federal income tax returns for years 2001-2003 related to Energy Holdings will be reversed within 12 months due to agreement with the IRS's position with respect to these items. This amount relates to a number of miscellaneous adjustments proposed by the IRS with which Energy Holdings does not take issue.

It is reasonably possible that approximately $4 million of unrecognized tax benefits associated with various items applicable to Energy Holdings included in federal income tax returns for years 1997-2000 will be reversed within 12 months due to a settlement agreement with the IRS with regard to these items. These issues dealt with the computation of gain on a transfer of certain investments outside the United States.

Description of Income Tax years that remain subject to examination by material jurisdictions, where an examination has not already concluded:

United States	
Federal	2001-2006
New Jersey	2000-2006
Texas	2006
California	2002-2006
Foreign	
Chile	2004-2006
Peru	2002-2006

Note 10. Financial Information by Business Segment

The reportable segments were determined by management in accordance with SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information". These segments were determined based on how management measures performance based on segment Net Income, as illustrated in the following table, and how it allocates resources to each business.

Global

Global primarily earns revenues from its domestic investments in and operation of projects in the generation of energy. The generation plants sell power under long-term agreements as well as on a merchant basis. Revenues include revenues of consolidated investments. Gains and losses on sales of investments are typically recognized in revenues. Global has sold the majority of its previously owned international generation and distribution businesses. Global's largest remaining international investment is in SAESA, which has been reclassified to discontinued operations following the announcement that Global began exploring the sale of that investment in December 2007.

Resources

Resources earns revenues from its passive investments in leveraged leases, limited partnerships, leveraged buyout funds and marketable securities. Approximately 96% of Resources' investments are in leveraged leases. Demand Side Management investments earn revenues primarily from monthly payments from utilities, representing shared electricity savings from the installation of energy efficient equipment. Resources operates both domestically and internationally; however, revenues from all international investments are denominated in U.S. dollars. Gains and losses on sales of investments are typically recognized in operating revenues.

Other

Energy Holdings' other activities primarily include amounts applicable to parent company transactions, EGDC and intercompany eliminations. No gains or losses are recorded on any intercompany transactions; rather, all intercompany transactions are at cost. The net losses primarily relate to financing and certain administrative and general costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Information related to the segments of PSEG and its subsidiaries is detailed below:

	Resources	Global	Other	Consolidated Total
		(Millions)		
For the Year Ended December 31, 2007:				
Total Operating Revenues	$ 157	$ 795	$ 9	$ 961
Depreciation and Amortization.	11	27	—	38
Income from Equity Method Investments	1	114	1	116
Operating Income	128	308	(2)	434
Interest Income.	—	8	—	8
Interest Expense	31	109	13	153
Income (Loss) Before Income Taxes	97	211	(53)	255
Income Tax Expense (Benefit)	39	182	(22)	199
Income (Loss) From Continuing Operations	58	31	(31)	58
Income (Loss) from Discontinued Operations, net of tax, including Gain on Disposal	—	24	—	24
Net Income (Loss)	58	55	(31)	82
Segment Earnings (Loss)	58	55	(31)	82
Gross Additions to Long-Lived Assets	$ 1	$ 50	$ 1	$ 52
As of December 31, 2007:				
Total Assets	$ 2,992	$ 2,334	$ 837	$ 6,163
Investments in Equity Method Subsidiaries	$ —	$ 208	$ —	$ 208
For the Year Ended December 31, 2006:				
Total Operating Revenues	$ 174	$ 772	$ 9	$ 955
Depreciation and Amortization	11	22	(1)	32
Income from Equity Method Investments	—	120	—	120
Operating Income (Loss)	142	(22)	(6)	114
Interest Income	—	6	—	6
Interest Expense	51	115	19	185
Income (Loss) Before Income Taxes	85	(135)	(6)	(56)
Income Tax Expense (Benefit)	22	(52)	(3)	(33)
Income (Loss) From Continuing Operations	63	(84)	(3)	(24)
Income (Loss) from Discontinued Operations, net of tax, including Gain on Disposal	—	299	—	299
Net Income (Loss)	63	215	(3)	275
Segment Earnings (Loss)	63	215	(3)	275
Gross Additions to Long-Lived Assets	$ 1	$ 62	$ 1	$ 64
As of December 31, 2006:				
Total Assets	$ 2,969	$ 3,095	$ 100	$ 6,164
Investments in Equity Method Subsidiaries	$ 5	$ 818	$ —	$ 823
For the Year Ended December 31, 2005:				
Total Operating Revenues	$ 247	$ 731	$ 9	$ 987
Depreciation and Amortization	7	22	—	29
(Loss) Income from Equity Method Investments	(1)	125	—	124
Operating Income (Loss)	208	211	(11)	408
Interest Income.	—	8	—	8
Interest Expense.	73	121	1	195
Income (Loss) Before Income Taxes	130	86	(7)	209
Income Tax Expense (Benefit)	38	23	(3)	58
Income (Loss) From Continuing Operations.	92	63	(5)	150
(Loss) Income from Discontinued Operations, net of tax	—	67	—	67
Net Income (Loss)	92	130	(5)	217
Segment Earnings (Loss)	92	127	(2)	217
Gross Additions to Long-Lived Assets	$ 3	$ 64	$ —	$ 67

Geographic information for Energy Holdings is disclosed below:

	Revenues			Assets(A)	
	December 31,			December 31,	
	2007	2006	2005	2007	2006
			(Millions)		
United States	$ 727	$ 845	$ 874	$ 3,209	$ 2,456
Foreign Countries	234	110	113	2,954	3,708
Total	$ 961	$ 955	$ 987	$ 6,163	$ 6,164

	2007	2006
Identifiable assets in foreign countries include:		
Chile(B)	$ 1,162	$ 1,441
Netherlands	1,221	1,231
Peru(C)	—	462
Austria	196	191
Italy	162	149
Other	213	234
Total	$ 2,954	$ 3,708

(A) Total assets are net of foreign currency translation adjustment of $108 million (after-tax) as of December 31, 2007 and $111 million (after-tax) as of December 31, 2006.

(B) Balance as of December 31, 2007 includes the assets of discontinued operations for SAESA. Balance as of December 31, 2006 also includes the equity investment in Chilquinta which was sold in 2007. See Note 3. Discontinued Operations, Dispositions, Acquisitions and Impairments.

(C) Balance as of December 31, 2006 includes the assets of discontinued operations for Electroandes and LDS which were sold in 2007. See Note 3. Discontinued Operations, Dispositions, Acquisitions and Impairments.

Note 11. Property, Plant and Equipment

Information related to Property, Plant and Equipment is detailed below:

	As of December 31,	
	2007	2006
	(Millions)	
Generation and Distribution	$ 726	$ 699
Commercial Buildings, Land and Other Real Estate	193	197
Aircraft	47	47
Other	6	6
Total	$ 972	$ 949

Note 12. Related-Party Transactions

Tax Sharing Agreement

Energy Holdings is included in a consolidated federal income tax return filed by PSEG. A tax allocation agreement exists between PSEG and Energy Holdings. The general operation of these agreements is that the subsidiary company will compute its taxable income on a stand-alone basis. If the result is a net tax liability, such amount shall be paid to PSEG. If there are net operating losses and/or tax credits, the subsidiary shall receive payment for the tax savings from PSEG to the extent that PSEG is able to utilize those benefits.

As of December 31, 2007 and 2006, respectively, Energy Holdings had a payable to PSEG of $103 million and $10 million, respectively, related to its taxes.

In addition to these tax payable amounts, as of December 31, 2007, Energy Holdings had a $38 million current payable and $316 million long-term payable to PSEG related to unrecognized tax positions. PSEG and its subsidiaries adopted FIN 48 effective January 1, 2007, which prescribes a model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. See Note 2. Recent Accounting Standards and Note 9. Income Taxes for additional information.

PSEG Services Corporation (Services)

Services is a wholly owned subsidiary of PSEG and provides management and administrative and general services to PSEG and its subsidiaries. These include accounting, treasury, financial risk management, law, tax communications, planning, development, human resources, corporate secretarial, information technology, investor relations, stockholder services, real estate, insurance, library, records and information services, security and certain other services. Services charges Energy Holdings and its subsidiaries for the cost of work performed and services provided pursuant to the terms and conditions of intercompany service agreements. Energy Holdings believes that the costs of services provided by Services approximate market value for such services. In addition, Energy Holdings has other payables to Services, including amounts related to certain common costs, such as pension and other postretirement benefits (OPEB) costs, which Services pays on behalf of each of the operating companies. Services' billings to Energy Holdings for the years ended December 31, 2007, 2006 and 2005 were $20 million, $19 million and $18 million, respectively. Energy Holdings payable to Services as of December 31, 2007 and 2006 was $3 million and $2 million, respectively.

Affiliate Loans and Advances

As of December 31, 2007 and December 31, 2006, Energy Holdings had a demand note receivable from PSEG of $841 million and $28 million, respectively, for short-term funding needs.

Changes in Capitalization

Energy Holdings made total distributions of capital to PSEG of $355 million and $520 million in 2007 and 2006, respectively, as ordinary unit returns. Energy Holdings' total distributions of capital to PSEG of $412 million in 2005 was comprised of a $100 million ordinary unit return, $184 million preferred unit redemption, $125 million ordinary unit distribution and $3 million of preference unit distributions during 2005.

Note 13. Pension and OPEB

PSEG sponsors several qualified and nonqualified pension plans and other postretirement benefit plans covering PSEG's and its participating affiliates' current and former employees who meet certain eligibility criteria.

Energy Holdings' share of the projected benefit obligation of all of PSEG's defined pension plans as of December 31, 2007 and 2006 was $12 million. Energy Holdings' share of PSEG's accumulated benefit obligation for pension benefits was $11 million and $10 million as of December 31, 2007 and 2006, respectively. Energy Holdings' share of PSEG's accumulated postretirement benefit obligation for OPEB as of December 31, 2007 and 2006 was less than $1 million.

Energy Holdings related pension and OPEB costs for each of the years ended December 31, 2007, 2006 and 2005, were $2 million.

PSEG also sponsors two 401(k) plans, which are Employee Retirement Income Security Act defined contribution plans. Eligible non-represented employees of Energy Holdings participate in the PSEG Thrift and Tax-Deferred Savings Plan (Thrift Plan). Eligible employees may contribute up to 50% of their compensation to these plans. Employee contributions up to 7% for Savings Plan participants and up to 8% for Thrift Plan participants are matched with Employer contributions of cash equal to 50% of such employee contributions. The amounts paid for Employer matching contributions to the plans for Energy Holdings were less than $1 million for each of the years ended December 31, 2007, 2006 and 2005.