PSEG

Energy Holdings L.L.C.

Quarterly Report
March 31, 2008

Table of Contents

PSEG ENERGY HOLDINGS L.L.C.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For The Quarters Ended March 31,	
	2008	2007
	(Millions) (Unaudited)	
OPERATING REVENUES		
Electric Generation Revenues	$ 114	$ 95
Income from Leveraged and Operating Leases	30	33
Other	4	20
Total Operating Revenues	148	148
OPERATING EXPENSES		
Energy Costs	73	96
Operation and Maintenance	38	38
Depreciation and Amortization	9	10
Total Operating Expenses	120	144
Income from Equity Method Investments	12	27
OPERATING INCOME	40	31
Other Income	5	15
Other Deductions	(2)	(1)
Interest Expense	(24)	(39)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	19	6
Income Tax Benefit (Expense)	7	(18)
Minority Interest in Earnings of Subsidiaries	—	1
INCOME (LOSS) FROM CONTINUING OPERATIONS	26	(11)
Income from Discontinued Operations, net of tax	14	14
EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	$ 40	$ 3

See Notes to Condensed Consolidated Financial Statements

PSEG ENERGY HOLDINGS L.L.C.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2008	December 31, 2007
	(Millions) (Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 30	$ 32
Accounts Receivable:		
Trade – net of allowances		
of $0 and $1 in 2008 and 2007, respectively	22	13
Other Accounts Receivable	46	7
Affiliated Companies	1	—
Notes Receivable - Affiliated Companies	85	841
Inventory	20	24
Restricted Funds	42	57
Assets of Discontinued Operations	1,394	1,162
Derivative Contracts	21	18
Other	7	7
Total Current Assets	1,668	2,161
PROPERTY, PLANT AND EQUIPMENT	983	972
Less: Accumulated Depreciation and Amortization	(179)	(174)
Net Property, Plant and Equipment	804	798
NONCURRENT ASSETS		
Leveraged Leases, net	2,778	2,826
Corporate Joint Ventures and Partnership Interests	253	248
Intangibles	7	13
Derivative Contracts	46	43
Other	71	74
Total Noncurrent Assets	3,155	3,204
TOTAL ASSETS	$ 5,627	$ 6,163

See Notes to Condensed Consolidated Financial Statements

PSEG ENERGY HOLDINGS L.L.C.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2008	December 31, 2007
	(Millions) (Unaudited)	
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$ 34	$ 644
Accounts Payable:		
Trade	22	17
Affiliated Companies	61	138
Derivative Contracts	41	3
Accrued Interest	13	19
Deferred Income Taxes	188	150
Liabilities of Discontinued Operations	648	520
Other	39	89
Total Current Liabilities	1,046	1,580
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment and Energy Tax Credits	1,817	1,861
Derivative Contracts	5	4
Long-Term Accrued Taxes	304	316
Other	69	70
Total Noncurrent Liabilities	2,195	2,251
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 4)		
MINORITY INTERESTS	16	16
LONG-TERM DEBT		
Senior Notes	525	530
Project Level, Non-Recourse Debt	339	349
Total Long-Term Debt	864	879
MEMBER'S EQUITY		
Ordinary Unit	838	838
Retained Earnings	516	498
Accumulated Other Comprehensive Income	152	101
Total Member's Equity	1,506	1,437
TOTAL LIABILITIES AND MEMBER'S EQUITY	$ 5,627	$ 6,163

See Notes to Condensed Consolidated Financial Statements

PSEG ENERGY HOLDINGS L.L.C.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Quarters Ended March 31, 2008	2007
	(Millions) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 40	$ 3
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	9	14
Deferred Income Taxes (Other than Leases)	(1)	(14)
Leveraged Lease Income, Adjusted for Rent received and Deferred Income Taxes	(26)	(15)
Undistributed Earnings from Affiliates	(21)	32
Gain on Sale of Investments	—	(16)
Unrealized Loss on Investments	1	—
Foreign Currency Transaction Loss	—	1
Change in Fair Value of Derivative Financial Instruments	—	30
Net Changes in Certain Current Assets and Liabilities	(145)	36
Investment Income and Dividend Distributions from Partnerships	—	11
Net Cash (Used In) Provided By Operating Activities	(143)	82
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(2)	(16)
Proceeds from the Sale of Investments and Capital Leases	40	7
Short-Term Loan Receivable – Affiliated Company, net	756	3
Restricted Funds	19	34
Other	1	1
Net Cash Provided By Investing Activities	814	29
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Change in Short-Term Borrowings	—	8
Repayment of Non-Recourse Long-Term Debt	(13)	(16)
Premium Paid on Early Extinguishment of Debt	(48)	—
Repayment of Senior Notes	(612)	—
Return of Contributed Capital	—	(145)
Net Cash Used In Financing Activities	(673)	(153)
Net Decrease in Cash and Cash Equivalents	(2)	(42)
Cash and Cash Equivalents at Beginning of Period	32	64
Cash and Cash Equivalents at End of Period	$ 30	$ 22
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid	$ 122	$ 1
Interest Paid, Net of Amounts Capitalized	$ 4	$ 23

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Organization and Basis of Presentation

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. Global owns 100% of PSEG Texas, LP (PSEG Texas) 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 has a generation capacity of 1,000 MW.

Global has other domestic projects in California and Hawaii, with smaller investments in New Hampshire and Pennsylvania.

In December 2007, Global announced that it intends to sell its largest remaining international investment, the SAESA Group. For additional information, see Note 3. Discontinued Operations and Dispositions. Global is also continuing to explore options for its other remaining international investments in Italy, Venezuela and India, which had a total book asset value of approximately $123 million as of March 31, 2008.

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.

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 March 31, 2008.

Basis of Presentation

The Condensed Consolidated Financial Statements included herein have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). These Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements (Notes) should be read in conjunction with, and update and supplement matters discussed in Energy Holdings' Annual Report for the year ended December 31, 2007.

The unaudited Condensed Consolidated Financial information furnished herein reflects all adjustments which are, in the opinion of management, necessary to fairly state the results for the interim periods presented. All such adjustments are of a normal recurring nature. The year-end Condensed Consolidated Balance Sheet was derived from the audited Consolidated Financial Statements included in the Annual Report for the year ended December 31, 2007.

Reclassifications

Certain reclassifications have been made to the prior period financial statements to conform to the 2008 presentation. Operating results for the SAESA Group and Electroandes S.A. (Electroandes) were reclassified to Income from Discontinued Operations on the Condensed Consolidated Statement of Operations of Energy Holdings for the first quarter of 2007. See Note 3. Discontinued Operations and Dispositions.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 2. Recent Accounting Standards

The following accounting standards were issued by the Financial Accounting Standards Board (FASB), but have not yet been adopted by Energy Holdings.

Statement of Financial Accounting Standards (SFAS) No. 141 (revised 2007), "Business Combinations" (SFAS 141(R))

In December 2007, the FASB issued SFAS 141(R) which replaces SFAS No. 141 "Business Combinations." SFAS 141(R) will change financial accounting and reporting of business combination transactions. It 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 an acquiree. The standard also expands the definition of a business. A transaction 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 141(R) is effective for all business combinations with an acquisition date on or after the beginning of fiscal years commencing 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. Energy Holdings does not anticipate a material impact to its financial statements upon adoption.

SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin (ARB) No. 51" (SFAS 160)

In December 2007, the FASB issued SFAS 160 which significantly changes the financial reporting relationship between a parent and non-controlling interests (i.e. minority interests). SFAS 160 requires all entities to report minority interests in subsidiaries as a separate component of 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, SFAS 160 requires that the transactions between a parent and noncontrolling interests should be 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. Energy Holdings will adopt SFAS 160 effective January 1, 2009. Energy Holdings does not anticipate a material impact to its respective financial statements upon adoption.

SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133" (SFAS 161)

In March 2008, the FASB issued SFAS 161 which expands derivative disclosures by requiring an entity to disclose: i) an understanding of how and why an entity uses derivatives, ii) an understanding of how derivatives and related hedged items are accounted for and iii) transparency into the overall impact of derivatives on an entity's financial statements.

SFAS 161 is effective for fiscal years beginning on or after November 15, 2008. Earlier adoption is encouraged. Energy Holdings is currently analyzing the requirements of SFAS 161 and will adopt the standard on January 1, 2009. As SFAS 161 provides only disclosure requirements, Energy Holdings does not anticipate a material impact to its respective financial statements.

The following new accounting standards were adopted by Energy Holdings during 2008.

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.

SFAS 157 also nullifies the guidance in footnote 3 of Emerging Issues Task Force (EITF) 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 to derivative (and other) instruments measured at fair value at initial recognition under 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 transactions 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 (pre-tax) related to Global's Texas generation facilities. In accordance with the provisions of SFAS 157, Energy Holdings recorded a cumulative effect adjustment of $22 million (after-tax) to January 1, 2008 Retained Earnings associated with the implementation of SFAS 157.

Energy Holdings adopted SFAS 157 (except for non-financial assets and liabilities as described in FASB Staff Position (FSP) FAS 157-2) effective January 1, 2008. In February 2008, the FASB issued FSP FAS 157-2 to partially defer the effective date of SFAS 157 for certain non-financial assets and non-financial liabilities. In February 2008, the FASB also issued FSP FAS 157-1 to exclude leasing transactions from SFAS 157's scope.

For additional information, see Note 12. Fair Value Measurements.

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 in earnings at each subsequent reporting date on items for which the fair value option has been elected. 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 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.

Energy Holdings adopted SFAS 159 effective January 1, 2008; however, to date, Energy Holdings has not elected to measure any of its assets or liabilities at fair value under this standard.

Note 3. Discontinued Operations and Dispositions

Discontinued Operations

SAESA Group

On December 18, 2007, Global announced that it intends to sell its investment in the SAESA Group. The SAESA Group consists of four distribution companies, one transmission company and a generation facility located in Chile.

SAESA Group's operating results for the quarters ended March 31, 2008 and 2007, which are included in Discontinued Operations, are summarized below:

	Quarters Ended March 31, 2008	Quarters Ended March 31, 2007
	(Millions)	
Operating Revenues	$ 186	$ 94
Income Before Income Taxes	$ 20	$ 16
Net Income	$ 14	$ 14

The carrying amounts of SAESA Group's assets as of March 31, 2008 and December 31, 2007 are summarized in the following table:

	As of March 31, 2008	As of December 31, 2007
	(Millions)	
Current Assets	$ 264	$ 191
Noncurrent Assets	1,130	971
Total Assets of Discontinued Operations	$ 1,394	$ 1,162
Current Liabilities	$ 206	$ 130
Noncurrent Liabilities	442	390
Total Liabilities of Discontinued Operations	$ 648	$ 520

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 sale was completed on October 17, 2007 for a total purchase price of $390 million, including the assumption of approximately $108 million of debt.

Electroandes' operating results for the quarter ended March 31, 2007, which are included in Discontinued Operations, are summarized below:

	Quarter Ended March 31, 2007
	(Millions)
Operating Revenues	$ 11
Income Before Income Taxes	$ 1
Net Income	$ —

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.

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).

Note 4. Commitments and Contingent Liabilities

Leveraged Lease Investments

On November 16, 2006, the IRS issued its Revenue Agent's 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 of these findings with the Office of Appeals of the IRS.

On April 9, 2008, the IRS issued its Revenue Agent's Report for tax years 2001 through 2003, which disallowed all deductions associated with lease transactions similar to those disallowed in its 1997 through 2000 Report. As in its prior report, the IRS imposed a 20% penalty. Energy Holdings is presently preparing a protest to this report which will be filed with the Office of Appeals of the IRS.

As of March 31, 2008 and December 31, 2007, Resources' total gross investment in such transactions was $1.5 billion.

Energy Holdings has been in discussions with the Office of Appeals of the IRS concerning the deductions that have been disallowed. The outcome of such discussions cannot be predicted.

There are several tax cases involving other taxpayers with similar leverage lease investments that are pending. To date, two of these cases have been decided at the trial court level, both in favor of the government. One of these decisions was recently affirmed on appeal. The other cases are in earlier stages. Based on these developments and its ongoing discussions with the IRS, Energy Holdings anticipates that, absent reaching an agreement with the IRS to resolve this issue, a decision to proceed to litigation may occur in 2008. It is also reasonably possible that a re-measurement of unrecognized tax benefits related to these lease transactions will occur during the next 12 months. Such re-measurement could result in a material charge to earnings and a corresponding material impact to the Condensed Consolidated Balance Sheet; however, such impacts cannot be estimated at this time.

If all deductions associated with these lease transactions are successfully challenged by the IRS, it could have a material adverse impact on Energy Holdings' Condensed Consolidated Financial Statements 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.

If the IRS' disallowance of tax benefits associated with the lease transactions were sustained, $904 million of Energy Holdings' deferred tax liabilities that have been recorded under leveraged lease accounting through March 31, 2008 would become currently payable. In addition, as of March 31, 2008 interest of $195 million, after-tax, and penalties of $173 million may become payable, with potential additional interest and penalties of $15 million continuing to accrue 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, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement 109" (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.

Sales and Fuel Supply Contracts

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.

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 March 31, 2008, the plants had fuel purchase commitments totaling $83 million to support all of their contracted energy sales.

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. Fuel for Global's California projects is procured under shorter-term agreements with several suppliers and is subject to market price trends. Global's other risks related to these projects are primarily operational in nature and have historically been minimal.

Note 5. 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 results of operations and financial conditions. 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.

Derivatives

Global entered into electricity forward and capacity sales contracts to sell a portion of its 2,000 MW capacity with the balance sold into the daily spot market. Global also enters 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 Condensed Consolidated Statements of Operations. The net fair value of the open positions was $32 million and $63 million as of March 31, 2008 and December 31, 2007, respectively.

In March 2008, in connection with the proposed sale of SAESA, Energy Holdings purchased two options to sell Chilean Pesos and receive U.S. Dollars at strike prices of 475 and 480 Chilean Pesos to the U.S. Dollar for a combined notional amount of $100 million. These are four month options which will protect the expected sales proceeds of SAESA from a devaluation of the Chilean Peso prior to the anticipated sale. The fair value of the option contracts was $1 million at March 31, 2008. Subsequent to March 31, 2008, Energy Holdings entered into four additional options at strike prices between 470 and 480 Chilean Pesos to the U.S. Dollar for an additional notional amount of $200 million.

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 March 31, 2008, the fair value of these cash flow hedges was $(13) million at Energy Holdings. As of December 31, 2007, the fair value of these cash flow hedges was $(7) million. As of March 31, 2008, there was no hedge ineffectiveness associated with these hedges.

Note 6. Comprehensive Income, Net of Tax

	Quarter Ended March 31,	
	2008	2007
	(Millions)	
Net Income	$ 40	$ 3
Other Comprehensive (Loss) Income	51	(9)
Comprehensive Income	$ 91	$ (6)

Accumulated Other Comprehensive Income (Loss)

	Balance as of December 31, 2007	2008 Activity	Balance as of March 31, 2008
		(Millions)	
For the Quarter Ended March 31, 2008:			
Derivative Contracts	$ (6)	$ (3)	$ (9)
Pension and OPEB Plans	—	(2)	(2)
Currency Translation Adjustment	107	56	163
	$ 101	$ 51	$ 152

	Balance as of December 31, 2006	2007 Activity	Balance as of March 31, 2007
		(Millions)	
For the Quarter Ended March 31, 2007:			
Derivative Contracts	$ (2)	$ —	$ (2)
Pension and OPEB Plans	(5)	—	(5)
Currency Translation Adjustment	110	(9)	101
	$ 103	$ (9)	$ 94

Note 7. Changes in Capitalization

In March 2008, Energy Holdings repurchased $5 million of the $530 million then outstanding 8.50% Senior Notes due 2011.

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

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.

During the first quarter of 2008, Energy Holdings' subsidiaries repaid $13 million of non-recourse debt, primarily related to Global's Texas generation facilities.

Note 8. Other Income and Deductions

	(Millions)
Other Income:	
For the Quarter Ended March 31, 2008:	
Interest and Dividend Income	$ 5
Total Other Income	$ 5
For the Quarter Ended March 31, 2007:	
Interest and Dividend Income	$ 3
Arbitration Award (Konya-Ilgin)	9
Other	3
Total Other Income	$ 15
Other Deductions:	
For the Quarter Ended March 31, 2008:	
Loss on Early Extinguishment of Debt	$ 2
Total Other Deductions	$ 2
For the Quarter Ended March 31, 2007:	
Other	$ 1
Total Other Deductions	$ 1

Note 9. Pension and Other Postretirement Benefits (OPEB)

PSEG sponsors several qualified and nonqualified pension plans and OPEB plans covering Energy Holdings' and its participating affiliates' current and former employees who meet certain eligibility criteria. OPEB costs are presented net of the federal subsidy expected for prescription drugs under the Medicare Prescription Drug Improvement and Modernization Act of 2003. Energy Holdings' share of the net periodic benefit costs relating to all qualified and nonqualified pension and OPEB plans on an aggregate basis for the quarters ended March 31, 2008 and 2007 was less than $1 million.

Note 10. Income Taxes

An analysis of the tax provision expense is as follows:

For the Quarter Ended March 31, 2008:		
Income Before Income Taxes	$	19
Tax Computed at the Statutory Rate	$	7
Increase (Decrease) Attributable to Flow Through of Certain Tax Adjustments:		
State Income Taxes after Federal Benefit		(2)
Uncertain Tax Positions		(11)
Other		(1)
Total Income Tax Benefit	$	(7)
Effective Income Tax Rate		N/A

For the Quarter Ended March 31, 2007:		
Income Before Income Taxes	$	6
Tax Computed at the Statutory Rate	$	2
Increase (Decrease) Attributable to Flow Through of Certain Tax Adjustments:		
State Income Taxes after Federal Benefit		(1)
Foreign Operations		12
Uncertain Tax Positions		5
Total Income Tax Expense	$	18
Effective Income Tax Rate		N/A

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.

Energy Holdings 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.

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 4. Commitments and Contingent Liabilities). The $100 million deposit is fully refundable and is recorded as a reduction to the Unrecognized Tax Benefit liability on Energy Holdings' Condensed Consolidated Balance Sheet.

Based on decisions in two court cases involving lease investments by other taxpayers as described in Note 4. Commitments and Contingent Liabilities, it is reasonably possible that a re-measurement of unrecognized tax benefits will occur during the next 12 months. Such re-measurement could result in a material charge to earnings and a corresponding material impact to Energy Holdings' Condensed Consolidated Balance Sheet; however, such impacts cannot be estimated at this time.

It is reasonably possible that approximately $(30) million of unrecognized tax benefits at Energy Holdings associated with a change in accounting method for federal income tax purposes, will be settled within 12 months due to agreement with the IRS' position with respect to these items. The change in method related to the adoption of the Simplified Service cost method of capitalizing indirect costs.

Note 11. Financial Information by Business Segments

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

	Resources	Global	Other (A)	Consolidated
		(Millions)		
For the Quarter Ended March 31, 2008:				
Total Operating Revenues	$ 31	$ 114	$ 3	$ 148
Income From Continuing Operations	14	12	—	26
Income from Discontinued Operations, net of tax	—	14	—	14
Net Income	14	26	—	40
Segment Earnings	14	26	—	40
Gross Additions to Long-Lived Assets	—	2	—	2
As of March 31, 2008:				
Total Assets	$ 2,959	$ 2,521	$ 147	$ 5,627
Investments in Equity Method Subsidiaries	$ —	$ 214	$ —	$ 214
For the Quarter Ended March 31, 2007:				
Total Operating Revenues	$ 44	$ 102	$ 2	$ 148
Income (Loss) From Continuing Operations	17	(27)	(1)	(11)
Income from Discontinued Operations, net of tax	—	14	—	14
Net Income (Loss)	17	(13)	(1)	3
Segment Earnings (Loss)	17	(13)	(1)	3
Gross Additions to Long-Lived Assets	—	16	—	16
As of December 31, 2007:				
Total Assets	$ 2,992	$ 2,334	$ 837	$ 6,163
Investments in Equity Method Subsidiaries	$ —	$ 208	$ —	$ 208

(A) Energy Holdings' other activities include amounts applicable to Energy Holdings (as parent company) and EGDC. No gains or losses are recorded on any intercompany transactions; rather, all intercompany transactions are at cost. For a further discussion of the intercompany transactions, see Note 13. Related-Party Transactions.

Note 12. Fair Value Measurements

Effective January 1, 2008, Energy Holdings adopted SFAS 157 except for non-financial assets and liabilities as described in FSP FAS 157-2 and discussed in Note 2. Recent Accounting Standards. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and establishes a fair value hierarchy that distinguishes between assumptions based on market data obtained from independent sources and those based on an entity's own assumptions. The hierarchy prioritizes the inputs to fair value measurement into three levels:

Level 1—measurements utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that Energy Holdings has the ability to access. These consist primarily of listed equity securities, exchange traded derivatives and certain U.S. government treasury securities.

Level 2—measurements include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable inputs such as interest rates and yield curves that are observable at commonly quoted intervals. These consist primarily of non-exchange traded derivatives such as forward contracts or options and most fixed income securities.

Level 3—measurements use unobservable inputs for assets or liabilities, are based on the best information available and might include an entity's own data. In some valuations, the inputs used may fall into different levels of the hierarchy. In these cases, the financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These consist mainly of various firm transmission rights (FTRs), other longer term capacity and transportation contracts and certain commingled securities.

In addition to establishing a measurement framework, SFAS 157 nullifies the guidance of EITF 02-3, which did not allow an entity to recognize an unrealized gain or loss at the 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 transactions or based on a valuation technique incorporating observable market data. Under EITF 02-3, Global had a deferred inception loss of $34 million; pre-tax, at December 31, 2007 related to a five-year capacity contract at its Texas generation facilities, which was being amortized at $11 million per year through 2010. In accordance with the provisions of SFAS 157, PSEG Texas recorded a cumulative effect adjustment of $22 million after-tax to January 1, 2008 Retained Earnings associated with the implementation of SFAS 157.

The following table presents information about Energy Holdings' assets and liabilities measured at fair value on a recurring basis at March 31, 2008, including the fair value measurements and the levels of inputs used in determining those fair values.

	Recurring Fair Value Measurements as of March 31, 2008			
Description	**Total at March 31, 2008**	**Quoted Market Prices for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Derivative Contracts:				
Commodity Contracts (A)	$ 67	$ —	$ 6	$ 61
Foreign Currency Contract (B)	$ 1	$ —	$ 1	$ —
Rabbi Trusts (C)	$ 15	$ 2	$ 12	$ 1
Other Long-Term Investments (D)	$ 4	$ 4	$ —	$ —
Liabilities:				
Derivative Contracts:				
Commodity Contracts (A)	$ 34	$ —	$ 34	$ —
Interest Rate Swaps (B)	$ 12	$ —	$ 12	$ —

(A) Other commodity contracts primarily include more complex agreements for which limited pricing information is available. These contracts are valued using modeling techniques and assumptions reflective of contractual terms, current market rates, forward price curves, discount rates and risk factors, as applicable.

(B) Interest rate swaps and foreign currency contracts are valued using quoted prices on commonly quoted intervals, which are interpolated for periods different than the quoted intervals, as inputs to a market valuation model. Market inputs can generally be verified and model selection does not involve significant management judgment.

(C) The Rabbi Trusts maintain investments in various equity and fixed income securities classified as "available for sale" under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." These securities are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. All fair value measurements for the fund securities are provided by the trustees of these funds. Most equity securities are priced utilizing the principal market close price or in some cases midpoint, bid or ask price (primarily Level 1). Fixed income securities are priced using an evaluated pricing approach or the most recent exchange or quoted bid (primarily Level 2). Short-term investments are valued based upon internal matrices using observable market prices or market parameters such as time-to-maturity, coupon rate, quality rating and current yield (primarily Level 2). Certain commingled cash equivalents included in temporary investment funds are measured with significant unobservable inputs and internal assumptions (primarily Level 3).

(D) Other long-term investments consist of equity securities and are valued using a market based approach based on quoted market prices.

A reconciliation of the beginning and ending balances of Level 3 derivative contracts and securities follows:

Changes in Level 3 Assets and (Liabilities) Measured at Fair Value on a Recurring Basis

Description	Balance at January 1, 2008	Total Gains Realized/ Unrealized Included in Income (A)	Purchases	Balance at March 31, 2008
		(Millions)		
Derivative Assets	$ 28	$ 33	$ —	$ 61
Rabbi Trusts	$ 1	$ —	$ —	$ 1

(A) Energy Holdings' gains and losses are mainly attributable to changes in derivative assets and liabilities of which $33 million is included in Operating Revenues. The $33 million (unrealized) in Operating Revenues, relates to PSEG Texas.

(B) Mainly includes losses on Energy Holdings' derivative contracts that are not included in either earnings or Other Comprehensive Income, as they are deferred as a regulatory asset and are expected to be recovered from Energy Holdings' customers.

As of March 31, 2008, Energy Holdings carried approximately $40 million of net assets that are measured at fair value on a recurring basis, of which approximately $62 million are measured using unobservable inputs and classified as level 3 within the fair value hierarchy. These Level 3 net assets represent approximately 1% of Energy Holdings' total assets and there were no significant transfers in or out of Level 3 during the quarter ended March 31, 2008. The overall impact of gains and losses associated with Level 3 assets and liabilities was immaterial to Energy Holdings' Condensed Consolidated Financial Statements for the quarter.

Note 13. Related-Party Transactions

The majority of the following discussion relates to intercompany transactions. These transactions were properly recognized on each company's stand-alone financial statements and were eliminated during the consolidation process in accordance with GAAP when preparing Energy Holdings' Condensed Consolidated Financial Statements.

Tax Sharing Agreements

Energy Holdings is included in a consolidated federal income tax filed by PSEG. A tax allocation exists between PSEG and Energy Holdings. The general operation of these 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 for the tax savings from PSEG to the extent that PSEG is able to utilize those benefits.

As of March 31, 2008 and December 31, 2007, Energy Holdings had a payable to PSEG of $22 million and $103 million respectively related to its taxes.

In addition to these tax payable amounts, as of March 31, 2008, Energy Holdings had a $38 million current payable and $304 million long-term payable to PSEG related to unrecognized tax positions. 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 10. Income Taxes for additional information.

Affiliate Loans and Advances

As of March 31, 2008 and December 31, 2007, Energy Holdings had a demand note receivable from PSEG of $85 million and $841 million, respectively, for short-term funding needs.

Other

Effective January 1, 2008, control of the management of Global's operations located in Texas was assumed by PSEG Fossil LLC, a wholly owned subsidiary of our affiliate PSEG Power LLC. Global's related payable for management fees was immaterial as of March 31, 2008.