PSEG

Energy Holdings L.L.C.

Quarterly Report
June 30, 2008

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

	For the Quarters Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	(Millions) (Unaudited)			
OPERATING REVENUES				
Electric Generation Revenues	$ 226	$ 198	$ 340	$ 293
Income from Leveraged and Operating Leases	(457)	32	(427)	65
Other	2	6	6	26
Total Operating (Loss) Revenues	(229)	236	(81)	384
OPERATING EXPENSES				
Energy Costs	151	132	224	228
Operation and Maintenance	36	30	74	68
Depreciation and Amortization	10	10	19	20
Total Operating Expenses	197	172	317	316
Income from Equity Method Investments	8	26	20	53
OPERATING (LOSS) INCOME	(418)	90	(378)	121
Other Income	5	1	8	15
Interest Expense	(19)	(36)	(43)	(75)
(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	(432)	55	(413)	61
Income Tax Expense	(21)	(10)	(14)	(27)
Minority Interest in Earnings of Subsidiaries	—	2	—	2
(LOSS) INCOME FROM CONTINUING OPERATIONS	(453)	47	(427)	36
Income (Loss) from Discontinued Operations, net of tax	16	(3)	30	11
(LOSS) EARNINGS AVAILABLE TO PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	$ (437)	$ 44	$ (397)	$ 47

See Notes to Condensed Consolidated Financial Statements

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

	June 30, 2008	December 31, 2007
	(Millions) (Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 35	$ 32
Accounts Receivable:		
Trade – net of allowances of $1 in 2008 and 2007, respectively	59	13
Affiliated Companies	1	—
Other	27	7
Notes Receivable - Affiliated Companies	60	841
Inventory	23	24
Restricted Funds	70	57
Assets of Discontinued Operations	1,115	1,162
Derivative Contracts	22	18
Other	9	7
Total Current Assets	1,421	2,161
PROPERTY, PLANT AND EQUIPMENT	983	972
Less: Accumulated Depreciation and Amortization	(187)	(174)
Net Property, Plant and Equipment	796	798
NONCURRENT ASSETS		
Leveraged Leases, net	2,286	2,826
Corporate Joint Ventures and Partnership Interests	250	248
Intangibles	6	13
Derivative Contracts	33	43
Other	96	74
Total Noncurrent Assets	2,671	3,204
TOTAL ASSETS	$ 4,888	$ 6,163

See Notes to Condensed Consolidated Financial Statements

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

	June 30, 2008	December 31, 2007
	(Millions) (Unaudited)	
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Long-Term Debt Due Within One Year	$ 43	$ 644
Accounts Payable:		
Trade	29	17
Affiliated Companies	23	138
Derivative Contracts	48	3
Accrued Interest	2	19
Deferred Income Taxes	137	150
Liabilities of Discontinued Operations	484	520
Other	40	89
Total Current Liabilities	806	1,580
NONCURRENT LIABILITIES		
Deferred Income Taxes and Investment and Energy Tax Credits	1,015	1,861
Derivative Contracts	3	4
Long-Term Accrued Taxes	1,136	316
Other	66	70
Total Noncurrent Liabilities	2,220	2,251
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 4)		
MINORITY INTERESTS	17	16
LONG-TERM DEBT		
Senior Notes	525	530
Project Level, Non-Recourse Debt	322	349
Total Long-Term Debt	847	879
MEMBER'S EQUITY		
Ordinary Unit	838	838
Retained Earnings	79	498
Accumulated Other Comprehensive Income	81	101
Total Member's Equity	998	1,437
TOTAL LIABILITIES AND MEMBER'S EQUITY	$ 4,888	$ 6,163

See Notes to Condensed Consolidated Financial Statements

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

	For the Six Months Ended June 30, 2008	2007
	(Millions) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss) Income	$ (397)	$ 47
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	19	30
Provision for Deferred Income Taxes (Other than Leases)	1	(14)
Lease Reserves, Net of Taxes	490	—
Leveraged Lease Income, Adjusted for Rent received and Deferred Income Taxes	(23)	5
Undistributed Earnings from Affiliates	(37)	14
Change in Fair Value of Derivative Financial Instruments	18	3
Net Changes in Certain Current Assets and Liabilities	(192)	57
Other	3	(4)
Net Cash (Used In) Provided By Operating Activities	(118)	138
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(4)	(29)
Proceeds from the Sale of Investments and Capital Leases	41	9
Short-Term Loan Receivable – Affiliated Company, net	781	(3)
Restricted Funds	(13)	22
Other	(3)	2
Net Cash Provided By Investing Activities	802	1
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Senior Notes	(612)	—
Repayment of Project-Level, Nonrecourse Debt	(22)	(24)
Premium Paid on Early Extinguishment of Debt	(48)	—
Return of Contributed Capital	—	(145)
Other	—	(1)
Net Cash Used In Financing Activities	(682)	(170)
Effect of Exchange Rate Change	1	—
Net Increase (Decrease) in Cash and Cash Equivalents	3	(31)
Cash and Cash Equivalents at Beginning of Period	32	64
Cash and Cash Equivalents at End of Period	$ 35	$ 33
Supplemental Disclosure of Cash Flow Information:		
Income Taxes Paid	$ 156	$ 59
Interest Paid, Net of Amounts Capitalized	$ 37	$ 79

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 generation capacity of 1,000 MW.

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

Global has reduced its international risks by monetizing the majority of its international investments. In July 2008, Global closed on the sale of its largest remaining international investment, the SAESA Group. Global's remaining international investments in Italy, Venezuela and India had a total book asset value of approximately $122 million as of June 30, 2008. For additional information, see Note 3. Discontinued Operations and Dispositions.

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 June 30, 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 and quarterly report for the quarter ended March 31, 2008.

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 were reclassified to Income from Discontinued Operations on the Condensed Consolidated Statement of Operations of Energy Holdings for the quarter and six months ended June 30, 2007. See Note 3. Discontinued Operations and Dispositions.

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 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 financial statements.

SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS 162)

In May 2008, the FASB issued SFAS 162 for the purpose of improving financial reporting by providing a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernmental entities. GAAP hierarchy was previously defined in the American Institute of Certified Public Accountants Statement on Auditing Standards No. 69, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles."

SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to Auditing Standards: Section 411. Energy Holdings does not anticipate a material impact to its financial statements upon adoption of SFAS 162.

FASB Staff Position (FSP) FAS 142-3, "Determination of the Useful Life of Intangible Assets" (FSP FAS 142-3)

In April 2008, the FASB issued FSP FAS 142-3 to amend the factors an entity should consider in determining the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." The FSP would allow an entity to consider its own experience regarding renewals and extensions, as long as entity's own experience is consistent with the intended use of similar assets. If an entity lacks such experience, it would look to market participant information that is consistent with the highest and best use of the asset and make adjustments for other entity-specific factors.

FSP FAS 142-3 is effective for fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years. Earlier adoption is not permitted. Energy Holdings will adopt the standard on January 1, 2009 and does not anticipate a material impact to its financial statements upon adoption.

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.

Energy Holdings adopted SFAS 157 (except for non-financial assets and liabilities as described in FSP FAS 157-2) effective January 1, 2008. 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. In February 2008, the FASB issued FSP FAS 157-2 to partially defer the effective date of SFAS 157 for certain nonfinancial assets and nonfinancial 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 would not otherwise be 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 was 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 their respective assets or liabilities at fair value under this standard.

Note 3. Discontinued Operations and Dispositions

Discontinued Operations

SAESA Group

In June 2008, Global announced an agreement to sell its investment in the SAESA group, which consists of four distribution companies, one transmission company and a generation facility located in Chile. The sale was completed in July 2008 for a total purchase price of approximately $1.3 billion, including the assumption of approximately $413 million of the consolidated debt of the group. The sale resulted in an after-tax gain of approximately $180 million, which will be reported as Gain on Disposal of Discontinued Operations in the third quarter of 2008. Net cash proceeds, after Chilean and US taxes of approximately $275 million, were approximately $600 million. A tax charge of $82 million was recognized in the fourth quarter of 2007 relating to the discontinuation of applying Accounting Principle Board No. 23, “Accounting for Income Taxes – Special Areas”.

SAESA Group’s operating results for the quarters ended June 30, 2008 and 2007, which are included in Discontinued Operations, are summarized below:

	Quarters Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Millions)			
Operating Revenues	$156	$104	$342	$198
Income Before Income Taxes	$ 21	$ 13	$ 41	$ 29
Net Income	$ 16	$ 11	$ 30	$ 25

The carrying amounts of SAESA Group’s assets and liabilities as of June 30, 2008 and December 31, 2007 are summarized in the following table:

	As of June 30, 2008	As of December 31, 2007
	(Millions)	
Current Assets	$ 155	$ 191
Noncurrent Assets	960	971
Total Assets of Discontinued Operations	$ 1,115	$ 1,162
Current Liabilities	$ 122	$ 130
Noncurrent Liabilities	362	390
Total Liabilities of Discontinued Operations	$ 484	$ 520

Electroandes

On October 17, 2007, Global sold its investment in 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, for a total purchase price of $390 million, including the assumption of approximately $108 million of debt.

Electroandes' operating results for the quarter and six months ended June 30, 2007, which are included in Discontinued Operations, are summarized below:

	Quarter Ended June 30, 2007	Six Months Ended June 30, 2007
	(Millions)	
Operating Revenues	$ 13	$ 24
Income Before Income Taxes	$ 6	$ 7
Net Loss	$ (14)	$ (14)

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 January 26, 2007, Global sold its 34.5% interest in Tracy Biomass for approximately $7 million, resulting in a 2007 pre-tax gain of approximately $7 million ($6 million after-tax).

Note 4. Commitments and Contingent Liabilities

Leveraged Lease Investments

In November 2006, the IRS issued its Revenue Agent's Report with respect to its audit of PSEG's Federal corporate income tax returns 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.

In April 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 prepared a protest to this report which was filed with the Office of Appeals of the IRS.

As of June 30, 2008 and December 31, 2007, Resources' total gross investment in such transactions was $1 billion and $1.5 billion, respectively.

Energy Holdings has been in discussions with the Office of Appeals of the IRS concerning the deductions that have been disallowed. Energy Holdings believes that its tax position related to these transactions was proper based on applicable statutes, regulations and case law in effect at the time that the deductions were taken.

There are several tax cases involving other taxpayers with similar leverage lease investments that are pending. To date, three cases have been decided at the trial court level, two of which were decided in favor of the government. An appeal of one of these decisions was recently affirmed. The third case involves a jury verdict that is currently being challenged by both parties on inconsistency grounds.

Energy Holdings believes that its leasing transactions are fully consistent with Resources' long-standing business model and its focus on energy- related assets of the type which Energy Holdings has traditionally owned and operated. Based on the status of discussions with the IRS, and considering developments in other cases, Energy Holdings currently anticipates that, absent reaching an agreement with the IRS to resolve this issue, it will pay $300 million to $350 million in taxes, interest and penalties claimed by the IRS for the 1997 – 2000 audit cycle later in 2008, and subsequently commence litigation to recover a refund.

Earnings Impact

As a result of the recent court decisions regarding these types of leveraged lease transactions, Energy Holdings evaluated its unrecognized tax benefits under FIN 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109" (FIN 48), and recorded an after-tax increase to the interest reserve of $135 million in the second quarter of 2008. This charge is recorded in Income Tax Expense in Energy Holdings' Condensed Consolidated Statements of Operations.

Assuming all rental payments are made pursuant to the original lease agreement, and there are no changes in tax legislation and rates, the total cash and income included in a leveraged lease transaction will not change over the lease term. However, the timing of the cash flow can change due to changes in the timing of tax deductions. Changes in the timing of cash flows affect the overall return, or yield, that is recorded as income at a constant rate throughout the lease term. If there is a change in cash flow timing, pursuant to FSP 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", the lease must be recalculated from inception assuming the new lease yield. Differences between the current gross lease investment and the gross lease investment per the recalculated lease must be recognized immediately in income.

Energy Holdings has recalculated its lease transactions, incorporating potential cash payments (discussed below) consistent with the FIN 48 reserve position, and recorded an after-tax charge of $355 million in the second quarter of 2008. This charge is reflected as a reduction in Operating Revenues of $485 million with a partially offsetting reduction in Income Tax Expense of $130 million in Energy Holdings' Condensed Consolidated Statements of Operation. The $355 million will be recognized as income over the remaining term of the affected leases.

The aggregate reserves recorded as of June 30, 2008 represents Energy Holdings' view of most of the financial statement exposure related to these lease transactions

Cash Impact

If the IRS' disallowance of tax benefits associated with all of these lease transactions was sustained, approximately $1,166 million would become currently payable as of June 30, 2008. This is composed of $957 million of deferred tax liabilities that have been recorded under leveraged lease accounting through June 30, 2008 and cumulative interest on this deficiency of $209 million, after-tax. In addition, as of June 30, 2008, penalties of $147 million have been proposed by the IRS. Interest and penalties grow at the rate of $15 million per quarter. 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. A resolution of this matter, consistent with the reserves established under FIN 48, could result in additional tax and interest payments approximating $900 million to $950 million, including the amounts for the 1997 – 2000 audit cycle discussed above.

The actions described above concerning the leveraged lease investments are not expected to violate any covenant or result in a default under either Energy Holdings' credit facility or Senior Notes indenture.

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 June 30, 2008, the plants had fuel purchase commitments totaling $105 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.

Derivative Instruments and Hedging Activities

Energy Contracts

Cash Flow Hedges

Energy Holdings uses forward sale and purchase contracts and swaps to hedge forecasted energy sales from one of its generation stations. Energy Holdings also enters into swap transactions to hedge the price of fuel. These derivative transactions are designated and effective as cash flow hedges under SFAS 133 (Financial Accounting Standards Board Statement No. 133, Accounting for Derivative Instruments and Hedging Activities). As of June 30, 2008, the fair value of these hedges was $(1) million. During the 12 months ending June 30, 2009, substantially all of the after-tax unrealized losses on these commodity derivatives are expected to be reclassified to earnings. There was no ineffectiveness associated with these hedges, as defined in SFAS 133. These hedges resulted in an after-tax impact of less than $(1) million in Accumulated Other Comprehensive Income. The expiration date of the longest dated cash flow hedge is in 2009.

Other Derivatives

PSEG Texas enters 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. PSEG Texas 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 PSEG Texas, 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 Consolidated Statements of Operations. The net fair value of the open positions was $12 million and $63 million as of June 30, 2008 and December 31, 2007, respectively.

During March and April of 2008, in connection with the sale of SAESA, Energy Holdings purchased six four-month options to sell Chilean Pesos and receive U.S. Dollars at strike prices between 470 and 480 Chilean Pesos to one U.S. Dollar for a combined notional amount of $300 million. These options were purchased to protect the expected sales proceeds of SAESA from a devaluation of the Chilean

Peso prior to the anticipated sale. After the announcement in June 2008 that an agreement was signed to sell SAESA, Energy Holdings sold all six options, resulting in a $5 million after-tax gain which is included in Income from Discontinued Operations on the Condensed Consolidated Statement of Operations of PSEG for the quarter and six months ended June 30, 2008. See Note 3. Discontinued Operations and Dispositions.

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 June 30, 2008 and December 31, 2007, the fair value of these cash flow hedges was $(7) million at Energy Holdings. During the next 12 months, $(4) million of unrealized losses (net of taxes) on interest rate derivatives in Accumulated Other Comprehensive Income is expected to be reclassified at Energy Holdings. As of June 30, 2008, there was no hedge ineffectiveness associated with these hedges.

Note 6. Comprehensive Income, Net of Tax

	For the Quarters Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	(Millions) (Unaudited)			
Net Loss	$ (437)	$ 44	$ (397)	$ 47
Other Comprehensive (Loss) Income	(71)	28	(20)	19
Comprehensive (Loss) Income	$ (508)	$ 72	$ (417)	$ 66

Accumulated Other Comprehensive Income

	Balance as of December 31, 2007	2008 Activity	Balance as of June 30, 2008
		(Millions)	
For the Quarter Ended June 30, 2008:			
Derivative Contracts	$ (6)	$ —	$ (6)
Pension and OPEB Plans	—	(1)	(1)
Currency Translation Adjustment	107	(19)	88
	$ 101	$ (20)	$ 81

	Balance as of December 31, 2006	2007 Activity	Balance as of June 30, 2007
		(Millions)	
For the Quarter Ended June 30, 2007:			
Derivative Contracts	$ (2)	$ 2	$ —
Pension and OPEB Plans	(5)	—	(5)
Currency Translation Adjustment	110	17	127
	$ 103	$ 19	$ 122

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 January 2008, Energy Holdings redeemed its outstanding $400 million of 10% Senior Notes due 2009.

During the first six months of 2008, Energy Holdings paid $48 million in premiums related to the early redemption of its outstanding debt.

During the first six months of 2008, Energy Holdings' subsidiaries repaid $22 million of non-recourse debt, primarily related to the PSEG Texas generation facilities.

Note 8. Other Income and Deductions

	For the Quarters Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	(Millions)			
Interest and Dividend Income	$ 4	$ 2	$ 7	$ 5
Arbitration Award (Konya-Ilgin)	—	—	—	9
Change in Derivative Fair Value	—	(2)	—	1
Loss on Early Extinguishment of Debt	—	—	(1)	—
Foreign Currency Losses	—	—	—	(3)
Other	1	1	2	3
Total Other Income	$ 5	$ 1	$ 8	$ 15

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. 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 quarter and six months ended June 30, 2008 was $1 million and less than $1 million for the same periods in 2007.

Note 10. Income Taxes

An analysis of the tax provision expense is as follows:

	For the Quarters Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	(Millions)			
(Loss) Income Before Income Taxes	$ (432)	$ 55	$ (413)	$ 61
Tax Computed at the Statutory Rate	(151)	19	(145)	21
Increase (Decrease) Attributable to Flow Through of Certain Tax Adjustments:				
State Income Taxes after Federal Benefit	37		36	(1)
Foreign Operations		(11)	—	2
Uncertain Tax Positions	115	1	104	6
Other	20	1	19	(1)
Total Income Tax Expense	$ 21	$ 10	$ 14	$ 27
Effective Income Tax Rate	N/A	18.2%	N/A	44.3%

Energy Holdings provides deferred taxes at the enacted statutory tax rate for all temporary differences between the financial statement carrying amounts and the tax basis 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, PSEG 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.

As a result of the recent activity regarding certain types of lease transactions as described in Note 5. Commitments and Contingent Liabilities, Energy Holdings evaluated its unrecognized tax benefits under FIN 48, and recorded a gross increase to the unrecognized tax benefits of $856 million in the second quarter of 2008. As $229 million of this amount relates to an increase to the interest reserve, the after-tax amount of $135 million is recorded in Income Tax Expense.

It is reasonably possible that total unrecognized tax benefits at Energy Holdings will decrease by $27 million within the next 12 months due to agreement with the IRS's position relative to various items included in Federal income tax returns for years 2001-2003.

As a result of a change in accounting method for the capitalization of indirect costs, during the first six months of 2008, Energy Holdings reduced the net amount of its unrecognized tax benefits by $23 million. Because the IRS agreed with Energy Holdings' change in accounting method, it is reasonably possible that our claim related to this matter will be settled with the IRS in the next 12 months, resulting in an increase in the unrecognized tax benefits.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 June 30, 2008:				
Total Operating (Loss) Revenues	$ (457)	$ 226	$ 2	$ (229)
(Loss) Income From Continuing Operations	(470)	18	(1)	(453)
Income from Discontinued Operations, net of tax	—	16	—	16
Net (Loss) Income	(470)	34	(1)	(437)
Segment (Loss) Earnings	(470)	34	(1)	(437)
Gross Additions to Long-Lived Assets	1	1	—	2
For the Quarter Ended June 30, 2007:				
Total Operating Revenues	$ 35	$ 199	$ 2	$ 236
Income (Loss) From Continuing Operations	15	33	(1)	47
Loss from Discontinued Operations, net of tax	—	(3)	—	(3)
Net Income (Loss)	15	30	(1)	44
Segment Earnings (Loss)	15	30	(1)	44
Gross Additions to Long-Lived Assets	1	12	—	13
For the Six Months Ended June 30, 2008:				
Total Operating (Loss) Revenues	$ (426)	$ 340	$ 5	$ (81)
(Loss) Income From Continuing Operations	(456)	31	(2)	(427)
Income from Discontinued Operations, net of tax	—	30	—	30
Net (Loss) Income	(456)	61	(2)	(397)
Segment (Loss) Earnings	(456)	61	(2)	(397)
Gross Additions to Long-Lived Assets	1	3	—	4
For the Six Months Ended June 30, 2007:				
Total Operating Revenues	$ 79	$ 301	$ 4	$ 384
Income (Loss) From Continuing Operations	31	6	(1)	36
Income from Discontinued Operations, net of tax	—	11	—	11
Net Income (Loss)	31	17	(1)	47
Segment Earnings (Loss)	31	17	(1)	47
Gross Additions to Long-Lived Assets	1	28	—	29
As of June 30, 2008:				
Total Assets	$ 2,468	$ 2,309	$ 111	$ 4,888
Investments in Equity Method Subsidiaries	$ —	$ 213	$ —	$ 213
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, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," (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, Energy Holdings had a deferred inception loss of $34 million, (pre-tax), as of 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, Energy Holdings recorded a cumulative effect adjustment of $22 million (after-tax) to January 1, 2008 Retained Earnings in its Condensed Consolidated Balance Sheet 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 June 30, 2008, including the fair value measurements and the levels of inputs used in determining those fair values.

	Recurring Fair Value Measurements as of June 30, 2008			
Description	Total at June 30, 2008	Quoted Market Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Millions)			
Assets:				
Derivative Contracts:				
Commodity Contracts (A) ……………….	$ 55	$ —	$ 8	$ 47
Rabbi Trusts (B) …………………………..	$ 15	$ 1	$ 12	$ 2
Other Long-Term Investments (C) ……….	$ 3	$ 3	$ —	$ —
Liabilities:				
Derivative Contracts:				
Commodity Contracts (A) ………	$ 44	$ —	$ 44	$ —
Interest Rate Swaps (D) ………………..	$ 7	$ —	$ 7	$ —

(A) 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) 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).

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

(D) Interest rate swaps 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.

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 for the Quarter Ending June 30, 2008

	Balance as of April 1, 2008	Total Gains or (Losses) Realized/Unrealized Included in Income (A)	Purchases and (Sales)	Balance as of June 30, 2008
		(Millions)		
Derivative Assets	$ 61	$ (14)	$ —	$ 47
Rabbi Trusts	$ 1	$ —	$ 1	$ 2

Changes in Level 3 Assets and (Liabilities) Measured at Fair Value on a Recurring Basis for the Six Months Ending June 30, 2008

	Balance as of January 1, 2008	Total Gains or (Losses) Realized/Unrealized Included in Income (A)	Purchases (Sales)	Balance as of June 30, 2008
		(Millions)		
Derivative Assets	$ 28	$ 19	$ —	$ 47
Rabbi Trusts	$ 1	$ —	$ 1	$ 2

(A) Energy Holdings' gains and losses are mainly attributable to changes in derivative assets and liabilities of which $(14) million is included in Operating Revenues. The $(14) million (unrealized) in Operating Revenues, relates to PSEG Texas.

As of June 30, 2008, Energy Holdings carried approximately $22 million of net assets that are measured at fair value on a recurring basis, of which approximately $49 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 June 30, 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

Tax Sharing Agreements

Energy Holdings is included in a consolidated federal income tax 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 for the tax savings from PSEG to the extent that PSEG is able to utilize those benefits.

As of June 30, 2008 and December 31, 2007, Energy Holdings had a receivable from (payable to) PSEG of $6 million and $(103) million, respectively related to its taxes.

In addition to these tax payable amounts, as of June 30, 2008, Energy Holdings had a $27 million current payable and $1,136 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. 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. See Note 10. 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 each of the quarters ended June 30, 2008 and 2007, were $5 million. Services' billings to Energy Holdings for the each of the six month periods ended June 30, 2008 and 2007 were $10 million. Energy Holdings' payable to Services as of June 30, 2008 and December 31, 2007 was $2 million and $3 million, respectively.

Affiliate Loans and Advances

As of June 30, 2008 and December 31, 2007, Energy Holdings had a demand note receivable from PSEG of $60 million and $841 million, respectively, for short-term funding needs.